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Report No:

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN/GRANT

IN THE AMOUNT OF
SDR {AMT} MILLION
(US\$ {342} MILLION EQUIVALENT)

TO THE

UNITED STATES OF MEXICO

FOR THE

MEXICO FORESTS AND CLIMATE CHANGE PROJECT

{DATE}

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CURRENCY EQUIVALENTS

(Exchange Rate Effective {Date})

Currency Unit =
= US\$1
US\$ = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADL	<i>Agente de Desarrollo Local</i>
ATL	<i>Agente Técnico Local</i>
CDI	<i>Comisión Nacional para el Desarrollo de los Pueblos Indígenas</i>
COINBIO	<i>Community Conservation Project for Biodiversity</i>
CONAFOR	<i>Comisión Nacional Forestal</i>
CONABIO	<i>Comisión Nacional para el Conocimiento y Uso de la Biodiversidad</i>
CONANP	<i>Comisión Nacional de Áreas Naturales Protegidas</i>
CONEVAL	<i>Consejo Nacional de Evaluación de la Política de Desarrollo Social</i>
CFE	Community Forest Enterprises
CTC	<i>Comité Técnico Consultivo</i>
DGGF	<i>Dirección General de Gestión Forestal</i>
FCPF	Forest Carbon Partnership Facility
FFM	<i>Fondo Mexicano Forestal</i>
FIP	Forest Investment Program
MRV	Monitoring, Reporting and Verification
NAFIN	<i>Nacional Financiera</i>
PES	<i>Payment for Environmental Services</i>
PROCYMAF	<i>Programa de Conservación y Manejo Forestal</i>
PROCAMPO	<i>Programa de Apoyos Directos al Campo</i>
PRODEFOR	<i>Programa de Desarrollo Forestal</i>
PROFEPA	<i>Procuraduría Federal de Protección al Ambiente</i>
PROGAN	<i>Programa de Estímulos a la Productividad Ganadera.</i>
REDD+	Reduction of Emissions from Deforestation and Degradation
SAGARPA	<i>Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación</i>
SEMARNAT	<i>Secretaría de Medio Ambiente y Recursos Naturales</i>

Regional Vice President:	Hasan A. Tuluy
Country Director:	Gloria M. Grandolini
Sector Manager:	Ethel Sennhauser

Task Team Leader: Laurent Debroux

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PAD DATA SHEET

Forest and Climate Change Project

Latin America and the Caribbean, LCC1C

Basic Information	
Date:	Sectors: Forestry (60%); General agriculture, fishing and forestry sector (40%)
Country Director: Gloria M. Grandolini	Themes: Climate Change (50%), Other Rural Development (50%)
Sector Director: Ede Jorge Ijjasz –Vasquez	EA Category: B
Sector Manager: Ethel Sennhauser	
Project ID: P123760 (IBRD) and P124988 (FIP)	
Lending Instrument: Sector Investment Loan	
Team Leader(s): Laurent Debroux	

Does the project include any CDD component? yes

Joint IFC: No

Borrower: United Mexico States

Responsible Agency: Comisión Nacional Forestal (CONAFOR)

Contact: Juan Manuel Torres Rojo	Title: Director
Telephone No.: [52] (33) 3777 7000	Email: directorgeneral@conafor.gob.mx

Project Implementation Period: Start Date: March 31, 2012 End Date: February 28, 2017

Expected Effectiveness Date: March 31, 2012

Expected Closing Date: February 28, 2017

Project Financing Data(US\$M)

<input checked="" type="checkbox"/> Loan	<input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Credit	<input type="checkbox"/> Guarantee	

For Loans/Credits/Others

Total Project Cost : US\$629 million Total Bank Financing : US\$300 million

Total Cofinancing : US\$42million Financing Gap : 0

Financing Source	Amount(US\$M)
BORROWER/RECIPIENT	US\$287 million
IBRD	US\$300million
Forest Investment Program	US\$42million (US\$25.66 million grant, and US\$16.34 million concessional loan)
Financing Gap:	US\$0
Total:	US\$629 million

Expected Disbursements (in USD Million)

Fiscal Year	FY12	FY13	FY14	FY15	FY16	FY17			
Annual	50	130	130	130	130	59			
Cumulative	50	180	310	440	570	629			

Project Development Objective(s)

To support rural communities in Mexico to sustainably manage their forests, build social organization, and generate additional income from forest products and services including the Reduction of Emissions from Deforestation and Degradation (REDD+).

Components

Component Name	Cost (USD Millions)
Component 1. Policy Design and Institutional Strengthening	\$41.66
Component 2. Consolidation of Priority Community-Based Programs at National Level	\$270.00
Component 3. Innovation for REDD+ in Early Action Areas	\$30.34

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects? Yes No

Does the project require any exceptions from Bank policies? Yes No

Have these been approved by Bank management? Yes No

I. STRATEGIC CONTEXT

A. Country Context

1. With a population of 111 million, Mexico is the second most populated country in Latin America. It has the 13th largest gross domestic product worldwide. Key economic sectors and sources of income include manufacturing, industry, oil, tourism, agriculture, and remittances. Although Mexico's overall economic and human indicators have improved steadily over the past decade, poverty is still widespread especially among rural and forest-dependent communities.

2. **The proposed operation is consistent with the Bank's new business model in Mexico.** The proposed SIL is part of a broader, strategic engagement in support of the Government's agenda on forest and climate change. Using a diverse range of instruments, the Bank would provide policy advice, convening services, investments, as well as the piloting of innovative financial services. Instruments being mobilized in support of this agenda include: the proposed Social Resilience and Climate Change Development Policy Loan (DPL); the Forest Carbon Partnership Facility (FCPF); the Global Environment Facility (GEF); the Program on Forests (PROFOR), and a potential Forest Bond with the World Bank Treasury, in addition to the proposed IBRD loan and Forest Investment Program (FIP) credit and grant, for which Mexico has been selected as one of eight pilot countries worldwide. Partnerships are underway with the French Development Agency in the context of the Social Resilience to Climate Change DPL, with the Inter-American Development Bank in the context of the FIP, and with the Norwegian-funded Monitoring, Reporting and Verification (MRV) project in the context of Component 1 of the proposed operation, among others. Annex 2 provides further information on how these instruments and partnerships complement each other.

The climate change collaboration between the Bank and Mexico has progressed in recent years, with subsequent stages building upon the achievements of previous efforts. This collaboration can be summarized in four stages: Foundations, Early Support, Strengthening, and Consolidation. This collaboration now encompasses the full range of Bank instruments, including knowledge, financial, convening and coordination services. Since 1997, two *Community Forestry Projects* assisted indigenous and other rural communities to raise their standards of living through improved forest management (closed in 2009). The Bank also supported the *Mexico Environmental Services Project* aimed at enhancing the provision of environmental services of national and global significance and to secure their long-term sustainability (closed in 2011) and the *Community Conservation Project for Biodiversity*.

3. **The proposed project is consistent with the Mexico Country Partnership Strategy.** One pillar of the 2008-2013 CPS (Report No 42846-MX) discussed by the Board of Directors on April 8, 2008 is to help Mexico assure environmental sustainability by reducing greenhouse gas emissions and deforestation. The CPS outcomes include the conservation of the forestry natural capital. The proposed project is also consistent with Mexico's National Development Plan which

aims to turn environmental sustainability into a cross-cutting theme of public policies. The CPS progress report (2010, 52776-MX) mentions *Bank projects in environmental services and community forestry* as one of the Key Themes and Progress.

Figure 1. Stages of Climate Change Engagement in Mexico (Forest-related Operations are Highlighted)

Stages of Climate Change Engagement in Mexico					
		Foundations (Before 1999)	Early Support [1999–2007]	Strengthening [2007–2009]	Consolidation [2010–)
Knowledge Services			<ul style="list-style-type: none"> LAC Region Landfill Gas Initiative (FY06) Evaluation of Energy Efficiency Initiatives (FY06) Economic Assessment of Policy Interventions in the Water Sector (FY06) 	<ul style="list-style-type: none"> Carbon Finance Assistance Program for Mexico (FY09) Low-Carbon Study (FY09) Mass Urban Transport-Federal Program (FY09) 	<ul style="list-style-type: none"> Social Impacts of Climate Change (FY11) MoU Subnational Climate Change (FY11) Othon P. Blanco Sustainable Development Strategy (FY11) Climate Change Public Expenditure Review (FY12) Forest Carbon Partnership Facility (FY11-13) Advisory Services under the Program on Forests (PROFOR) (FY11-on)
	Financial Services	<ul style="list-style-type: none"> Solid Waste Management Pilot Project (FY86) Urban Transport Project (FY87) Community Forestry (FY97) 	<ul style="list-style-type: none"> Renewable Energy for Agriculture Project (FY99) Indigenous and Community Biodiversity Conservation Project COINBIO (FY01) Introduction to Climate-friendly Measures in Transport (FY03)Mexico Environmental Services Project (FY06) Programmatic Environment DPL I and II (FY06) 	<ul style="list-style-type: none"> Climate Change DPL (FY08) Environmental Sustainability DPL (FY09) Sustainable Rural Development Grant (FY09) 	<ul style="list-style-type: none"> Green Growth DPL (FY10) Adaptation to Climate Change in the Water Sector DPL (FY10) Urban Transport Transformation Program (FY10) Adaptation to Climate Change Impacts in the Coastal Wetlands (FY11) Low-carbon DPL (FY11) Social Resilience to Climate Change DPL (FY12) Forest and Climate change SIL and FIP (FY12) Sustainable Production Systems and Biodiversity GEF (FY12) Ecosystems Adaptation DPL (FY13)
		Convening and Coordination Services		<ul style="list-style-type: none"> Consolidation & Strengthening of the Mexican Office for Greenhouse Gas Mitigation (FY99) 	<ul style="list-style-type: none"> Preparation of the CTF Investment Plan (FY09)

^a The figure highlights several significant examples and does not aim to exhaustively illustrate all climate change activities.

B. Sectoral and Institutional Context

4. Mexico has 64 million hectares of forests. About 70 percent of these forests belong to rural communities under a legally-established collective ownership system—a tenure situation unique in the world.¹ Other forests belong mostly to small, individual owners. The net deforestation rate seems to be moderate, while forest degradation is relatively high.² The direct drivers of deforestation and degradation vary by region, and include conversion to pasture and agriculture, unsustainable logging, overgrazing, fuel wood collection, fires, and pests and diseases.³ Some of the underlying causes include insufficient alignment among policies, institutions and programs across-sectors, deficient incentive framework for sustainable forest use, and insufficient capacity and access to markets by communities.

5. In the nineties, the Government started helping communities to manage their forest resources through a series of community-based incentives and advisory programs. At present, an estimated 2,380 communities use forest management plans, and about 60 are independently certified. In many cases, these public investments, combined with the low profitability of agriculture in remaining forestland and to some extent with rural out-migration, contribute to a decline in forest loss.⁴ They also seem to succeed in building social capital, creating jobs and incomes, and promoting forest sustainability. However, one cannot assume those trends will continue; the financial viability of the model is still uneven; over-regulation of community forestry remains an obstacle; and forest degradation is still high and has not been reversed. Although much remains to be done, Mexico’s community forestry approach is increasingly recognized as a reference worldwide. This community forestry approach is seen by the Government as a central piece of its social development and poverty alleviation strategies in forested regions. It will also likely serve as a foundation of Mexico’s strategy for Reducing Emissions from Deforestation and Degradation (REDD+).⁵

¹ In Mexico, “*Comunidades*” (or “agrarian communities”) are longstanding rural population centers that have been given formal ownership of their traditional or customary lands. Theoretically “agrarian communities” are entirely composed of indigenous peoples—although that is not entirely true in practice. “*Ejido*” refers to a portion of land that has been titled to a rural population nucleus that was formed more recently or relocated from another area—most of them are non-indigenous *campesinos*. Both types of community property are governed by a similar structure, with an “*Asamblea*” of all *ejidatarios* or *comuneros*, a “*Comisariado Ejidal*” or *Comisariado de Bienes Comunales*” and a “*Consejo de Vigilancia*”. It is estimated that 9,000 communities and *ejidos* have a forest area equal or greater than 300 hectares of which about 3,000 are engaged in forestry as their main activity, and about 50 are certified under the FSC scheme (717,424 hectares).

² Government estimates for annual deforestation rate and forest degradation rate are 0.25% and 0.45% respectively (based on the Readiness Preparation Proposal- CONAFOR, 2011, and relative to other tropical countries)

³ See [Annex 9](#) for a summary of the major drivers of deforestation and degradation and potential strategies to address them, as identified by the Mexico FIP Investment Plan.

⁴ Rural out-migration has had complex effects on forest condition. On one hand, people abandon marginal cropping areas and it may grow back into forest. On the other hand, out-migration tends to weaken local institutions and creates shortages of workers for community forestry enterprises, which weakens some of the factors that have helped to protect the forests.

⁵ The full meaning of REDD+, as approved in the Cancun COP in December 2010, is “Reducing Emissions from Deforestation and Forest Degradation, as well as Sustainable Management of Forests, and Conservation and Enhancement of Forest Carbon Stocks”.

6. **Over the past decade forests have become a national priority for Mexico.** The National Forestry Commission (CONAFOR) was established in 2001 to assist communities and small private owners in developing management plans, restoring degraded areas, planting trees, using non-timber products, and protecting environmental services. CONAFOR operates a range of thematic, community-based incentive programs, collectively known as *Pro-Arbol*. The scope of these programs increased rapidly since 2001. CONAFOR's budget increased from US\$27 million in 2001 to US\$510 million in 2010 and its portfolio has reached a total of about 12,000 transactions annually.

7. **Mexico has also become a leader in international negotiations on climate.** Mexico successfully hosted the 16th Conference of the Parties, and brokered the Cancun Agreement—a cornerstone towards a future global architecture on climate, especially as it relates to REDD+. In Cancun, Mexico unveiled its 2010 REDD+ Vision which lays out Mexico's proposal for piloting REDD+ and represents an intermediate step towards developing a full national REDD+ Strategy. The REDD+ Vision emphasizes the importance of a cross-sectoral approach linking forests with agriculture and other public policies. It also emphasizes forests' contribution to social resilience by reducing the vulnerability of poor communities to natural disasters and economic downturns. The REDD+ agenda is essential for Mexico as forestry and land-use change are the country's third highest source of emissions, and rank second in their potential to reduce emissions.⁶ In sum, the Government sees the proposed program as a core element of its adaptation and mitigation agenda.

C. **Higher Level Objectives to which the Project Contributes**

8. The proposed project is part of the package of Bank engagement in support of Mexico's ambitious, cutting-edge Forest and Climate Change program, within the overall framework of Mexico's National Development Program and Mexico's REDD+ Vision. The project contributes to the higher-level objective of ensuring the sustainable management, restoration, and expansion of Mexico's forest resources, while promoting local socio-economic development among poor rural communities including indigenous peoples, strengthening local communities' resilience to climate change, and spearheading the global effort on REDD+.

II. **PROJECT DEVELOPMENT OBJECTIVES**

⁶ The leading sources of greenhouse gas emissions are: energy (24%), transport (18%), and forests and land-use change (14%). It is estimated that forestry actions might have the potential to contribute 28% of Mexico's total emission reductions (Instituto Nacional de Ecología. Third National Communication. Secretaría de Medio Ambiente y Recursos Naturales. Mexico. 2006)

9. Within the overall framework spelled out in paragraph 8 above, the specific Project Development Objective is: *to support rural communities in Mexico to sustainably manage their forests, build social organization, and generate additional income from forest products and services including the Reduction of Emissions from Deforestation and Degradation (REDD+).*

10. The project would help consolidate and improve CONAFOR's incentive programs for community forestry and environmental services, and utilize them as key elements of the national REDD+ strategy. It would also help strengthen CONAFOR as a world-class forest agency, promote the alignment of rural development policies and programs, and pilot innovative REDD+ approaches in two Early Action areas⁷.

11. **Project Beneficiaries.** The key beneficiaries of the 5-year project would be an estimated 4,000-5,000 *Ejidors* and Communities that would participate in demand-driven incentive and advisory programs supported by the project at the national level and in REDD+ Early Action areas. About a quarter of the total beneficiaries would be indigenous peoples.

12. The international community would also benefit from the project to the extent that it would help reduce carbon emissions in Mexico and it would help develop replicable, scalable approaches for REDD+ considering Mexico's potential role as a model for other countries given its leadership role in the global forest carbon discussions.

13. A Social Assessment was carried out by CONAFOR in order to provide a comprehensive view and knowledge on the socio-cultural context of the proposed project areas. Key findings of includes: (i) identification of indigenous peoples; (ii) the role of women in forest management (iii) broad beneficiary and stakeholder participation; (iv) out-migration; and (v) potential social conflicts (see details in Annex 3).

14. **PDO Level Results Indicators.** The PDO level Result Indicators would be as follows:

- a) Increase in forest area under improved management and reduced carbon emissions practices (number of hectares, or percentage increase)
- b) Increase in number of communities building social organization and generating income from sustainable production of forest goods and services (number of communities, or percentage increase) including REDD+
- c) Reduction of net deforestation and forest degradation rate in selected landscapes within REDD+ Early Action areas (equivalent CO₂ emissions).

⁷ The initial Early Action areas considered for project are located in the State of Jalisco and the Yucatan Peninsula, and were selected for their REDD+, learning, implementation, and replication potential. The project will support piloting of new approaches for REDD+ in these areas.

15. The Project's Intermediate Result Indicators are presented in [Annex 1](#). They reflect the project's focus on: promoting innovation for the REDD+ agenda, modernizing CONAFOR's monitoring and evaluation systems, harmonizing public policies across sectors, building social organization within communities, and piloting new local governance and landscape management models, as key intermediate steps towards reaching the PDO.

III. PROJECT DESCRIPTION

A. Project components (see Technical Annex 2)

16. **Component 1. Policy Design and Institutional Strengthening.** (IBRD US\$30m, and FIP US\$11.66m grant). This component would aim to strengthen CONAFOR as a leading forest agency worldwide, foster cross-sector collaboration among public agencies, and improve the quality of private technical assistance available to communities.

17. *Subcomponent 1.1. Monitoring and Evaluation.* (IBRD US\$5m, and FIP US\$2m grant). First, this subcomponent would strengthen CONAFOR's monitoring and evaluation systems to bring them in line with the institution's rapidly growing portfolio. It would help revamp existing databases, strengthen CONAFOR's remote sensing and geographic information capacities, and enhance capacities to better measure the outcomes of CONAFOR's investments in the field. The system would be transparent, foster accountability, and be subject to independent external reviews. Second, this subcomponent would help CONAFOR design and pilot a comprehensive REDD+ MRV system. It would help develop tools to monitor the environmental and social impacts of REDD+ pilot projects in the Early Action areas, and explore community-based monitoring techniques. It would also support a partnership with CONEVAL⁸ for designing an impact evaluation strategy focused on Component 3. Third, it will support Monitoring results and strategic assessment of the Forest Investment Plan. This subcomponent would complement the Norwegian-funded MRV project. See also [Annex 1](#) on Monitoring and Evaluation.

18. *Subcomponent 1.2. Policy Design, Participatory Processes, and Knowledge Sharing.* (IBRD US\$12.5m and FIP US\$5m grant). This subcomponent will support analytical works and participatory processes aimed at improving public policies and programs. First, it will support the studies and workshops needed to draw lessons from the ongoing environmental services and community forestry programs, and propose adjustments to the CONAFOR operating rules for subsequent implementation under Component 2. It would aim to achieve greater integration amongst these programs, so they mutually reinforce each other. It would also support studies related to policies and programs related to forestry, agriculture, livestock, and other economic activities in rural landscapes. Second, this subcomponent will also support the studies and workshops needed to design innovative REDD+ approaches that will be piloted in Early Action areas under Component 3. Third, it will support all participatory processes, communication and outreach efforts needed for the successful implementation of the project including on social and environmental safeguards. It will support a collaborative program with CDI⁹ to disseminate

⁸ Consejo Nacional de Evaluación de la Política de Desarrollo

⁹ Comisión Nacional para el Desarrollo de los Pueblos Indígenas

information and receive feedback from indigenous communities. It will support participatory processes for indigenous, local communities and other stakeholders in the management of forest landscapes in Early Action areas supported under Component 3. Fourth, it will support knowledge management and learning activities in-country and internationally, including South-South initiatives and the dissemination and exchange of lessons and experiences on REDD+ and on the implementation of the FIP Investment Plan. This subcomponent would be coordinated with the REDD+ Readiness process supported by the FCPF.

19. *Subcomponent 1.3. Strengthening of CONAFOR and Cross-Sector Coordination.* (IBRD US\$12.5m and FIP US\$1.66m grant). First, this subcomponent will support the provision of training and acquisition of equipment for CONAFOR's staff and offices at central and State level to modernize CONAFOR's administration and advisory capacities and promote the sharing of good practices and new technologies. It would also support overall project management including coordination, reporting, fiduciary and safeguards functions. Second, this subcomponent would foster cross-sector coordination between CONAFOR and other federal agencies involved in rural development (SEMARNAT, SAGARPA,¹⁰ CONANP,¹¹ and PROFEPA¹²). Specifically, it would support the implementation of two policy measures included in recent Climate Change DPLs: (i) the creation of joint databases with SAGARPA and SEMARNAT, and (ii) the streamlining of the administrative framework for community-based forest management.

20. *Subcomponent 1.4. Improvement of Private Advisory Services to Communities.* (FIP US\$3m grant). This subcomponent will provide training to a roster of private technical service providers (estimated 1,174 nationwide) who advise communities in preparing and implementing sub-projects for CONAFOR funding. The training modules would cover technical, business, marketing, and social issues among others. This subcomponent will also support the design and implementation of a service provider quality accreditation and certification scheme.

21. **Component 2. Consolidation of Priority Community-Based Programs at National Level.** (IBRD US\$270m). This component will continue and scale up previous successful Bank engagement in community forestry and payments for environmental services with Mexico. It will support demand-driven community-based sub-projects related to social organization, capacity-building and land-use planning, as well as the protection, sustainable management, harvesting, processing and marketing of forest goods and services. Support to selected communities would be provided in the form of grants following the existing CONAFOR procedures (*reglas operativas*) which are reviewed and updated annually. This Component would support five programs which CONAFOR has identified as a priority package for the achievement of its overall mandate: (i) payment for environmental services (PES), (ii) community forestry development (PROCYMAF), (iii) forestry development (PRODEFOR), (iv) development of forest productive chains (*Cadenas Productivas*), and (iv) special programs (*Programas Especiales*).

¹⁰ *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*

¹¹ *Comisión Nacional de Áreas Naturales Protegidas*

¹² *Procuraduría Federal de Protección al Ambiente*

22. Taken together, in 2011, these five programs represent an annual disbursement of approximately US\$98 million, i.e. 20 percent of CONAFOR's total budget. This means, with an average US\$54 million annually, the IBRD contribution would represent about 55 percent of the annual cost of the five programs. It is estimated that, taken together over five years, these five programs would support about 4,000-5,000 community initiatives. The average amount of a proposal is about \$11,000.00 dollars per community, ranging from about \$5,000 dollars (PROCYMAF) up to \$25,000 dollars (PES, distributed in 5 years).

23. Annex 2 summarizes the selection process and eligibility criteria that apply to the five programs supported under this Component. It also provides an overview of all CONAFOR programs with a focus on eligible activities and beneficiaries for the five programs supported under the project. Although these five programs are also accessible to small private landowners, Bank resources would only support community initiatives.

24. Overall, this Component—and the five CONAFOR programs it supports—aims to help local communities to combine sustainable forest management with socio-economic development, and to enhance the contribution of forests to climate change mitigation and adaptation. It aims to provide additional income opportunities to communities, making sustainable management more economically attractive. The PROCYMAF, PRODEFOR, *Cadena* programs support a palette of activities ranging from capacity-building, participatory assessments, planning, and in the most advanced cases, harvesting, processing and marketing of forest products, and certification. In doing so, they help communities advance through a sequence of development phases towards sustainable self-management of their forests. The PES program provides financial transfers to interested communities as an incentive for protecting ecosystem services. It currently operates in priority areas selected for their environmental, hydrological and biodiversity value. The *Programas Especiales* provides financial transfers in 10 selected regions to support projects related to hydrological conservation and soil erosion prevention. These areas have been selected for their social and environmental vulnerability and/or climate change mitigation and adaptation potential.

25. **Component 3. Innovation for REDD+ in Early Action Areas.** (FIP US\$30.34 of which 14m grant and US\$16.34m loan). This component will promote the design and piloting of new approaches for REDD+ in two Early Action areas located in the State of Jalisco and in the Yucatan Peninsula, and selected for their learning and replication potential. It will contribute to the alignment of forest, agriculture and livestock policies and programs for integrated multi-sectoral management in priority forest landscapes and will promote the role of landscape management agents.

26. *Subcomponent 3.1. Policy Innovation and Cross-Sector Harmonization* (For information, costs covered under Component 1.2). This subcomponent would support the analytical work and participatory processes needed to design innovative REDD+ approaches that will be piloted under subcomponents 3.2 and 3.3. In this context, CONAFOR would pursue three lines of innovation. First, CONAFOR would work closely with SAGARPA to ensure greater alignment and remove discrepancies with the agriculture and livestock policies and incentive programs (PROCAMPO, PROGAN) and improve the overall carbon balance in rural landscapes. Second, CONAFOR would tailor its own programs and adjust the eligibility criteria to promote low-

carbon approaches at community-level (e.g. testing PES payments for sustainably managed forests). Third, CONAFOR would design and implement the management models for sustainable productive landscapes and support the emergence of new local governance structures allowing for a broader spatial integration at municipal, watershed or landscape level, instead of just responding to individual community demands.

27. *Subcomponent 3.2. Building Capacities for Landscape-Based Management in REDD+ Early Action Areas.* (FIP US\$7m grant). This subcomponent would provide training, equipment, and technical assistance to a series of Local Development Agents (ADLs) and Local Technical Agents (ATL) that include REDD+ in their dialogue and work-programs with communities, local authorities, and other partners.¹³ Working through ADLs and ATLs would help mainstream REDD+ into regional development initiatives and in more spatially-integrated landscape management models. ADLs and ATLs would work with communities and help establish local territorial development plans. This subcomponent would help strengthen or create six inter-municipal associations (ADLs) and an estimated twenty non-government organizations (ATLs), in addition to the CONABIO *Corredor Biologico*. It will include: (i) Identification, promotion and strengthening the Technical and Local Development Agents in Early Action REDD+ Areas, considering existing local entities; and (ii) Create capacity within different levels of public agencies for integrated multi-sectoral policy and program implementation in productive rural landscapes

28. *Subcomponent 3.3. Community Investments in REDD+ Early Action areas.* (FIP US\$7m grant and US\$16.34m loan). This subcomponent would support the piloting of new REDD+ management approaches at community-level, using the CONAFOR *lineamientos especiales* created under component 3.1, and using the capacities of ADLs and ATLs supported under Component 3.2. Selected investments should aim to reduce emissions, increase communities' resilience to the effects of climate change, and contribute to economic, social and environmental sustainability. This subcomponent would use new *lineamientos especiales* and integrated packages of CONAFOR and SAGARPA incentives to support innovative rural landscape management initiatives. All rural landscape management initiatives would be based on local territorial development plans agreed upon with all participating communities and would be implemented through community grants with the assistance of the ATLs and ADLs. Grants would be channeled either: (i) directly from CONAFOR to participating communities (US\$16.34 million); (ii) through inter-municipal associations and non-government organizations supported under component 3.2 (US\$5 million, direct payments made by CONAFOR to participating communities); or (iii) through a local public entity with demonstrated fiduciary capacity—potentially the CONABIO *Corredor Biologico* (US\$2 million, direct payments made by CONAFOR to participating communities). Overall, this sub-component would support REDD+ initiatives proposed and implemented by an estimated 422 forest communities and ejidos located in the Early Action areas of Jalisco and Peninsula de Yucatan. Consistent with the landscape approach promoted under the project, a “REDD+ initiative” would involve a combination of multiple CONAFOR-community transactions, with an average value of about US\$17,000 per community transaction). All subprojects would be demand-driven and implemented by

¹³ ADLs are non-government agencies that support and help implement one or several CONAFOR programs in specific regions. ATLs are local public agencies with a mandate in integrated rural development (e.g. inter-municipal associations and decentralized public organizations).

communities. See [Annex 2](#) on Project Description and [Annex 8](#) on the Forest Investment Program.

B. Project Financing

29. **Lending Instrument.** The proposed operation is designed as a Specific Investment Loan in the amount of US\$342 million, which includes US\$300 million from the IBRD (loan) and US\$42 million from the Forest Investment Program (US\$25.66 million as grant, and US\$16.34 million as loan).

30. **Project Cost and Financing.** The financing plan is summarized in Table 1 with the indication of IBRD, FIP and Government counterparts for each component.

Table 1. Financing Plan.

Project Components	Project Cost	Conafor Government	IBRD	FIP	% financing
Component 1. Policy Design and Institutional Strengthening	91.66	50	30	11.66	45%
Component 2. Consolidation of existing Conafor Programs	490	220	270	0	55%
Component 3. Innovation for REDD+ in Early Action areas	47.34	17	0	30.34	64%
Total financing required	629	287	300	42	

31. The proposed IBRD-FIP project is closely coordinated with the following operations: (i) the forestry pillar of the proposed IBRD US\$300 million Social Resilience to Climate Change DPL; (ii) the euro 300 million budget support operation from the French Development Agency which uses the same forestry policy matrix as the Bank’s Social Resilience to Climate Change DPL; (iii) the US\$3.6 million Readiness Grant from the Forest Carbon Partnership Facility and a potential future FCPF Carbon Fund Emissions Reduction Payment Agreement; (iv) the Sustainable Production Systems and Biodiversity Global Environmental Facility Project (currently under preparation); (v) the proposed US\$17 million Innovative Financing Instruments project to be funded under the FIP and implemented by *Financiera Rural* with the Inter-American Development Bank; and (vi) the NOK90 million grant from Norway for the MRV system to be implemented with UNDP and FAO.

C. Lessons Learned and Reflected in the Project Design

32. The proposed project builds upon two decades of Bank operations and policy dialogue on forests and climate change in Mexico, as illustrated in [Figure 1](#). Most importantly, it capitalizes on the strategies, instruments and methodologies generated under the previous Bank-supported PROCYMAF, COINBIO, and PES projects. These operations have succeeded in strengthening social and human capital and preparing the ground for further investments. The initial support and guidance offered to communities to conduct participatory rural evaluations and design community zoning plans and community bylaws, proved to be necessary for the subsequent implementation of most of the *Pro-Árbol* programs. Communities reaching this level of development would also be suitable candidates to implement REDD+ activities in the Early Action areas under Component 3 of this new project. Specific lessons learned from PROCYMAF, COINBIO, and PES are presented in [Annex 8](#) and relate to: (i) engaging with indigenous and other forest-dependent communities; (ii) building social capital, and

accompanying local decision-making processes; and (iii) the importance of high-level government buy-in, cross-sector coordination, and monitoring and evaluation.

33. CONAFOR's experiences in implementing various programs in consultations with indigenous peoples and other local communities provide a number of important lessons. One is the need to ensure broad participation and inclusion of all members of communities (e.g. *ejidatarios, avencindados, comuneros*) in decision-making processes related to forests. This broad participation would in turn help to ensure that benefits are shared equitably thereby improving the livelihoods. Another lesson learned relates to the role of women. Currently, there is limited women participation in the decision-making process that determine how an indigenous peoples or other local community manages forest resources. CONAFOR's planning and monitoring surveys will include questions to measure the broad participation of women in the decision-making processes. CONAFOR has initiated work on developing a strategy to gender participation in forest resource management.

34. The proposed project also takes into account the emerging body of knowledge and experience on REDD+ worldwide. This experience highlights: (i) the importance of early stakeholders' engagement and participatory policy-making, multi-sectoriality; (ii) the central nature of land and resources rights, the combination of technical and political timings; (iii) the building of national system based on sub-national work; (iv) learning and iterative process of design and adjustment; (v) the limits of financial incentives when compared to opportunity costs, partnerships, and specific methodological issues related to defining baselines and MRV systems. These lessons are further discussed in [Annex 8](#).

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

35. The detailed institutional arrangements are presented in [Annex 3](#). CONAFOR has a robust implementation capacity and long-standing experience with Bank-financed operations. To the extent possible, the project will be implemented through existing CONAFOR structures, and it will strengthen existing channels and venues of civil society participation and cross-sector coordination. A Steering Committee and an Operational Committee will be created within CONAFOR. Higher-level Government coordination will take place in the context of the existing Intersecretarial Commission for Sustainable Rural Development and the Intersecretarial Commission on Climate Change. At local level, day-to-day implementation and monitoring of Components 2 and 3 will be undertaken by the CONAFOR field offices in collaboration with State Governments in line with their regular mandate. The participation of civil society will be sought through various mechanisms including the national CTC-REDD and the local CTCs in the Early Action areas.

36. The following collaboration agreements will be established with partner agencies for specific project activities: (i) with CONEVAL for the design of an impact evaluation strategy

under Subcomponent 1.1; (ii) with CDI for the dissemination of information and consultations with indigenous peoples under Subcomponent 1.2; (iii) with SAGARPA, SEMARNAT and PROFEPA for the establishment of joint databases and the streamlining of administrative procedures under Subcomponent 1.3; and (iv) with CONABIO and local entities (e.g. inter-municipal associations and non-government organizations, often referred as ATLS and ADLs) under Component 3 to finance community-based REDD+ activities in Early Action areas (direct payments from CONAFOR to community beneficiaries). The agreement with CONABIO and a template agreement with local entities will be included in the Operational Manual. As CONAFOR is a decentralized public organism, with legal and administrative autonomy, the legal arrangements would potentially include a project agreement between the Bank and CONAFOR (similar to the arrangements in the Environmental Services Project).

B. Results Monitoring and Evaluation

37. The detailed monitoring and evaluation strategy is presented in Annex 1. The modernization of CONAFOR's monitoring and evaluation systems and capacities is a key objective of the project. Component 1 would help develop a reliable, transparent monitoring system for the five incentive programs supported under Component 2. It would also help build a reliable MRV system—an essential piece in the REDD+ scheme—for piloting in the Early Action areas under Component 3. These activities would be supported by IBRD and FIP resources and would complement the Norwegian grant for MRV. The project will also help develop an impact evaluation strategy with relevant statistical methodologies as an attempt to assess the impacts of REDD+ activities in Early Actions areas under Component 3. CONEVAL would assist in that effort. The baseline for Components 2 and 3 will be prepared by effectiveness.

38. CONAFOR is currently using three main monitoring tools: (i) the Management and Information Analysis System (SIGAII) to track applications and incentives given by CONAFOR; (ii) the Accountability System (SURC); and (iii) the Payment System (SIDPA) to track and control the payments to the beneficiaries of CONAFOR's programs. These existing systems focus primarily on the use of resources and implementation of activities (inputs). The next challenge for CONAFOR will be to better measure the outcomes of its investments in terms of improving livelihoods and reducing deforestation. In 2011 CONAFOR launched the Scorecard system as an initial step in that direction. The project will help strengthen such initial efforts and build a systematic system for monitoring results on the ground.

C. Sustainability

39. **The project is central to CONAFOR's mission and the forests and climate change agenda is considered a priority by the current administration.** Although a change of government may occur in the early stage of project implementation, the proposed operation is likely to remain a priority for the Borrower over the long term as it is central to Mexico's rural, social, and environmental agenda, and to its international visibility.

40. **Six elements would contribute to the sustainability of the CONAFOR programs:** (i) subprojects are demand-driven and therefore should reflect the communities' priorities; (ii) all

sub-projects would include a significant element of community capacity building and training in addition to physical works and goods; (iii) the project would support multi-year initiatives—an important innovation consistent with the nature of forest management; (iv) the project would enhance the capacity of private service providers that assist communities in preparing and implementing forestry projects, hence improving the quality of these projects; (v) productive sub-projects would have to demonstrate the economic viability as a criteria for approval; and (vi) the project design allows innovative REDD+ approaches that were successfully piloted under Component 3, to be replicated at larger scale under Component 2. Financial sustainability of the interventions would depend on a combination of continued Government commitment (especially for programs like PES), market viability (mostly for productive programs like *Cadenas Productivas*) and future REDD+ funding flows and success in reducing emissions (allowing for the integration of global, carbon-based funding in the future financial mix).

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Rating Summary

Stakeholder Risk		Project Risk	
Operating Environment Risk		- Design	Medium- I
- Country	Medium- I	- Social and Environmental	Substantial
- Sector and Multi-Sector	Substantial	- Program and Donor	Medium- L
Implementing Agency Risk		- Delivery, Monitoring and Sustainability	Substantial
- Capacity	Medium-I		
- Governance	Medium- L		
- Fraud and Corruption	Medium- I		
Overall Preparation Risk	Medium- I	Overall Implementation Risk	Substantial

B. Risk Description

41. The Overall preparation Risk is Medium-I and the Overall Implementation Risk is Substantial. A detailed analysis of the risks and mitigation measures associated with the proposed operation is provided in [Annex 4](#) (ORAF). Issues related to Borrower commitment and capacity are also addressed in paragraphs 35 and 39; fiduciary issues are discussed in sections VI.C and VI.D; and risks related to piloting REDD+ are discussed in [Annex 9](#). Three remaining risks are discussed in the following paragraphs.

42. **Scope of the project—Monitoring and Evaluation.** The proposed project is broad in geographical coverage, number of sub-projects, and potential beneficiaries. Although most resources will go to existing CONAFOR programs and will scale up previous successful engagement with the Bank, the project will also help design new policy tools focused on REDD+ and will include a large number of pilot projects in Early Action areas. Monitoring all activities

and measuring impacts may prove a challenge. To address this risk, Component 1 would help modernize CONAFOR's monitoring and evaluation systems and capacities with a focus on measuring outcomes.

43. **Coordination with other public agencies.** Although CONAFOR will be the Implementing Agency, the effective involvement of other federal and local institutions is crucial for the success of the project. The REDD+ Vision identifies inter-institutional coordination as a key priority for a successful REDD+ in Mexico. Cognizant of this challenge, CONAFOR actively involved Hacienda, SEMARNAT, SAGARPA, CDI, CONEVAL, State Governments, CONABIO, and inter-municipal associations in the project design, and formal collaboration agreements will be established with these institutions. These institutions would also benefit from capacity building and training provided under Component 1.3 and 3.2 of the project.

44. **Stakeholders Information, Dissemination, and Consultations.** The project is meant to benefit a large number of indigenous peoples and other local communities throughout the country. It will continue to support existing CONAFOR programs which many communities and civil society organizations support in general. However it will significantly scale up previous Bank engagement, promote innovation, engage in thematic areas that are still open for debate and not fully familiar to local communities, especially REDD+. The project will also be associated, directly or indirectly, with new initiatives that attract high interest globally such as the FIP and the FCPF. Significant efforts will be undertaken for stakeholder groups at various levels to understand the objectives of the different mechanisms as well as the different processes of participation (such as the National CTC-REDD, the regional CTCs-REDD, the SESA Follow-Up Group, etc.) and those that are already in existence (Consejo Forestal at the national and regional levels, for example). Stakeholder groups will be afforded specific representation and/or roles in the different processes and how these processes contributing to the project activities and design of the REDD+ strategy. CONAFOR will need to assess the different participation platforms and the need to develop a comprehensive communications and consultation strategy that would align the objectives of the FCPF, SIL and FIP as part of the country's forest and climate change vision. CONAFOR will carry out a thorough assessment of the different participation processes, their representativeness of different stakeholder groups (or lack thereof) and their specific objectives in vis-à-vis the comprehensive consultation strategy at various levels. In the background that Mexico's profile in the REDD+ process is evolving domestically and internationally, CONAFOR will intensify dialogue with specific key stakeholder groups such as Indigenous Peoples and women. While the criticisms and demand may vary from group to group, CONAFOR will develop a specific strategy of continuous engagement, direct dialogue and communication aimed at building confidence in the process among specific stakeholder groups.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

45. A full economic analysis of the project is not possible, as many benefits, particularly from the PES program which accounts for the bulk of both CONAFOR's current program and the project, have not been quantified; the opportunity costs of forest lands, which account for the bulk of economic costs, have also been imperfectly quantified (improvements in monitoring and evaluation under component 1.1 seek to address these shortcomings). However, available information shows that the break-even levels needed to justify the project investments are very low and well within reach:

46. Component 2 will make payments under the existing CONAFOR forest programs, primarily PES and PROCYMAF. PROCYMAF-supported activities have been shown to have an internal rate of return (IRR) of about 20 percent. No IRR can be calculated for PES, but an upper bound on its cost is US\$32/ha/year, while it could be as low as US\$2/ha/year. Relatively modest average levels of hydrological and other benefits per hectare would thus be sufficient to justify this program.

47. Component 1 will invest US\$17.5 million to coordinate and improve the various forestry programs. An improvement in net annual benefits of US\$0.55/ha in the area enrolled in PES alone would be sufficient to justify this investment.

48. Component 3 will invest US\$37 million to pilot using PES and other tools to reduce emissions reductions. Currently, PES only generates average emissions reduction of about 3tCO₂/enrolled ha, or about US\$12/ha at a price of US\$4/tCO₂ (net of transaction costs). In areas where deforestation was actually reduced, however, actual emissions reductions were 170tCO₂/ha. There is thus very considerable scope to increase emission reductions. For PES alone, an improvement in targeting in which 1 in 40 enrolled hectares achieved average emissions reductions of 170tCO₂/ha would be sufficient to justify the FIP investment. This is a conservative estimate as it only counts REDD+ benefits, and not the other benefits that improved targeting would also generate.

B. Technical

49. The proposed project would build upon the successful experience of the previous Community Forestry and Payments for Environmental Services projects. It supports a second generation of interventions to assist forest-dependent communities in building social organization, take full ownership of forest management, and optimize local and global benefits from forests. Component 1 logically focuses on improving CONAFOR's capacity to monitor and evaluate the impacts of its growing programs, on promoting cross-sector coordination, on improving the quality of technical assistance services available to communities. Component 2 moves towards the consolidation of a priority subset of CONAFOR's community-based

programs, ensuring the continuity of these programs overtime, and allowing for iterative improvements and greater harmonization amongst them. The PES program underwent a continuous process of improvement, for example through the introduction of a point system to prioritize the applications with the highest potential value. This process of gradual improvement would continue with the support of component 1.2, and its results would be integrated into component 2 for implementation at scale.

50. The proposed operation would help advance the REDD+ agenda in Mexico and globally with a strong focus on community-based management and the alignment of cross-sector policies, in the context of a comprehensive package of assistance that combines policy, advisory and investment instruments. The project design is consistent with the FIP investment criteria: (a) climate change mitigation potential; (b) demonstration potential at scale; (c) cost-effectiveness; (d) implementation potential; (e) integrating sustainable development (co-benefits); and (f) application of environmental and social safeguards. First, consistent with the Mexico REDD+ Vision, the goals of the experimentation and piloting efforts to be conducted under Component 3 will be to mitigate climate change by reducing deforestation and degradation (criteria a) and improve livelihoods and protect environmental values (criteria e). Second, in order to allow demonstration at scale (criteria b), the project will use a sub-national approach focusing the initial REDD+ innovation efforts on Early Action areas and attempting to gradually scale up successful approaches at the national level through the regular CONAFOR programs. Third, by building upon successful programs and relying on existing institutions, rather than creating completely new ones, the proposed project increases cost-effectiveness (criteria c) and has a strong implementation potential (criteria d).

C. Financial Management

51. The Bank conducted a financial management (FM) assessment¹⁴ in accordance with OP/BP 10.02 and the FM Practice Manual¹⁵. The overall conclusion of the assessment is that the FM arrangements as set out for this Project are adequate.

52. The project is complex in terms of FM and the overall FM risk is considered Substantial, mainly because Component 2 and 3 will involve several payments to multiple beneficiaries, which implies a considerable level of complexity in terms of its operational control, and Component 3 will also involve transfer of funds to [to be confirmed] to the *Comisión Nacional Intersecretarial para el Conocimiento y Uso de la Biodiversidad* (CONABIO), an inter-ministerial commission composed of the heads of several ministries, which promotes, coordinates, supports and carries out activities for the better understanding of Mexican biological diversity, as well as its conservation and sustainable use.

53. The project will be implemented by CONAFOR, that has an adequate capacity to carry out the FM tasks given its long-standing experience in executing projects financed with Bank's resources, and also has a sound internal control environment supported by the following mitigating measures: (i) strong country public FM arrangements, which will be applicable to this project as it will be integrated into the national budget, (ii) manuals of policies and procedures,

¹⁴ This is a preliminary, not yet cleared, version of the FM contribution to the PAD.

¹⁵ The FM Manual was issued by the FM Sector Board in March 1, 2010.

including a set of operational rules applicable to the payments related to component 2 of the project, (iii) a well integrated IT platform to perform all the budgeting, accounting and payments functions related to the project, (iv) a suitable organizational structure, in which the General Administrative Coordination¹⁶ will perform most of FM project activities, and will be reinforced through the creation of a Project Technical Unit (Project Unit), which will include a FM specialist that will undertake specific tasks derived from the project implementation. A more detailed explanation of the functions of these units is included in the FM staffing arrangements section of the Annex 3 of this document.

54. In addition to the above mitigating controls, the following measures have been agreed with CONAFOR:

- The preparation of an operational manual which will document the FM procedures agreed for the project, to be completed before negotiations.
- Specific TORs will be required for the external audit of the project, requesting the auditor's opinion on the adequate application of the key operational and financial controls of the program.

55. At this stage, the FM action plan consists on the following: (i) Prepare the project's Operational Manual, in accordance to the FM arrangements agreed under the project. (ii) Hiring the FM Specialist under the Project Unit.

D. Procurement

56. CONAFOR has been the implementing agency for Bank-assisted projects for many years. The procurement team has sound knowledge of the Bank procurement policies and guidelines, and reporting is of good quality. Implementation of the Second Community Forestry Project (PROCYMAF) was deemed fully satisfactory with regards to procurement policies.

57. The workload of the CONAFOR procurement team has significantly increased. They are responsible for implementing World Bank projects and grants from other sources. If not strengthened adequately, this could generate issues relating to CONAFOR capacity to provide timely and professional procurement services. To overcome this risk, during appraisal the Bank will closely review this staffing issue and work with CONAFOR to develop a contingency plan.

58. The main component of this operation (Component 2, USD270 million) will support five existing CONAFOR programs (PES, PROCYMAF, PRODEFOR, *Cadenas Productivas* and Special Programs) and Component 3.3 will support innovative community-based initiatives focused on REDD+. The PES program consists mostly of financial transactions to communities and *ejidos* without any procurement activities; while the other four programs supported under

¹⁶ This department exists within the organizational structure of CONAFOR and is in charge of all institutional FM activities.

Component 2, as well as Component 3.3, may consist of small procurement activities to be executed by entities different from CONAFOR (communities and *ejidos*). During appraisal the scope of these programs, as well as the procurement roles of these entities will be defined, as well as the appropriate mitigation actions, as needed. The Overall procurement risk for this operation is Substantial.

E. Social (including safeguards)

59. A Social Assessment was carried out by CONAFOR in order to provide a comprehensive view and knowledge on the socio-cultural context of the proposed project areas. Some of the key findings of the Social Assessment involve: (i) the role of women in forest management; (ii) identification of indigenous peoples; (iii) broad beneficiary and stakeholder participation; (iv) out-migration; and (v) potential social conflicts (see details in Annex 3, Social). These findings will help enhance CONAFOR's programs and operations in providing support to indigenous peoples and other local communities in a socially and culturally appropriate manner.

60. A number of information dissemination efforts were carried out during preparation at the national, regional and local levels with a wide range of stakeholder groups (indigenous peoples and other local communities, regional organizations and state governments, among others). Specifically, 5 regional workshops were carried out in Jalisco, Campeche and Yucatan in August and September 2011 in order to seek feedback and comments from stakeholders on the national REDD+ process as well as on the FIP Investment Plan. A comprehensive multi-level communication and information dissemination strategy is being developed. The plan will coordinate the information among the various mechanisms (FCPF, SIL and FIP) and create the basis for a process of consultation with a wide-range of stakeholder groups, including indigenous peoples and other local communities as well as small private land owners (*pequenos propietarios*). In addition, CONAFOR presented the entire forest and climate change package at the meeting of the National CTC-REDD on October 13, 2011, for stakeholders' feedback and inputs. Due to the large size of the country, institutional capacity and coordination to roll out, upscale and maintain the information dissemination flow will be strengthened.

61. With regards to social safeguards, the Indigenous Peoples policy (OP4.10) and the Involuntary Resettlement Policy (OP4.12) have been triggered to tailor project benefits and/or address potential impacts on indigenous peoples and to manage potential restriction of access to natural resources, respectively. The project will not finance any community infrastructure such as community roads. In compliance with the Indigenous Peoples policy (OP4.10), a comprehensive Social Assessment and an Indigenous Peoples Planning Framework (IPPF) were prepared and disclosed on [DATE]. No physical resettlement or land acquisition is expected under the project, however, in compliance with the Involuntary Resettlement policy (OP4.12), a Process Framework (PF) was prepared to guide possible restriction of access to forest resource which could occur in officially designated protected areas. The PF was disclosed on [DATE]. The social safeguards instruments are available on CONAFOR's website.

62. CONAFOR has extensive experience working with indigenous peoples and other local communities. Through the project, CONAFOR's institutional capacity will be strengthened and additional human resources will be added to follow and manage social processes at multiple

levels. This is critical for the project as it involves a substantial scale-up in activities, includes new mechanisms such as the FIP and the need to coordinate REDD+ activities financed by the FCPF under one forest and climate change agenda. The Unit of Coordinacion y Concertacion will take the lead responsibility for the overall social aspects and social safeguards implementation for the SIL and FIP as well as the FCPF in order to address social issues in a comprehensive and coordinated manner. This unit has an ongoing engagement with indigenous peoples, women and youth in the context of the CONAFOR programs while cooperating with other federal agencies such as CDI (*Comision Nacional para el Desarrollo de los Pueblos Indigenas*) and other state governments. See [Annex 3.E](#) for further discussion on social issues.

F. Environment (including safeguards)

63. No long-term or large-scale negative environmental impacts are anticipated thus the project is classified as environmental risk category B. The main indicator of the project's environmental impact will be the reduction of forest degradation and achieving zero deforestation through: (i) the incorporation of new forest areas under sustainable forest management (currently only about 8 million hectares, or 60 percent of the forest with timber potential, are under legal management). The aim would be to incorporate about 1 million hectares per year; (ii) expansion of the number of certified forest communities, from about 800,000 hectares to 1.6 million hectares of certified sustainable forest management; and (iii) increasing the community conservation areas, the area under payments for environmental services—particularly under “*Fondos Concurrentes*” which support local mechanisms with counterpart funding. Two decades of Bank operations in the forest sector in Mexico have contributed to good environmental practices in the proposed areas of intervention. Project activities include community-based land use planning and forest management including the harvesting, processing and marketing of timber and non-timber products, as well as the protection of and payments for environmental services. The project does not include commercial plantations, agriculture and livestock expansion, or road building or maintenance.

64. The Environmental Assessment (EA) Report and the Environmental Management Framework were submitted to the Bank and disclosed on the web on [DATE]. The safeguards triggered are: Environmental Assessment (OP/BP4.01), Natural Habitats (OP/BP4.04), Forests (OP/BP4.36), Pest Management (OP4.09) and Physical Cultural Resources (OP/BP4.11). Based on the EA, an EMF will be finalized which will focus on mainstreaming good environmental practices in Component 2 and enabling the institutional arrangements within CONAFOR for screening and scoping of community investments.

65. Natural Habitats protection measures will also be included in the EMF, through the implementation of a coordination mechanism with the Natural Protected Areas Commission to ensure any activity developed in the buffer zone of a protected area is consistent with the respective Area Management Plan, and is monitored by the Protected Area administration, the Federal Attorney for the Environment (PROFEPA), Semarnat and CONAFOR.

66. Forest policy is supported by the legal requirement of the Forest Management Plan approval, which Semarnat will not issue for forest operations in Natural Protected Areas core areas and would require CONANP and/or CONABIO's assessment prior to authorizing activities in the buffer zone of Natural Protected Areas or critical habitats; the promotion of best forest

management practices through the technical manuals developed under the previous Community Forestry, and the creation of incentives and support to further advance FSC type certification and markets for certified products.

67. A Pest Management chapter will be included within the EMF which will present detailed guidelines to screen the proposed products and practices to be supported by the project for silvicultural treatments, insect and disease pest management for timber production, agroforestry and other activities, including processes within the transformation facilities which may use chemical products –including fungicides-, for the treatment of timber. Procurement of pesticides or other agricultural chemicals under the project will follow Bank guidelines. The use of pesticides will be guided by an Integrated Pest Management Plan and health and safety provisions, as required under the policy. See Annex 3.D for further discussion on environmental issues.

G. Readiness for Implementation

68. The proposed operation is ready for appraisal. The financial management and procurement arrangements, as well as the social and environmental safeguards instruments prepared by CONAFOR, were reviewed during preparation and will be finalized during appraisal. [The Mexico FIP Investment Plan and the activities proposed for FIP financing under Components 1 and 3 of the project were discussed and approved by the FIP Subcommittee of the Climate Investment Fund in Washington, DC on October 31]. The baseline for Components 2 and 3 will be prepared by effectiveness. A draft Operational Manual was submitted to the Bank for review on October 16, 2011.

Annex 1: Results Framework and Monitoring

A. Results Framework

Project Development Objective (PDO): to support rural communities in Mexico to sustainably manage their forests, build social organization, and generate additional income from forest products and services including the Reduction of Emissions from Deforestation and Degradation (REDD+).											
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection
				YR 1	YR 2	YR3	YR 4	YR5			
Indicator One: Increase in forest area under improved management and reduced carbon emissions practices	<input type="checkbox"/>	Percentage (increase)	16.353 million hectares (0%)	2%	4%	6%	8%	10%	Annual	CONAFOR, independent survey	CONAFOR
Indicator Two: Increase in number of communities building social organization and generating income from sustainable production of forest goods and services including REDD+	<input type="checkbox"/>	Percentage (increase)	4,000 communities (0%)	4%	8%	12%	16%	20%	Annual	CONAFOR, independent survey	CONAFOR
Indicator Three: Reduction of net deforestation and forest degradation in selected landscapes within REDD+ Early Action areas compared to baseline (number of hectares, or equivalent net CO2 emissions)	<input type="checkbox"/>	Equivalent net CO2 emissions (percentage)	Baseline for two Early Action areas	N/A	N/A	0%	5%	10%	Annual	CONAFOR with MRV Project	CONAFOR
INTERMEDIATE RESULTS											
Intermediate Result (Component One): CONAFOR has developed adequate systems and capacity to manage its growing portfolio and has established efficient cross-sector coordination mechanisms											
<i>Indicator 1:</i> Improved monitoring and evaluation system for CONAFOR-supported programs (includes MRV) is operational	<input type="checkbox"/>	Yes/No	No	No	No	Yes	Yes	Yes	Annual	External audit of CONAFOR M&E system	CONAFOR
<i>Indicator 2:</i> Number of CONAFOR field offices rehabilitated, equipped, staffed and trained	<input type="checkbox"/>	Number	0	0	10	20	30	32	Annual	CONAFOR reports	CONAFOR
<i>Indicator 3:</i> Percentage of community forest management permits and special permits approved within the legal span	<input type="checkbox"/>	Percentage	91%	91%	95%	100%	100%	100%	Annual	Sistema de Gestion Forestal	DG Gestion Forestal

Annex 1: Results Framework and Monitoring

<i>Indicator 4:</i> An integrated database of CONAFOR/SAGARPA/DGF is operational	<input type="checkbox"/>	Yes/No	No	No	No	Yes	Yes	Yes	Annual	CONAFOR, SAGARPA, DGF reports	CONAFOR, SAGARPA, DGF
<i>Indicator 5:</i> Number of certified private technical service providers	<input type="checkbox"/>	Number	0	0	200	400	600	800	Annual	Reports from accreditation system	CONAFOR
<i>Indicator 5:</i> Knowledge assets on REDD+ created and shared	<input type="checkbox"/>	Number	0	0	2	4	6	10			
Intermediate Result (Component Two): The five CONAFOR demand-driven programs on community forestry and payments for environmental services help improve the social and economic situation of participating communities and [maintain forest cover/reduce forest vulnerability]											
<i>Indicator 1:</i> Increase in Social Organization Index in communities that participate in demand-driven programs on community forestry and payments for environmental services	<input type="checkbox"/>	Percentage of Index	Results from initial survey	N/A	N/A	0.10	N/A	0.20	Biannual		CONAFOR, independent survey
<i>Indicator 2:</i> Increase in Economic Development Index in communities that participate in demand-driven programs on community forestry and payments for environmental services	<input type="checkbox"/>	Percentage of Index	Results from initial survey	N/A	N/A	0.10	N/A	0.20	Biannual		CONAFOR, independent survey
<i>Indicator 3:</i> Reduction of loss of forest cover (net deforestation rate) nationwide, compared to initial value	<input type="checkbox"/>	Percentages (hectares)	First measurement in 2012	0%	2%	4%	6%	8%	Annual		
Intermediate Result (Component Three): Innovation efforts in two REDD+ Early Action areas lead to reduced net deforestation and forest degradation, and to identification of replicable low-emissions landscape management models											
<i>Indicator 1:</i> Percentage of participating communities receiving support from innovative Landscape Management Agents (ATLs/ADLs) in REDD+ Early Action areas	<input type="checkbox"/>	Percentage of participating communities	0	0	33	67	100	100	Annual		CONAFOR
<i>Indicator 2:</i> Number of operational agreements between CONAFOR, SAGARPA, and States in support of REDD+	<input type="checkbox"/>	Number of agreements	0	0	2	4	4	4	Annual		CONAFOR, SAGARPA, States
<i>Indicator 3:</i> Number of new community-based, economically viable, REDD+ focussed initiatives with demonstrated potential for replication at scale	<input type="checkbox"/>	Number of new initiatives	0	0	2	4	10	18	Annual		CONAFOR
<i>Indicator 4:</i> Increase in the proportion of CONAFOR and SAGARPA investments	<input type="checkbox"/>	Percentage of	9%	10%	20%	30%	40%	50%	Annual		CONAFOR

mobilized through the new REDD+ integrated landscape mechanisms in Early Action areas	initial value									
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B. Description of the Indicators and Indexes included in the Result Framework

1. The result framework for the proposed SIL-FIP operation is based on the outcomes of a workshop on indicators held in Mexico City on September 21-22, 2011 and attended by representatives of academia, civil society, CONAFOR and CONEVAL. The proposed project indicators are consistent with CONAFOR's own operational monitoring system (*Sistema Único de Rendición de Cuentas*, SURC) and with the FIP program-level result framework included in the Mexico Investment Plan (See Annex 9 on Forest Investment Program).

2. *PDO Level Result Indicator 1: Increase in forest area under improved management and reduced carbon emissions practices.* This indicator will sum up how many hectares are under one of the forest management instruments supported by the project: (i) community land use plan, (ii) payment for environmental service, (iii) sustainable forest management plan, (iv) active community-management, processing and marketing activities, (v) certification, and (vi) *Plan Predial*. Since an area might receive support from several programs, the indicator will sum up the hectares supported by each program, hence giving more weight to an area that has a community-plan and is certified, rather than just a community plan.

3. *PDO Level Result Indicator 2: Increase in number of communities building social organization and generating income from sustainable production of forest goods and services.* Same as for PDO Level Result Indicator 1.

4. *PDO Level Result Indicator 3: Reduction of net deforestation and forest degradation rate in selected landscapes within REDD+ Early Action areas.* A baseline and a monitoring system for net deforestation and forest degradation in selected landscapes of the REDD+ Early Action areas will be developed and tested in years 1 and 2 of the project, including a methodology for measuring or estimating forest degradation¹⁷. The monitoring system would become operational in year 3, and actual measurements would take place in years 3, 4 and 5 of the project using satellite images and local, ground information. The baseline would be calculated on the basis of the current tendency to deforestation and forest degradation in those areas. This indicator would be measured in equivalent CO₂ emissions, or in number of hectares as a proxy. This work would include the North American Land Cover Monitoring System, and will be coordinated with the Norwegian supported MRV project also implemented by CONAFOR.

5. *Component 1–Indicator 1: Improved monitoring and evaluation system for CONAFOR-supported-programs (includes MRV) is operational.* The goal is that by the end of the Project, CONAFOR has a fully functional monitoring and evaluation system focused on measuring results and outcomes. While some data will be available since year one, others are to be constructed along the project. It is expected that all the data that SEMARNAT and CONAFOR are mandated to collect would be included in the system.

6. *Component 1–Indicator 2: Number of CONAFOR field offices rehabilitated, equipped, staffed and trained.* CONAFOR is to define what constitutes an ideal field office (*promotoría*) in

¹⁷Therefore, the Results Framework states N/A in the first two years

terms of the physical state of the office, its equipment and, the training and number of its staff. The indicator will count those *promotorías* fulfilling these conditions in a sufficient degree for serve the area they are intended to.

7. *Component 1–Indicator 3: Percentage of community forest management permits and special permits approved within the legal span.* This indicator is not intended to evaluate CONAFOR’s only responsibility on the functionality of these procedures since other institutions (SEMARNAT) are involved. However, it is worth being collected since it points out some of the risks for the correct operation of the programs and for the project itself, and can be used as an input for intra-sectoral discussions. Since it considers two different procedures, each must be weighted according to the proportion of the total they represent. This indicator relates to the implementation of a policy action supported under the 2010 Low Carbon DPL.

8. *Component 1–Indicator 4: An integrated database of CONAFOR/SAGARPA/DGF is operational.* Currently under construction, this database is expected to include all necessary information of the actions undertaken by at least these four agencies nation-wide. This indicator relates to the implementation of a policy action supported under the Social Resilience to Climate Change DPL. See component 2.

9. *Component 1–Indicator 5: Number of certified Technical Service Providers.* The project expects that the number and the quality of the technical service providers (TSP) increase. CONAFOR is currently designing a norm for the certification of the TSPs, so the progress on the indicator will follow the norm. The certification of the TSPs will be made by CONAFOR, and the indicator will only include those actually working for a program.

10. *Component 1–Indicator 6: Number of Knowledge Assets on REDD+ created and shared.* This indicator aims to capture the contribution of the project to disseminate lessons learned and experiences on REDD+ gained from FIP investments in the Early Action areas. It will measure the number of knowledge assets (e.g. publication, studies, knowledge sharing platforms, learning briefs, etc) created and shared.

11. *Component 2–Indicator 1: Increase in Social Organization Index (SOI) in communities that participate in demand-driven programs on community forestry and payments for environmental services.* A survey will be applied in a sample of communities, using a modified version of a survey developed by the UNAM in 2008. After revision of this survey, an index of social organization will be proposed, a baseline established, and then CONAFOR will conduct two more survey applications (years 3 and 5) to measure the progress in the indicator¹⁸. See paragraph 12 below.

12. *Component 2–Indicator 2: Increase in Economic Development Index (EDI) in communities that participate in demand-driven programs on community forestry and payments for environmental services.* A survey will be applied in a sample of communities, using a modified version of a survey developed by the UNAM in 2008. After revision of this survey, an

¹⁸ Survey will be conducted in year 3 and 5; therefore, in years 1,2, and 4 there will be no information available

index of economic development will be proposed, a baseline established, and then CONAFOR will conduct two more survey applications (years 3 and 5) to measure the progress in the indicator¹⁹.

13. *Component 2–Indicator 3: Reduction of loss of forest cover (net deforestation rate) nationwide.* A Monitoring system will be deployed and tested during the first two years of the program. This will include the North American Land Cover Monitoring System expected to become operational in 2012. This indicator measures the evolution of forest cover overtime, as compared to an initial value (2012) without taking into account a reference scenario.

14. *Component 3–Indicator 1: Percentage of participating communities receiving support from innovative Landscape Management Agents in REDD+ Early Action areas (ATLs, ADLs).* ATLs and ADLs are local entities which integrate REDD+ across sectors, levels of government, and territoriality. The recipients of component 3.3 in Early Action areas should ideally be accompanied by an ATL (*Agente Técnico Local*) or ADL (*Agente de Desarrollo Local*). See Annex 2, Component 3.2 on ATLs and ADLs.

15. *Component 3–Indicator 2: Number of operational REDD+ arrangements between CONAFOR, SAGARPA and State Governments in REDD+ Early Action areas.* For each of the pilot areas, at least two REDD+ arrangements are to be signed and active for the operation of the programs. The most relevant partners in such arrangements are SAGARPA and local governments (State level).

16. *Component 3–Indicator 3: Number of innovative REDD+, economically viable, community-based landscape management initiatives with demonstrated potential for replication at scale.* Under current conditions, local landscape management models and forest-based businesses are not yet able to attract REDD+ resources. The project aims to promoting REDD+ focused initiatives (new or adjusted landscape management models or forest-based businesses). Only community initiatives are to be supported by the project and counted by the indicator.

17. *Component 3–Indicator 4: Increase in the proportion of CONAFOR and SAGARPA investments being mobilized through the new REDD+ integrated landscape mechanisms in Early Action areas.* This indicator aims to capture the degree of alignment of the multiple CONAFOR programs with each other, and with the SAGARPA programs (e.g. PROGAN). Initially this indicator would measure the proportion of CONAFOR investments that are channeled through the new integrated, landscape mechanisms designed under Component 3 (lineamentos especiales, fondos concurrentes, and/or via ADLs and ATLs) as a proportion of total CONAFOR investments in the REDD Early Action areas. At a later stage, it would also include the SAGARPA investments in the calculation. Over time it is expected that an increasing proportion of CONAFOR and SAGARPA investments will be using the new REDD+ oriented landscape-based mechanisms. As a baseline, the *Fondos Concurrentes* currently operating in the State of Jalisco represents 9 percent of the total CONAFOR investments in the Early Action areas.

¹⁹ *idem*

18. **Description of two Indexes to be used for Component 2.** The Social Organization Index (SOI) and the Economic Development Index (EDI) were designed and successfully applied in 2008 to define a baseline for the PROCYMAF project in collaboration with the Mexican Council of Science (CONACYT), the National University of Mexico (UNAM) and the University of Indiana. This work included a survey to 106 communities from five different States. This pilot suggested that the main methodological challenge in scaling up the use of indexes will be to assure the quality of the field work, and CONAFOR will continue to work with UNAM in that regard. The Indexes will be updated and customized to the five programs supported under Component 2. The final index composition and a proposed sampling methodology will be included in the Operational Manual.

19. **Social Organization Index (SOI).** The SOI measures the organization of communities and ejidos with regard to community-based forest management and marketing of forest products and services, in six levels ranging from *Very high organization* to *Strong desorganization*. The index includes proxies to measure the level of organization in forest management, formal structures, and informal/traditional organization. The preliminary formula is $SOI = A + B + C + D + E + F + \sum G + (Q * R) + N + (S * T)$, where each variable has a nominal or dichotomic value. The SOI score of a community ranges from minimum 0 to maximum 18. The SOI variables are:

- *A = Forest management scheme (the forest is managed by the community or it is divided and managed by groups or it is divided and managed by individuals)*

Formal community organization:

- *B = Period of community authorities service*
- *C = Number of assemblies per year*
- *D = Percentage of communal right holders taking regularly place in assemblies*
- *E = All the towns within the community's borders take part in the assemblies*
- *F = Participation of people without tenure rights in the assemblies*
- *G = Decisions taken by the assemblies related to common forest management (accumulation)*
- *Q = Frequency of conflicts at the assembly*
- *R = Capacity level of the assembly for consensus reaching and conflict resolution*

Informal/traditional organization:

- *N = Number of days of non paid work in favor of the community (like tequios, faenas)*
- *S = Type and level of sanctions when community members do not take part in non paid work in favor of communities (like tequios, faenas)*
- *T = Frequency of sanctions when community members fail to take part in non paid work in favor of communities (like tequios, faenas)*

20. **Economic Development Index (EDI).** The EDI measures the economic development of communities and ejidos in relation with community-based forest management and marketing of forest products and services in six levels from *Null* to *Very High*. The index includes proxies to measure the diversification of forest revenues, sophistication level and economic performance. It is built as $EDI = A + B + C + D + E + F + G + H + I + J + K$ where each variable has a nominal or dichotomic value. The SOI score of a community ranges from minimum -12 to maximum 42.5. The EDI variables are:

Diversification of forest revenues:

- *A= Community harvest commercial non-timber forest products (NTFP), no-commercial forest products (NCFP) and payment for environmental services (PES)*

- *B= Presence of forest management plans to sustain the harvest of NTFP and/or NCTF*

Level of sophistication of the local forest-based economy:

- *C= Level of vertical integration of timber production (typology of forest producers)*

- *D=Participation of community members in forest activities*

- *E =Harvest of timber*

- *F= Type of ownership of equipment (privately own or not)*

- *G =Level of equipment (including extraction equipment, transport, drying stove, etc)*

Economic performance:

- *H=How are logging operations and industry financed?*

- *I=Economic feasibility of logging operations (costs vs profits)*

- *J=Economic feasibility of mills (costs vs profits)*

- *K= Payment method of technical advisor (own resources, government, timber buyer)*

C. Monitoring and Evaluation

1. **Monitoring.** The National Forest Policy of the Government of Mexico uses two planning and monitoring timeframes for forestry development: (i) medium term, based on six-year plans, including sectorial, institutional and special programs; and (ii) long term, with a 25 years projection, including the *Programa Estratégico Forestal para México 2025*. The planning instruments are aligned with other instruments, as the National Development Plan and the Climate Change Strategic Program.

2. In recent years, the Government started the implementation of a results-based budget (RBB) approach, which includes processes and instruments that allows to make budget decisions which systematically considers results. This approach seeks to focus the decisions on the results; align the strategic planning, monitoring and evaluation with results; to keep information in a simple format; to manage for results; and to use the results to learn and for public accountability. CONAFOR has been working on the RBB approach, and is in early implementation of a Performance Evaluation System (SED). It is also strengthening its planning, programming, budgeting, monitoring and evaluation systems with a RBB focus. Some of the instruments that CONFOR is currently using are:

- a) *Systems for monitoring of inputs:* CONAFOR uses two main tools to monitor the inputs (i) Management and Information Analysis System (SIGA II) to track the managements of applications incentives allocated under the CONAFOR programs; (ii) the Sistema Único de Rendición de Cuentas (SURC) to monitor inputs; (iii) Payment System (SIDPA) to track and control the payments to the beneficiaries of CONAFOR's programs. Both systems can be disaggregated to the minimum unit (community/*ejido*/private land owner) or aggregated by State and municipality. The systems allow observing information about gender, indigenous groups, and number of beneficiaries within an *ejido* or community.

- b) *Matrix of Results Indicators*: strategic planning tool to express the internal programs in a simple and organized format. It aligns the contribution of the programs to the objectives stated in the SED and NDP. The Matrix is permanently and systematically updated by CONAFOR and presented in the portal of the Ministry of Finance.
- c) *Monitoring scorecard*: monitors the advance of indicators stated by CONAFOR or aligned reports. It is updated in a monthly basis. It is currently in a draft version, and CONAFOR expects to improve the tool.
- d) *External evaluations*: these assessments are focused on the satisfaction level of beneficiaries supported under CONAFOR's programs and the results of the activities performed by the beneficiaries with resources from CONAFOR. The external evaluations use statistically representative samples, and are implemented each 3-4 years. CONAFOR is redesigning the external evaluation mechanism, with a new focus on measuring the programs' net effect and impact evaluation. Recent efforts to improve this evaluations includes experts' workshops
- e) *Accountability reports*: including quarterly auto-assessments presented to CONAFOR's Government body and annual reports to Ministry of Finance. It could also include voluntary reports by a single program or concept to evaluate a specific result.
- f) CONAFOR has experiences and capabilities for forest monitoring and evaluation of policies with instruments such as a National Forest Inventory based on a network of over 24,000 permanent sampling sites and multiple monitoring community experiences, including carbon monitoring for various initiatives of voluntary carbon markets and the evaluation of policies with periodic studies for the evaluation of programs.

3. **Impact Evaluation.** An impact evaluation strategy would be developed in partnership with CONEVAL to measure the impact of innovative REDD+ pilot activities in Early Actions areas under Component 3. The impact evaluation would use the following basic principles:

- a) Generate a "differences in differences" indicator: $(Y_T - Y_C)^K - (Y_T - Y_C)^0$, where Y is a variable which measures the degree of success in reaching the expected outcome of the projects (for example a deforestation or a degradation variable). T represents the treatment group (those units of analysis which participate in a REDD project), C represents the control group. Finally, 0 and K denotes the baseline year and K years after the baseline year, respectively.
- b) Unit of analysis: *predio/ejido* (the minimum unit which can participate in a REDD project).
- c) Population: all eligible areas which potentially can participate in early actions projects.
- d) Frequency: we suggest gathering information in the baseline year, and then at years 3 and 5.
- e) Independent variables (to select the control group): vegetation type; type of land property rights (private, *ejido* or *comunidad*); size of the *predio/ejido*; existence/non-existence of

internal rules (*reglamento interno*); land-use alternatives (INEGI potential land use data); socio-demographic characteristics (average values per *predio*); geographic characteristics (average values per *predio*); infrastructure proxies (time/distance to markets)

- f) These variables are used to build the control group. Many methodologies may serve to this purpose, for example, matching methods.

Annex 2: Detailed Project Description

A. Statement of PDO

69. The proposed project is part of the package of Bank engagement in support of Mexico's ambitious, cutting-edge Forest and Climate Change program, within the overall framework of Mexico's National Development Program and Mexico's REDD+ Vision. The project contributes to the higher-level objective of ensuring the sustainable management, restoration, and expansion of Mexico's forest resources, while promoting local socio-economic development, strengthening communities' resilience to climate change, and spearheading the global effort on REDD+.

70. Within this overall framework, the specific Project Development Objective is: *to support rural communities in Mexico to sustainably manage their forests, build social organization, and generate additional income from forest products and services including the Reduction of Emissions from Deforestation and Degradation (REDD+).*

71. The project would help consolidate and improve CONAFOR's incentive programs for community forestry and environmental services, and utilize them as the drivers for the national REDD+ strategy. It would also help strengthen CONAFOR as a world-class forest agency, promote the alignment of cross-sector public policies, and pilot innovative REDD+ approaches in two Early Action areas.

B. Project Components

72. **Component 1. Policy Design and Institutional Strengthening.** (IBRD US\$30m, and FIP US\$11.66m grant). This component would aim to strengthen CONAFOR as a leading forest agency worldwide, foster cross-sector collaboration among public agencies, and improve the quality of private technical assistance available to communities.

73. Activities of this component include: (i) design and implement management models for sustainable productive landscapes; (ii) create capacity within different levels of public agencies for integrated multi-sectoral policy and program implementation in productive rural landscapes; (iii) design innovative mechanisms for development policy, incentives and program alignment in Early Action REDD+ areas (including the use of special guidelines for forest programs); (iv) support participatory processes for indigenous and other local communities and relevant stakeholders in the management of forest landscapes, including stewardship of forest resources; and; (v) monitor results and strategic assessments of the Forest Investment Plan, including participatory mechanisms, documentation and dissemination of experiences

74. **Subcomponent 1.1. Monitoring and Evaluation.** (IBRD US\$5m, and FIP US\$2m grant). First, this subcomponent would strengthen and modernize CONAFOR's monitoring and

evaluation systems to bring them in line with the institution's rapidly growing portfolio. It would help revamp existing databases, strengthen CONAFOR's remote sensing and geographic information capacities, and enhance capacities to better measure the outcomes of CONAFOR's investments in the field. The system would be transparent, foster accountability, and be subject to independent external reviews. This subcomponent would help develop and implement new monitoring tools like the *Cartilla Forestal* (forestry register) and the Monitoring Scorecard. The M&E system would fulfill a series of characteristics:

- Be frequently updated: The system should provide users and the public the most recent information available
- Be independent: The system counts with an external review, using a methodology established by an independent agent
- Disaggregated: The system monitors and evaluates the programs on three territorial levels (nation, states and *núcleos agrarios*)
- Transparency: The information is publicly available
- Flag system: The system allows the early identification of conflict points that might block the operation of the programs
- Follow upon recommendations: recommendations from the independent external reviews will be disclosed and follow-up on by CONAFOR in a systematic manner.

75. Second, this subcomponent would help CONAFOR develop emissions baselines for the Early Action areas, and design and pilot a comprehensive REDD+ MRV system. It would help develop the tools to monitor the environmental, social and economic impacts of REDD+ pilot projects in the Early Action areas, and explore community-based monitoring techniques. It would also support a partnership with CONEVAL²⁰ for designing an impact evaluation strategy focused on Component 3.

76. Third, it will support monitoring results and strategic assessment of the Forest Investment Plan consistent with the FIP logic model presented in Annex 9. Mexico has significant experience related to impact assessment that could be useful for the Forest Investment Program replication and scalability. Information systems exist in both monitoring mechanisms and in the assessment of policies. These include monitoring work at the national level through the National Forest Inventory, management and monitoring mechanisms for programs, as well as periodic assessment by CONEVAL.

77. **This Project would complement the current engagement between CONAFOR and the Government of Norway. Some of the complementarities with the Norway project are:** (i) the Norwegian Project includes designing and implementing a transparent, complete, comparable and accurate MRV System to estimate greenhouse gas (GHG) emissions by sources and removals of forest sinks, forests carbon stocks and changes in forest area changes. This project will support the design and implementation of MRV systems at subnational level in the Early Action areas, and would include the exploration of innovative community monitoring systems. While the MRV project would focus on designing methodologies for establishing a

²⁰ Consejo Nacional de Evaluación de la Política de Desarrollo

baseline and verification system starting with the Early Action areas, it is envisaged that the SIL-FIP project would support training and other capacity building activities to enable local communities and other local stakeholders to actively participate in the MRV efforts; and (iii) the Norwegian Project includes designing regional cooperation and South-South capacity building on MRV systems and REDD+ implementation. This project will also support South-South knowledge sharing, in other complementary areas. This project will support monitoring and evaluation of the results at national level and at the Early Action areas; this data would be useful to create solid study cases and knowledge exchange.

78. **Subcomponent 1.2. Policy Design, Participatory Processes, and Knowledge Sharing.** (IBRD US\$12.5m and FIP US\$5m grant). This subcomponent will support analytical works and participatory processes aimed at improving public policies and programs.

79. First, it will support the studies and workshops needed to draw lessons from the ongoing environmental services and community forestry programs, and propose adjustments to the CONAFOR operating rules for subsequent implementation under Component 2. It would aim to achieve greater integration amongst these programs, so they mutually reinforce each other. It would also support studies related to policies and programs related to forestry, agriculture, livestock, and other economic activities in rural landscapes.

80. Second, this subcomponent will also support the studies and workshops needed to design innovative REDD+ approaches that will be piloted in Early Action areas under Component 3. For example, it would support analytical studies to (i) integrate SAGARPA/CONAFOR programs, and adjust existing *Reglas de Operación* and create new *Lineamientos Especiales*; and (ii) to support the integration with SEMARNAT, including the improvement of arrangements related to forest management

81. Third, it will support all participatory processes, communication and outreach efforts needed for the successful implementation of the project including on social and environmental safeguards. It will support a collaborative program with CDI²¹ to disseminate information and receive feedback from indigenous communities. It will support participatory processes for indigenous, local communities and other stakeholders in the management of forest landscapes in Early Action areas supported under Component 3.

82. Fourth, it will support knowledge management and learning activities in-country and internationally, including South-South initiatives and the dissemination and exchange of lessons and experiences on REDD+ and on the implementation of the FIP Investment Plan.

83. This subcomponent would be articulated with the REDD+ Readiness process supported under the FCPF. For example, consultations and the Social and Environmental Strategy Assessment (SESA) to be conducted under the FCPF would inform the design of REDD+ activities in the two Early Action areas, and conversely the experiences drawn from the FIP-supported activities would inform the SESA and the design of the national REDD strategy.

²¹ *Comisión Nacional para el Desarrollo de los Pueblos Indígenas*

84. **Subcomponent 1.3. Strengthening of CONAFOR and Cross-Sector Coordination.** (IBRD US\$12.5m and FIP US\$1.66m grant). First, this subcomponent will support the provision of training and acquisition of equipment for CONAFOR’s staff and offices at central and State level (32 State offices totaling 3592 agents) to modernize CONAFOR’s administration and advisory capacities and promote the sharing of good practices and new technologies. It would include the acquisition of technical equipment that could be granted to other government agencies prior CONAFOR’s agreement (for example commodatum to municipalities for fire equipment). It would also support overall project management including coordination, reporting, fiduciary and safeguards functions.

85. Second, this subcomponent would foster cross-sector coordination between CONAFOR and other federal agencies involved in rural development (SEMARNAT, SAGARPA,²² CONANP,²³ and PROFEPA²⁴). Specifically, it would support the implementation of two policy measures included in recent Climate Change DPLs: (i) the creation of joint databases and monitoring systems with SAGARPA and SEMARNAT, and (ii) the streamlining of the administrative framework for community-based forest management. It would also promote policy and program harmonization at local level in REDD+ early actions (see relationship with subcomponent 1.2 and 3.1).

86. The joint database between CONAFOR and SEMARNAT would include updated information related to the priority areas (“polygons”) supported by CONAFOR programs and those authorized by SEMARNAT for forestry management. The joint database between CONAFOR and SAGARPA would include information about all “polygons” that participate in the incentive programs of CONAFOR and SAGARPA (i.e. PROGAN for livestock, and PROCAMPO for agriculture).

87. The collaboration between CONAFOR and SEMARNAT, specifically with the Directorate General for Forest and Soil Management, will result in the streamlining of procedures and reduction in costs through a number of possible activities: (i) CONAFOR will have trained personnel to review forest management plans supported by CONAFOR and ensure their quality prior to submitting them to SEMARNAT; (ii) CONAFOR’s personnel in State offices will collaborate in field visits of SEMARNAT; (iii) CONAFOR will assist in data capture in the National Forest Management Information System managed by SEMARNAT and will accelerate the permitting process; and (iv) joint mapping of supported and approved management will also assist in focalizing support areas for CONAFOR’s programs.

88. **Subcomponent 1.4. Improvement of Private Advisory Services to Communities** (FIP US\$3m grant). This subcomponent will provide training to a roster of private technical service providers (estimated 1,174 nationwide) who advise communities in preparing and implementing sub-projects for CONAFOR funding. The training modules would cover technical, business,

²² Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación

²³ Comisión Nacional de Áreas Naturales Protegidas

²⁴ Procuraduría Federal de Protección al Ambiente

marketing, and social issues among others. The delivery of the training would be outsourced to a qualified and experienced private firm. This subcomponent will also support the design and implementation of a service provider quality accreditation and certification scheme. The operation of the accreditation scheme would involve a collaboration with SENEVAL, the National Secretariat of Evaluation. The training and accreditation system will be prioritized in the Early Action areas in line with building capacity for community-based forest management as outline in project 1 of the Mexico FIP investment plan.

89. The certification process will be based on individual demands and in a voluntary base; it will be a requisite to offer technical assistance to CONAFOR's beneficiaries. The process aims to regulate the quality of service providers with the evaluation and certification of their performance, knowledge and skills. The first stage of the process includes qualification and training, in order to develop abilities, aptitudes and skills. The second stage will be the certification of their abilities based on the training results. During the process, Certification Institutions will support CONAFOR. The Certification Institutions include academic and research institutions, as well as professional collegiate groups with forestry activities. All the Certification Institutions will be part of a Certification Council, which will validate the certification processes and will gather the roster of Private Services Providers.

90. The PROCYMAF program uses "social forums" as a social control measure, where communities can share best practices with each other and compare the quality of their private services providers. The previous PROCYMAF project used evaluation surveys where the beneficiaries assessed the performance of their service providers. The new quality accreditation and certification scheme will build upon this previous experience and will mainstream and scale up these measures into the other CONAFOR programs nationwide, consistent with the replication objective of the FIP.

91. **Component 2. Consolidation of Priority Community-Based Programs at National Level.** (IBRD US\$270m). This component will continue and scale up previous successful Bank engagement in community forestry and payments for environmental services with Mexico. It will support demand-driven community-based subprojects related to social organization, capacity-building and land-use planning, as well as the protection, sustainable management, harvesting, processing and marketing of forest goods and services. Support to selected communities would be provided in the form of grants following the existing CONAFOR procedures (*reglas operativas* and *lineamientos especiales*) which are reviewed and updated annually. This Component would support five programs (or windows) which CONAFOR has identified as a priority package for the achievement of its overall mandate: (i) payment for environmental services (PES), (ii) community forestry development (PROCYMAF), (iii) forestry development (PRODEFOR), (iv) development of forest productive chains (*Cadena*), and (iv) special programs (*Programas Especiales*).

92. Taken together, in 2011, these five programs represent an annual disbursement of approximately US\$98 million, i.e. 20 percent of CONAFOR's total annual budget. This means, with an average US\$54 million annually, the IBRD contribution would represent about 55 percent of the annual cost of the five programs. It is estimated that, taken together over five

years, these five programs would support about 4,000-5,000 community initiatives. The average amount of a community subproject (“*apoyo*” or transaction) is about \$11,000 dollars though there may be a wide variability ranging from about \$5,000 dollars (for example, PROCYMAF) up to \$25,000 dollars (for example, PES, distributed in 5 years).

93. The tentative allocation of IBRD resources per year and per program would be as follows:²⁵

- PES: US\$18 million, i.e. *estimated* 52 percent of CONAFOR annual budget for this program²⁶
- PROCYMAF: US\$9.1 million, i.e. *estimated* 100 percent
- PRODEFOR: US\$11 million, i.e. *estimated* 52 percent
- Cadenas Productivas: US\$0.9 million, i.e. *estimated* 47 percent
- Special Programs: US\$15 million, i.e. *estimated* 81 percent

94. The selection process and the eligibility criteria will follow the standard *Reglas Operativas* (PES and PRODEFOR) and *Lineamientos Especiales* (PROCYMAF, *Cadenas Productivas*, Special Programs) of CONAFOR described in Sections D and E. These procedures are updated annually and are based on demands from communities and ejidos. Although the CONAFOR programs are also accessible to small private landowners, World Bank resources would only support community initiatives. Communities may apply to one or several CONAFOR programs at the same time. Support to communities with unclear or disputed land tenure will be limited to capacity building and technical assistance.

95. Overall, this Component—and the five CONAFOR programs it supports—aims to help local communities to combine sustainable forest management with socio-economic development, and to enhance the contribution of forests to climate change mitigation and adaptation. It aims to provide additional income opportunities to communities, making sustainable management more economically attractive.

96. The PROCYMAF, PRODEFOR, *Cadena* programs support a palette of activities ranging from capacity-building, participatory assessments, planning, and in the most advanced cases, harvesting, processing and marketing of forest products, and certification. In doing so, they help communities advance through a sequence of development phases towards sustainable self-management of their forests.

97. The PES program provides financial transfers to interested communities as an incentive for protecting ecosystem services. It currently operates in priority areas selected for their environmental, hydrological and biodiversity value. These areas have differentiated payments, related to the forest ecosystem and the risk of deforestation. According to CONAFOR’s *Reglas Operativas*, PES would accept plurianual proposals, for up to five consecutive years. If PES beneficiaries want to renew the incentives, they would need to have a sustainable land-use plan.

²⁵ The projections are based on CONAFOR’s 2011 approved budget

²⁶ The plurianual projects (PES and Special Programs) will finance only new disbursements from 2012-2016; the plurianual projects accepted during this period will be financed up to 2016.

98. The *Programas Especiales* provide financial transfers to communities and ejidos in ten specific regions to support projects related to hydrological conservation and soil erosion prevention. These areas were selected for their social and environmental vulnerability and/or climate change mitigation and adaptation potential.

99. The Project will promote greater integration of the PES program with the productive community forestry programs (PROCYMAF, PRODEFOR, *Cadenas Productivas*). An example of the integration between PES and productive community forestry programs is that, in order to renew PES benefits, a community will be required to have a comprehensive landscape-based management plan including both productive and protection areas. A second example is that, under component 3 in Early Action areas, the project would help design and test a PES system for forests areas under productive sustainable management.

Box 1. Typology of beneficiaries under the CONAFOR programs supported under Component 2:

- a) **Type I. Potential producers:** These are owners or holders of forest lands suitable for sustainable commercial production who are currently not using them because they lack a plan or program for authorized management or conservation.
- b) **Type II. Producers who sell standing trees:** These are owners or holders of forest properties authorized for the use of goods and services, in which this is conducted by third parties through a purchase-sale contract in which the owner or holder does not participate in any phase of the productive process.
- c) **Type III. Producers of raw forest materials:** these are owners or holders of properties authorized for the use of goods and services who participate directly in the process of producing and commercializing raw materials.
- d) **Type IV. Producers with manufacturing and commercialization capacity:** These are producers of raw forest materials who have the infrastructure to turn goods and services into finished products and subproducts for direct commercialization in markets.

100. **Component 3. Innovation for REDD+ in Early Action Areas.** (FIP US\$14m grant and FIP 16.34m loan). This component will promote the design and piloting of a series of innovative approaches for REDD+ in two Early Action areas. It will contribute to the alignment of forest, agriculture and livestock policies and programs for integrated multi-sectoral management in priority forest landscapes. See also [Annex 8](#) on the Forest Investment Program and Mexico's FIP Investment Plan.

101. The Early Action areas considered for project support in the initial phase are located in the State of Jalisco and the Yucatan Peninsula, and were selected for their learning, implementation, and replication potential (see [Section C](#) below: Early Action areas). Other REDD+ Early Action and Replication areas might also be envisaged for project support at a later stage depending on progress and lessons learned from the first two Early Action areas.

102. ***Subcomponent 3.1. Policy Innovation and Cross-Sector Harmonization for REDD+*** (For information, costs covered under Component 1.2). This subcomponent would support the analytical work and participatory processes needed to design innovative REDD+ approaches that will be piloted in REDD+ Early Action areas under subcomponents 3.2 and 3.3. In these regions, the project will support the design of integrated incentives combining forest management, soil restoration, protection of watersheds, and agricultural practices at the municipal or forest landscape level. It would help assess and combine various policy options such as the promotion of productive community forestry, payments for environmental services, and investment outside the sector. In this context, CONAFOR would pursue the three lines of innovation outlined in the following paragraphs

103. *Line of Innovation 1: Alignment of the forestry and agriculture policies and programs.* First, CONAFOR would work closely with SAGARPA to ensure greater harmonization and remove discrepancies with the agriculture (PROCAMPO) and livestock (PROGAN) policies and incentive programs, and improve the overall carbon balance in rural landscapes. CONAFOR would work with SAGARPA under a territorial approach to jointly implement incentive programs by both institutions to promote sustainable rural landscape. For example, a community in Early Action areas that traditionally deforests several hectares of lowland forest to plant corn (maize) and introduce cattle, for which it receives support from SAGARPA (PROCAMPO and PROGAN), could design, together with an ADL and/or ATL and a technical services provider, an incentive package that allows it to promote the sustainable landscape. On behalf of SAGARPA, it could improve the efficiency of its harvests through drip irrigation and could receive support from CONAFOR for restoration, reforestation with native plants, and PES on the surface of maintained forest land, while keeping the support of SAGARPA. This innovative approach, aligned with SAGARPA, will enable the integration in CONAFOR programs of communities that traditionally have a high opportunity cost for generating or increasing forest carbon in the sites that are conserved, with PES in sites that are restored, and in sites where deforestation is avoided.

104. *Line of Innovation 2: Alignment of CONAFOR programs for REDD+.* Second, CONAFOR would tailor its own programs and adjust the eligibility criteria to promote low-carbon approaches at community-level. For example the project would help design and test PES payments for sustainably managed forests, for forest areas under assisted regeneration, and for areas under high risk of deforestation and degradation.

105. One approach to the alignment of CONAFOR programs could potentially be through two mechanisms: (i) by means of the modification of priority criteria in the operating rules and special guidelines that promote the convergence of CONAFOR programs. For example, ejidos and communities that have been supported by the concepts of Community Forestry Development would have higher priority for receiving Forestry Development, PES and Productive Chains support. In addition, sites with certification of good forest management would have higher priority when requesting PES and Productive Chains support; and (ii) by means of the design and implementation of comprehensive development projects that include adequate productive and

conservation activities for a region in order to promote sustainable land use with a medium-term outlook (five years) to ensure continuity, as is currently being done in the case of PES.

106. Special guidelines will be prepared for Early Action areas, including, on an experimental basis, the integration of various concepts of support suitable for the specific environmental, social and economic problems of the region in the medium term. Thus, the underlying causes of deforestation and degradation generated by the lack of coordination of forestry incentives adapted to local characteristics would be addressed, making it possible to efficiently align CONAFOR programs with the objectives of carbon mitigation and improvement of the quality of life of local communities. New opportunities to promote sustainable productive activities more consistent with the ecological conditions of forest landscapes will be identified and the value of forests and their environmental services will be enhanced, not only in terms of mitigation or adaptation, but also in terms of conservation of biodiversity and in regulation of hydrological cycles. In the future, it is expected that experiences in these regions can be replicated in a similar manner, with special guidelines adapted to other regions.

107. *Line of Innovation 3: Promotion of Integrated Landscape Management Agents.* Third, CONAFOR would support the emergence of new local governance structures (such as intermunicipal associations and non-government organizations also referred too as ATLS and ADLs, see below) allowing for a broader spatial integration at municipal, watershed or landscape level, instead of just responding to individual community demands. See Component 3.2 below.

108. **Subcomponent 3.2. Building Capacities for Landscape-Based Management in REDD+ Early Action Areas.** (FIP US\$7m grant). This subcomponent would provide training, equipment, and technical assistance to a series of Local Development Agencies (ADL) and Local Technical Agencies (ATL) that include REDD+ in their dialogue and work-programs with communities, local authorities, and other partners.²⁷ It will establish coordination mechanisms to effectively assist sustainable rural landscape management to prevent deforestation and degradation and enhance forest carbon stocks. ADLs and ATLS are tools to promote spatial analysis at municipal or basin level, instead of only responding to individual demands by the community. These agents would provide technical monitoring of REDD+ initiatives under an early action. Support could include studies, technical consultancies, training, workshops and equipment. Working through ADLs and ATLS would help mainstream REDD+ into regional development initiatives and in more spatially-integrated landscape management models. ADLs and ATLS would work with communities and help establish local territorial development plans. Specifically, this subcomponent would help strengthen or create six inter-municipal associations (ADLs) and an estimated twenty non-government organizations (ATLS), in addition to the CONABIO *Corredor Biológico*. It will include: (i) identification, promotion and strengthening the ATLS and ADLs in Early Action REDD+ Areas, considering existing local entities; and (ii) create capacity within

²⁷ ADLs are non-government agencies that support and help implement one or several CONAFOR programs in specific regions. ATLS are local public agencies with a mandate in integrated rural development (e.g. inter-municipal associations and decentralized public organizations).

different levels of public agencies for integrated multi-sectoral policy and program implementation in productive rural landscapes.

109. Mexico's social and environmental diversity provides substantial opportunities for socio-economic development, and also presents greater challenges to managing the complexity of its forest resources. For many years, there have been distortions in public policies and perverse incentives responsible for forest loss and degradation. Agricultural activities and other development investments, driven by various public and private agents, have not found mechanisms to align themselves for integrated action to foster protection and sustainable management of forest ecosystems at the forest landscape level. The innovative and transformative elements of this sub-component include: (i) strengthening of territorial governance through landscape development agents; (ii) enabling integrated cross-sectoral action in support of sustainable economic activities in productive mosaics, (iii) promoting participatory platforms in territorial management and (iv) innovating implementation strategies for rural development policies and programs at the forest landscape level. ATLs and ADLs have unique features that allow them to have land management capacity in order to serve as integrators of public policies at local scale. These agents would be formed at basin or biological corridor level and would be able to carry out innovative activities that, until now, federal, state and municipal governments have not achieved, due to their scale and assigned functions. ATLs and ADLs would make it possible to: (i) address environmental issues go beyond the boundaries of ejido, community or municipal lands; (ii) provide continuity in the implementation of long-term solutions at the local level by remaining in effect despite changes in government; (iii) negotiate alternate resources that complement CONAFOR's investments, with state governments, with federal agencies, international development agencies, NGOs, etc. for comprehensive solutions; (iv) have technical capacities in the subjects of forest carbon, monitoring, climate change and other environmental issues relevant to the region; (v) facilitate intergovernmental collaboration through the participation of different levels of government in their administrative boards, and improve the comprehensiveness of public policies through integrated land management (plan, raise, dynamize, organize and administer resources and implement solutions). Associations of municipalities (a type of ATL) would negotiate the preparation of intermunicipal land-use planning, generate agreements with research institutions so that they have a view of the local problem, and generate solutions for the problems identified. CONAFOR would participate as part of the administrative board, act as a facilitator in interinstitutional negotiations, and promote planning instruments in ejidos and communities that can provide inputs for regional planning. CONAFOR can also facilitate negotiations between different institutions.

Box 2: Two promising examples of Landscape Management Agents: the Junta Intermunicipal del Río Ayuquila (JIRA) and the Corredor Biológico Mesoamericano

JIRA is an Intermunicipal Decentralized Public Organism created in 2007 and comprised of 10 municipalities from the same watershed. JIRA's main objective is to offer technical and management support for environmental projects and programs. It serves as a local governance model, with the interaction of Federal, State and Municipal governments, as well as research institutions and civil society organizations. JIRA's environmental agenda includes environmental education, social participation and

waste management. The incorporation of REDD+ in the JIRA agenda, has been selected as a Prior Action of the Social Resilience to Climate Change DPL.

JIRA has been able to leverage resources from the Jalisco government, from Federal institutions (SEMARNAT and CONAFOR) and International Donors (French Development Agency and Spanish Cooperation Agency). Benefits of the JIRA model include: (i) local level management with an integrated regional territorial development; (ii) collaboration of key multi-level governmental and social organizations; and (iii) as a Decentralized Agency, it assures transparency on the use of the resources which could be an incentive for bilateral and multilateral donors.

The Corredor Biológico Mesoamericano was created in the context of a World Bank-GEF project in 2001. In 2009, it was integrated to CONABIO. It aims to promote conservation, and economic alternatives based on the biodiversity sustainable use in five biological corridors of the South-East region. A new project is currently in preparation by CONABIO in the Corredor Biológico. Benefits of the Corredor Biológico model: (i) local level management over geographic limits, with an integrated regional territorial development; (ii) as part of CONABIO, it is based on transversal coordination of SEMARNAT and also other 9 Federal Ministries represented in the Commission; and (iii) Uses an independent trust fund, with the flexibility to operate with internal rules.

110. An ATL would be public in nature (intermunicipal association) and would have a territorial planning approach, while an ADL would be non-governmental and would aim to accompany communities in their REDD+ projects. As compared to private technical assistance service providers (Component 1.4) that tend to specialize along the lines of specific CONAFOR programs, ADLs would promote a more integrated REDD+ approach and the use of a mix of instruments over a landscape larger than one community land

111. This component would finance workshops and technical assistance to help develop and negotiate REDD+ landscape management plans at the geographic level of municipalities. These plans would serve as a negotiated, indicative platform to guide and advise communities in preparing and implementing REDD+ projects. They would not constitute a mandatory framework.

112. **Subcomponent 3.3. Community Investments in REDD+ Early Action areas.** (FIP US\$7m grant and US\$16.34m loan). This subcomponent would support the piloting of new REDD+ community based models, using the CONAFOR *lineamientos especiales* created under component 3.1. Community investments would use the capacities of the local ADLs and ATLs supported under component 3.2. Potential pilots would promote the improvements of existing CONAFOR programs, and the integration of forest, agriculture and livestock programs (PROGAN and PROCAMPO). In total, 56 percent of the FIP resources included in this project will support demand-driven, community-based initiatives.

113. Investments will be made in communities and ejidos, focusing on local needs with a broad transformative effect and potential for replication. The incentives would be based on demands by communities and ejidos. New systems of payment for environmental services would

be implemented in communities and ejidos, contributing toward reducing GHG emissions and achieving benefits for biodiversity and local communities. This subcomponent would also grant incentives to communities and ejidos for the certification of forest resources and, in the future, of systems for the certification of forestry, agroforestry and agricultural landscapes. Investments would be made to establish and provide technical assistance to community forestry enterprises (empresas forestales comunitarias, EFC) for the commercialization of timber and non-timber forest products with value added.

114. All innovative rural landscape management REDD+ initiatives would be implemented in the form of community grants. This subcomponent would use new *lineamentos especiales* and integrated packages of CONAFOR and SAGARPA incentives. All initiatives would be based on local territorial development plans agreed upon with all participating communities and would be implemented with the assistance of the ATLS and ADLs. Grants would be channeled either: (i) directly from CONAFOR to participating communities (US\$16.34 million); (ii) through inter-municipal associations and non-government organizations supported under component 3.2 in the framework of the local territorial development plans agreed upon with all participating communities (US\$5 million, direct payments made by CONAFOR to participating communities); or (iii) through a local public entity with demonstrated fiduciary capacity—potentially the CONABIO *Corredor Biologico* (US\$2 million, direct payments made by CONAFOR to participating communities). Overall, this sub-component would support REDD+ initiatives proposed and implemented by an estimated 422 forest communities and *ejidos* located in the Early Action areas of Jalisco and Peninsula de Yucatan. Consistent with the landscape approach promoted under the project, a “REDD+ initiative” would involve a combination of multiple CONAFOR/community transactions, with an average value of about US\$17,000 per community transaction). All projects would be demand-driven and implemented by communities.

115. The project will support communities and *ejidos* in generating or promoting productive activities with low-carbon emission activities that allow them to improve their quality of life. To ensure the long-term conservation of well-conserved forest masses, activities will be carried out, such as the use of certified timber resources, as well as non-timber resources and fauna; the restoration and reconversion of low-productivity crop areas through the implementation of perennial crop (fruits, fodder or forestry) and diversified crop programs (agroforestry such as pink cedar–coffee); and the creation of banks of trees and forage shrubs, such as *Leucaena*, that make it possible to increase the quality and quantity of food for the community’s cattle and in turn show an increase in forest carbon stocks. This type of project would be a pioneer of its kind in Mexico, since CONAFOR currently lacks programs with a purely agroforestry or silvopastoral approach. These activities will act as experiments and could be replicated by means of guidelines adjusted to each region. The expected impact in terms of carbon is direct on activities dealing with sustainable forest management, restoration and reconversion to forest zones.

116. The following models and approaches would be supported under Component 3, among others:

- a. Reducing emission from deforestation and forest degradation using sustainable forest management as an instrument for stabilizing the agricultural and livestock frontier. By improving forestry operations through promoting the use of low carbon sustainable logging practices and improved, cost effective SFM, emission targets are expected to be met. Furthermore, the use of low emission silvo-cultural operations aimed at increasing biomass productivity will enhance uptake of CO₂ making forest management more attractive than land conversion. All of these, together with institutional changes, are expected to increase profits from forest management for the benefit of forests and their owners and to increase carbon stocks both in biomass and in land.
- b. Programs to reduce emissions from forest fires by changing the patterns of land use away from slash and burn agriculture and pasture-burning that have a devastating impact on primary and mature secondary forests in tropical moist and dry forest ecosystems such as those in the Yucatan Peninsula.
- c. Programs aiming at forest landscape restoration and stabilization of the agriculture and livestock frontier by co-sponsoring together with SAGARPA and other rural development programs the introduction of forest cover in productive mosaics. The tool kit of sustainable rural production systems includes silvo-pastoral techniques, grazing rotation, conservation tillage (zero tillage), agro-ecology and other techniques, afforestation, reforestation, restoration and forest certification to reduce emission by stabilizing migratory and commercial agriculture and grazing frontier and mitigating the pressure on primary forests in tropical moist forests and temperate forests.
- d. Reduce emissions from mature secondary and production forests degradation caused by unsound overharvesting and firewood extraction through encouraging the use of firewood from local wood lot plantations cultivating energy efficient species, sustainable firewood and logging debris collections in production forests, improving the efficiency of firewood use, promoting formalization and registration of commercial firewood collectors and traders.
- e. Reducing emissions from forestland conversion by increasing agricultural productivity applying phased approaches to change conventional and mainstream livestock and agro-technical practices with more environmentally sound and efficient practices.

117. The project will support the Matching Funds scheme (*Fondos Concurrentes*) which seek to collect resources from CONAFOR and users of environmental services for owners and holders of forest lands who conduct sustainable management activities. Under the Matching Funds scheme, CONAFOR could contribute up to half of the money needed to create or strengthen a local mechanism for payment of environmental services for a minimum period of 5 years and a maximum of 15 years. The aim is for this scheme to be implemented at landscape level in REDD+ Early Action areas.

C. REDD+ Early Action Areas

118. The REDD+ Early Action areas contain a useful mix of drivers that will provide significant lessons for other parts of the country. They also combine several types of forests, which will also enable replication under different environments. Other REDD+ Early Action and Replication areas might also be envisaged for project support at a later stage depending on progress and lessons learned from the first two Early Action areas.

119. **Area 1: Coastal Watersheds in Jalisco State.** This region includes five watersheds in the west-central part of the country, on the Pacific coast. It corresponds largely with the Chamela-Cabo Corrientes Terrestrial Priority Region.²⁸ The region is climatologically classified as tropical semi-arid to tropical savannah and largely composed of tropical deciduous and semi-deciduous forests at the low and mid-level elevations, as well as pine and oak forests at the higher elevations. While there is still a large area of intact forest, deforestation has increased considerably in the past two decades, with a loss of around 30 percent of forest area in that time. The region is notable for containing a wide variety of ecosystems and for providing habitat to a large number of endangered species. Activities here are an expansion of existing work, which has focused on two of those 5 watersheds (Ayuquila and Coahuayana watersheds). Specifically, the *Junta Intermunicipal de Medio Ambiente para la Gestión Integral de la Cuenca Baja del Río Ayuquila* (JIRA) has played an important role in coordination efforts among ten municipalities and with CONAFOR and other institutions at the federal level. FIP funding could help support JIRA and replicate it in other watershed regions.

120. *Socioeconomic and environmental characteristics.* The region is characterized by a wide variety of natural ecosystems and a high level of biodiversity. It provides water to the State of Colima and for tourism development on Jalisco's Costa Alegre, including the city of Puerto Vallarta. The area involves 45 municipalities encompassing an area of about 3.5 million hectares, with a total population of 868,000 inhabitants, 1 percent inhabited by indigenous populations; 16 municipalities have average levels of marginalization and 6 have high levels of marginalization. Around 47 percent corresponds to ejidos, 6.5 percent to indigenous communities and 46 percent to small landowners.

121. *Factors of deforestation in the Coastal Basins of Jalisco and mitigation actions.* The deciduous lowland forest in Jalisco has been subjected to high rates of deforestation and conversion to crop and pasture lands. In the region of the Ayuquila River in Jalisco, one factor that led to the deforestation and degradation of the original forests was the granting of concessions to large paper companies and of permits to loggers, until the 1980s. Cattle-raising has become increasingly important since the 1970s and is now a factor in the process of change in soil use that is observed in the region. Changes in soil use, observed from 1990 to 2000, include a decrease in dry deciduous forests and an increase in pasture lands, generally as a result of the remittances received by migrants.

²⁸ Arriaga, L., J.M. Espinoza, C. Aguilar, E. Martínez, L. Gómez y E. Loa (coordinadores). 2000. Regiones terrestres prioritarias de México. Escala de trabajo 1:1 000 000. Comisión Nacional para el Conocimiento y uso de la Biodiversidad. México. http://www.conabio.gob.mx/conocimiento/regionalizacion/doctos/rtp_063.pdf

122. **Area 2: Yucatan Peninsula.** The Yucatan Peninsula consists of three states, Yucatan, Campeche, and Quintana Roo. The climate is classified as tropical savannah, with evergreen seasonal forests. These three Biological Corridors, which connect Calakmul Biosphere Reserve and Sian Ka'an areas, as well as other protected areas, have very distinct pressures. In the southwest, deforestation and degradation is heavily driven by expansion of cattle grazing lands. The northern part is an area of agricultural expansion, with low tropical forests that do not have high value species. Finally, the eastern part has pressure also from tourism and expansion of urban settlements, as it is close to Cancun as a development center. Forest fires are a high risk in these areas, primarily set to clear agricultural or cattle land, but escape in forested areas. The region is home to many Mayan Indigenous Communities.

123. *Socioeconomic and environmental characteristics.* Due to the geographic conditions shared by the States of Campeche, Quintana Roo and Yucatán, the entire peninsula is considered a single natural, cultural and economic region. The Yucatán Peninsula is characterized by a combination of geomorphological, climate and soil factors with a common origin, creating a wide diversity of flora and fauna. Most of the land area of the State of Yucatán, and to a lesser extent the States of Campeche and Quintana Roo, is covered by deciduous lowland forests. However, there is a great diversity of ecosystems, such as tall evergreen tropical forests, wetlands, mangroves, *cenotes*, *aguadas* and coastal dunes that allow a great diversity of fauna to coexist. The Yucatán Peninsula still has a high percentage of its original forest cover. The Selva Maya supplies the water that is consumed by the approximately 3 million inhabitants of the Yucatán Peninsula, including tourism developments in Cancún and the Riviera Maya.

124. In the Early Action area of the Peninsula, approximately 20 municipalities may be supported, encompassing about 7 million hectares with a total population of 911,000 inhabitants, 60 percent of whom are indigenous populations. Fourteen municipalities have high and very high levels of marginalization. In total, around 88 percent belong to ejidos and communities and 11 percent to small land holdings.

125. *Factors of deforestation on the Yucatán Peninsula and mitigation actions.* At present, two large groups are recognized. These are considered the agents of deforestation in tropical forests, the proximal forces (human actions and immediate actions) and the underlying driving forces (social processes such as population dynamics or agricultural policies). Various studies conducted in the southeast report that the most dominant process of change is the deforestation of forests for grasslands (cattle ranching), followed by changes to agriculture. Also recognized are the major natural disturbances that occur in the region.

D. Overview of all CONAFOR programs with a focus on those supported under Project Component 2

Green shade: Five CONAFOR programs supported by the proposed operation: PRODEFOR, PSA, PROCYMAF, Cadena, Programas Especiales

Gray shade: CONAFOR programs not supported by the proposed operation

CATEGORY/PROGRAM	OBJECTIVE	BENEFICIARIES
A. FORESTRY DEVELOPMENT (PRODEFOR)		
A1. FORESTRY STUDIES		
A1.1 Environmental impact statement	Preparation and payment of rights of the environmental impact statement for the use of tropical forests or forest lands within protected natural areas or species that are difficult to regenerate	Type I, II and III producers
A1.2 Forest management program for timber	Preparation of forest management programs for the use of the forest's timber resources	
A1.3 Technical studies for the use of non-timber forest resources and for obtaining forest germ plasm	Preparation of technical studies or forest management programs for the use of non-timber forest resources	
A1.4 Wildlife management plan	Preparation of the management plan for wildlife conservation and management units	
A2. FORESTRY		
A2.1 Forest cultivation under timber uses	Activities for the establishment or improvement of regeneration	Type II, III and IV producers
A2.2 Management practices for non-timber and wildlife uses	Activities for non-timber and wildlife uses in order to maintain the productive potential of lands subject to use or management	
A2.3 Support for sustainable management of resin extraction zones	Actions to manage and protect resin extraction zones	
A2.4 Improvement of forestry technology	Purchase of equipment and machinery to be used directly by beneficiaries to increase the productivity of forest resource use and extraction activities	Type III and IV producers. Type II producers will be eligible if they are part of the <i>predial</i> program for medium-term integrated forestry development
A2.5 Forest roads	<i>Resources for the opening, rehabilitation and maintenance of permanent forest roads, with the objective of ensuring that they are passable year-round</i>	<i>Type III and IV producers</i>
A3. CERTIFICATION		
A3.1 Preventive technical auditing	Hiring to conduct preventive audits, for compliance with management programs, technical studies under execution, forest use	Type II, III and IV producers who are holders of titles for timber or non-timber forest use, with a minimum forest management area of 20 ha
A3.2 National and international forest certification	Hiring to conduct national or international certification of farms and forest producers	Type III and IV producers who are holders of titles for timber or non-timber forest use, with 250 ha of forest area
A3.3 Other certifications	Hiring to conduct national or international certifications, for sustainable and diversified use of forest resources or sustainable services, such as certification of the organic forest products, and ecotourism	Type III and IV producers of sustainable and diversified forest resource goods or services, who wish to obtain a certificate that facilitates or permits their access to national or international markets that require it
A4. COMMERCIAL FORESTRY PLANTATIONS		
<i>Individuals and legal entities whose social objective</i>		

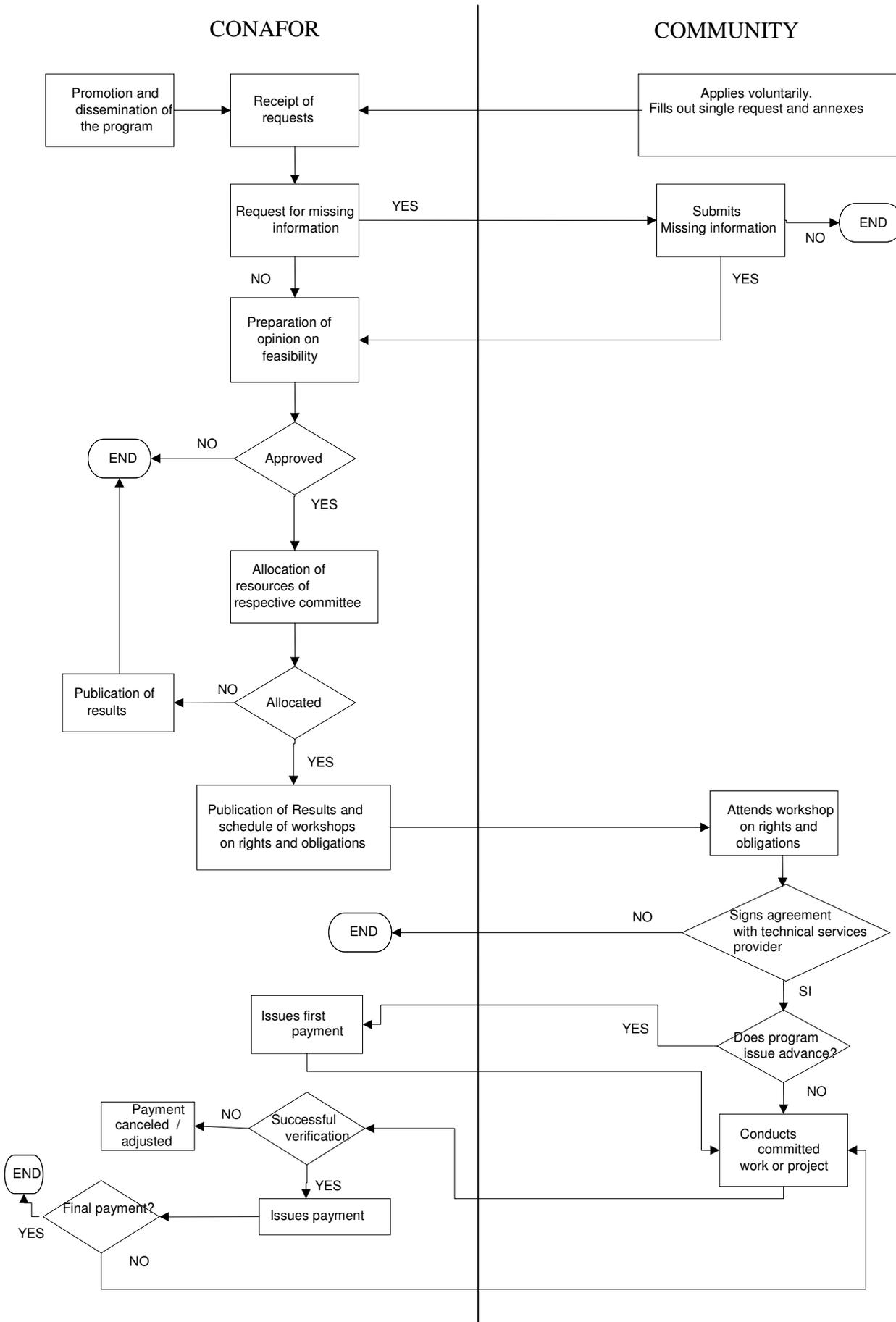
E. Sub-Project Cycle used in CONAFOR Programs (Project Components 2 and 3)

126. CONAFOR disseminates operating rules, special guidelines and their notice on its Internet page and in regional forums for promotion and dissemination, general assemblies, work meetings with agrarian representatives and managers of community enterprises. Communities and ejidos that own or possess forest lands voluntarily request support from CONAFOR, submitting to CONAFOR's state office the single request, technical proposal, annexes and legal information. The request must be supported by an agreement by the assembly of ejidatarios. Requestors must accompany the request with a technical proposal for each type of support requested. If CONAFOR detects the lack of any data or requirement within the period established for the receipt of requests, it will notify the interested party so that, in a maximum period of five working days, the requirement can be met. If not, the request will be rejected.

127. The evaluation committees appointed for each program prepare an opinion regarding feasibility. The allocation of support will be subject to priority, according to the committee's review and opinion. The corresponding committee will allocate support to requests with a favorable feasibility opinion, in decreasing order, according to the score obtained and to the available budget. Results are disseminated on CONAFOR's website and in state offices, together with the schedule of workshops on rights and obligations. The representative of the beneficiary community or ejido must appear at the place designated by CONAFOR to receive, on a one-time basis and completely free, training on the rights and obligations he acquires as a beneficiary, as indicated in the operating rules. The beneficiary signs an agreement with the technical service provider of his choice, who is duly registered in CONAFOR's roster, and who may be an individual or corporation. If the program issues advance payments (such as PRODEFOR, Special Programs, Productive Chains and PROCYMAF Workshops), the first payment is issued.

128. With the conclusion of the committed work or service, CONAFOR randomly checks a significant sample of beneficiaries. For this verification to be successful, CONAFOR checks with the beneficiary to see whether the technical plan established in the request has been fully complied with (100 percent) and a visit is made to the property. If it has not been fully complied with, a justification of the causes is prepared (cause of adjustment is only when it is beyond the scope of the beneficiary, such as storm, fire, etc.). The respective committee analyzes whether the cause of noncompliance is valid for adjustment, and decides whether to pay proportionately or cancel and request the return of the resources that were granted.

129. In the case of PES, support will be allocated for up to five consecutive years. The first payment is in accordance with the general diagram for the granting of support. The second payment is subject to the preparation, in accordance with terms of reference published by CONAFOR, of a program of management best practices or the verification of compliance, corresponding to areas of differentiated payment. Subsequent payments will be subject to a program for the verification of work compliance.



Stage	Selection Committees	Evaluation Criteria
Desarrollo Forestal		
Predictamen: revisión de documentos del expediente para asegurar que este completo y que cumpla con las reglas de operación emitidas por CONAFOR.	CONAFOR (Gerencia Estatal, Departamento de Desarrollo Forestal)	En todos los casos se favorece a: <ul style="list-style-type: none"> • Ejidos y comunidades que no hayan recibido apoyos anteriormente • Solicitudes de zonas con un alto/muy alto índice de marginalidad • Municipio con mayoría de población indígena • Solicitante mujer • Cuenta con plan de manejo forestal o certificación forestal • La superficie a apoyar sea mayor • El solicitante es ejido o comunidad Para la elaboración de estudios se favorece a: <ul style="list-style-type: none"> • Ejidos/comunidades con evaluación rural participativa y ordenamiento territorial • Predio con más de 5 años sin aprovechamiento En el caso de silvicultura se favorece a: <ul style="list-style-type: none"> • Aprovechamiento que genera ingresos para los productores En certificación se favorece a ecosistemas: <ul style="list-style-type: none"> • Selva, seguido por templado frío
Evaluación técnica y asignación: evaluación de solicitudes y asignación de apoyos basado en criterios de prelación.	Comité Técnico Estatal formado por Gobierno del Estado CONAFOR Sector Social Sector Industrial Sector Académico	
Servicios Ambientales		
Predictamen: revisión de documentos del expediente para asegurar que este completo y que cumpla con las reglas de operación emitidas por CONAFOR.	CONAFOR Gerencias estatales y la Gerencia de Servicios Ambientales del Bosque (GSAB).	En todos los casos se favorece a polígonos: <ul style="list-style-type: none"> • Ejidos y comunidades que no hayan recibido apoyos anteriormente • Solicitudes de zonas con un alto/muy alto índice de marginalidad • En Área Natural Protegida, preferentemente en zona núcleo • En microcuenca en la que existen otros polígonos con pago por servicios ambientales • Zona considerada de alto riesgo de deforestación
Revisión Geográfica: verificación con zonas de elegibilidad. Revisión satelital y de aplicación de criterios de calificación con cobertura geográfica.	CONAFOR Subgerencia de Operaciones de la GSAB.	

<p>Asignación: asignación de apoyos basado en criterios de prelación.</p>	<p>Comité Técnico Nacional formado por: 1 del sector académico, 1 del sector social, 1 del sector industrial, 1 del sector profesional, 3 representantes de CONAFOR y 1 representante de SEMARNAT.</p>	<ul style="list-style-type: none"> • Terreno con ordenamiento territorial aprobado • Zona considerada de alto riesgo de desastre natural • Ejido o comunidad con comité de vigilancia ambiental participativa <p>En el caso de pago por servicios hidrológicos se favorece a:</p> <ul style="list-style-type: none"> • El polígono está en un acuífero sobreexplotado o en una cuenca con baja disponibilidad hídrica <p>En el caso de pago por servicios por biodiversidad se favorecen polígonos:</p> <ul style="list-style-type: none"> • Dentro de área de conservación de aves o sitio Ramsar • En área de distribución de especies en peligro de extinción • Dentro de Corredores Biológicos de CONABIO • Predio tiene sistema de cultivo agroforestal bajo sombra
Silvicultura comunitaria		
<p>Predictamen. Revisión de documentos del expediente para asegurar que este completo y que cumpla con las reglas de operación emitidas por CONAFOR.</p>	<p>CONAFOR</p>	<p>En todos los casos se favorece a:</p> <ul style="list-style-type: none"> • Ejidos y comunidades que inician o consolidan procesos de desarrollo basados en el uso de sus recursos forestales Solicitudes de zonas con un alto/muy alto índice de marginalidad • Cuenta con plan de acción comunitaria • Propuesta técnica en apego a la solicitud <p>Calidad y experiencia del asesor técnico privado</p>
<p>Validación social: gerencias Estatales coordinarán proceso de validación social</p>	<p>Foros de validación social. Espacios de participación social de las comunidades/ ejidos que hayan solicitado apoyo.</p>	
<p>Evaluación técnica: evaluación según los criterios de prelación y aceptación social</p>	<p>Comité estatal de evaluación técnica que deberá integrarse por un representante de la CONAFOR, SEMARNAT, Gobierno del Estado y como invitados la CDI, CONANP, la Procuraduría Agraria, PROFEPA.</p>	
<p>Asignación: asignación de apoyos basado en criterios de prelación.</p>	<p>Comité Estatal de Asignación, 1 de CONAFOR, 1 de SEMARNAT, 1 Gobierno del Estado y 3 representantes del sector social electos en foros de validación social.</p>	
Cadenas Productivas		
<p>Predictamen: revisión de documentos del expediente para asegurar que este completo y que cumpla con las reglas de operación emitidas por CONAFOR.</p>	<p>CONAFOR Técnico de gerencia estatal, Subgerente de Producción y Productividad o del Gerente Estatal.</p>	<p>En todos los casos se favorece a:</p> <ul style="list-style-type: none"> • Ejidos y comunidades que no hayan recibido apoyos anteriormente • Solicitudes de zonas con un alto/muy alto índice de marginalidad

<p>Evaluación y asignación: evaluación de solicitudes y asignación de apoyos basado en criterios de prelación.</p>	<p>Comité Técnico para Cadenas Productivas (CTCP) formado por Coordinador General de Producción y Productividad, Gerente de Integración de las Cadenas Productivas, Gerente de Desarrollo Forestal Gerente de Silvicultura Comunitaria, Gerente de Plantaciones Forestales , Órgano Interno de Control, Unidad de Asuntos Jurídicos</p>	<ul style="list-style-type: none"> • Incluye a empresa forestal comunitaria • Está en un municipio de Cuencas Forestales Industriales • El tipo de cadena incluye productos maderables • La cobertura de mercado es internacional o nacional • Cuenta con procesos de certificación
Programas Especiales		
<p>Predictamen: revisión de la documentación del expediente para asegurar que esté completo y que cumpla con los Lineamiento de Operación.</p>	<p>CONAFOR Gerencia Estatal, Departamento Operativo del Proyecto y Gerencia de Suelos/Departamento de Conservación y Restauración de Cuencas</p>	<p>En todos los casos se favorece a:</p> <ul style="list-style-type: none"> • Agricultura de temporal con pendiente de 10 a 20 percent. • Espesura del arbolado menor del 20 percent. • Tipo de erosión laminar y en canalillos. • Grado de erosión moderada y severa.
<p>Evaluación técnica y asignación: dictamen de factibilidad en campo de las solicitudes y asignación de apoyos basado en criterios de prelación y disponibilidad de recursos.</p>	<p>Consejo Técnico formado por: CONAFOR, Gobierno del Estado SAGARPA, CONANP, Sector Profesional e Invitados</p>	<ul style="list-style-type: none"> • Ubicación en la parte alta de la microcuenca. • Superficie mayor a 10 hectáreas compactas . • Se privilegia el apoyo a zonas riparias.

F. Links with Related Bank-supported Operations

130. The proposed operation is part of a broader package of collaboration on Forests, REDD+, and Climate Change that includes multiple advisory, convening, investment, and innovation services and instruments.

Instrument	Description
Forest Investment Program (FIP)	<p>The FIP is a targeted program of the Climate Investment Funds (CIF) to support developing countries' efforts to reduce deforestation and forest degradation (REDD) and promote sustainable forest management. Mexico is one of eight pilot countries worldwide. Mexico's base allocation is 60 million (grant and concessional credits). In addition to the base allocations, there is also an unallocated amount of \$150 million. The FIP will also establish a Dedicated Grant Mechanism for direct access by indigenous and other forest-dependent communities. FIP resources under CONAFOR's responsibility (US\$43 million) would be combined with the proposed IBRD SIL (Component 3 of the proposed operation, and parts of Component 1).</p> <p>Status: Appraisal scheduled November 2011 jointly with SIL.</p>
Forest and Climate Change SIL	<p>The SIL will support the Government of Mexico in two main areas; (i) Multi-Scale Institutional Strengthening (Component 1 of the proposed operation jointly with FIP) and (ii) Incentive Programs to Communities (Component 2 of the proposed operation). Tentative amount \$150-300 million.</p> <p>Status: Appraisal scheduled November 2011 jointly with FIP project.</p>
Social Resilience and Climate Change DPL	<p>Forestry is one out of three pillars in the Social Resilience and Climate Change DPL (amount US\$300 million). The forestry pillar supports three policy actions: (i) the launching of a new collaboration between CONAFOR, SAGARPA and SEMARNAT; (ii) the creation of one national and three state-level REDD+ civil society Consultative Groups (CTC-REDD+); and (iii) the inclusion of climate change programs in the first inter-municipal initiative. The same policy matrix is also supported by the French Development Agency with a budget support operation of euro 300 million.</p> <p>Status: Appraisal scheduled November 2011.</p>
Forest Carbon Partnership Facility (FCPF)	<p>Mexico is eligible for a grant of US\$3.6 million from the FCPF for Readiness Preparation (studies and consultations). The Readiness activities would culminate in a Readiness Package consisting of four main elements: (i) a national REDD+ strategy, (ii) a national forest reference level, (iii) a forest monitoring and verification system, and (iv) a system for addressing environmental and social safeguards. The FCPF also operates a Carbon Fund to pay pilot countries for demonstrable results in REDD+. Mexico intends to submit an Emissions Reduction Program Idea Note (ER-PIN) for pipeline entry in the Carbon Fund. It is envisaged that Carbon Fund transactions could up to US\$40 million per pilot country.</p> <p>Status: FCPF Preparation Grant Agreement being reviewed by Ministry of Finance</p>
Program on Forests (PROFOR)	<p>The Bank mobilized three PROFOR grants to support CONAFOR in: (i) re-designing of the Mexican Forest Fund (US\$100K); and (ii) the assessment of Mexico's community forestry enterprises' competitiveness on local and global markets (US\$150K); (iii) conducting a South-South collaboration on REDD+ and Payments for Environmental Services with Costa Rica and Ecuador (US\$150K).</p>

Forest Bond

The Government of Mexico is currently exploring the possibility to pilot a Forest Bond with the Bank's Treasury Department.

Annex 3: Implementation Arrangements

A. Project Institutional and Implementation Arrangements

1. CONAFOR will be the entity responsible for the execution of the Project. At the Federal level, the Project will be led by the General Coordination for Production and Productivity, and the General Coordination for Restoration and Conservation. The Project will be led through the Production and Productivity Unit at the state level.

2. **Steering Committee (SC).** The Project will be managed by a Directive Committee integrated by CONAFOR's Director General, the General Coordinators of Production and Productivity (CGPP); Conservation and Restoration (CGCR) and the Planning and Information (CGPI), Administration General Coordination (CGA), the responsible staff from the Communications Unit, and the Unit of International Affairs and Financing (UAIFF). The Executive Committee will monitor the projects' execution, supervise its overall strategy and make high-level decisions for its implementation, in addition of functioning as the conflict resolution instance for the Project. The DC will validate the general rules for the Projects' implementation, considering the sector's policy, the national regulations and those of the World Bank.

3. **Operations Committee.** The Projects' implementation will be managed by an Operations Committee. This committee will be integrated by a representative from each of the following areas: i) Community Forestry ii) Environmental Services iii) Forestry Development iv) Integration of Productive Chains v) Reforestation vi) Financial Resources and vii) Planning and Evaluation. Its objective will be to facilitate the day to day implementation of the Project (fiduciary acquisitions and issues).

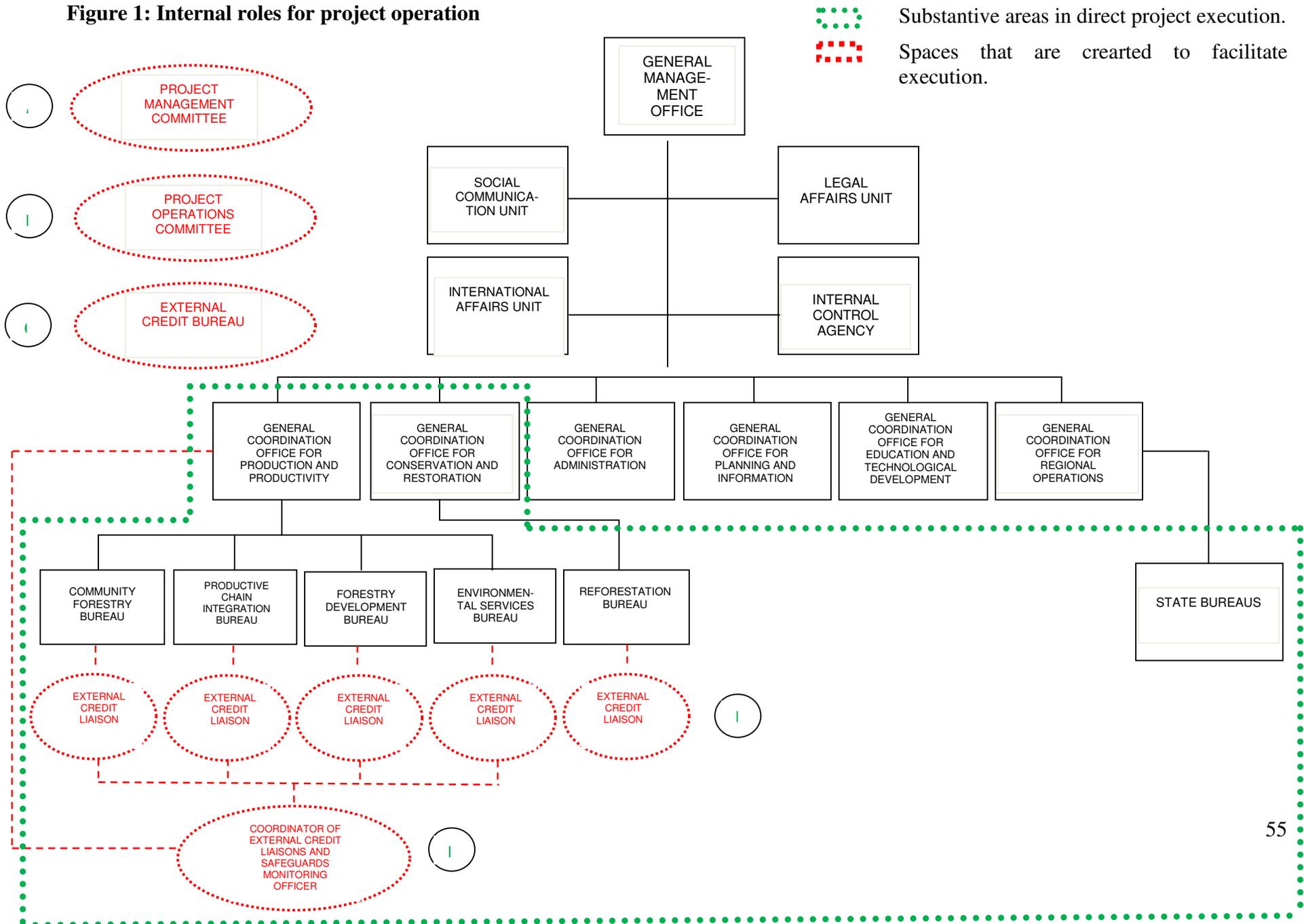
4. **External Financing Management Unit.** Finally, an External Financing Management Unit will be created within the UAIFF with three specialists that will facilitate and contribute to the performance of the instances mentioned above. This management unit will coordinate closely with the Operations Committee, the appointed staff at the External Credit Management Unit and its coordinator, and other areas of the institution that will participate in the execution of the project. This unit will be the channel of communication between CONAFOR, the Financial Agent and the World Bank.

5. **State level.** At the level of the State Management Units (GE in Spanish), the deputy manager of Production and Productivity will promote and manage the Project. At this level the two committees defined at the federal level will be replicated at the state level.

6. The specific responsibilities allocated to each instance will be described in the Operations Manual. The organizational chart is described schematically in [Figure 1](#). It is likely that 10 specialists will be hired to implement the following functions: External Credit

Management Unit (3), Coordinator of External Financing Liaisons (1), Safeguards expert (1), and External Financing Liasons (5).

Figure 1: Internal roles for project operation



7. **Collaboration with other public agencies.** The following collaborations agreements will be established with partner agencies for specific project activities:

- with CONEVAL and CDI: Convenios para acompañamiento técnico: for the design of an impact evaluation strategy (CONEVAL, Subcomponent 1.1), and the dissemination of information and consultations with indigenous peoples (CDI, Subcomponent 1.2)
- with SEMARNAT and SAGARPA: Convenios de colaboración bilateral for the establishment of joint databases and monitoring systems (SEMARNAT and SAGARPA, Subcomponent 1.3), and the streamlining of procedures for community-based forest management (SEMARNAT, Subcomponent 1.3)
- with CONABIO, CONANP, PROFEPA and SAGARPA: Convenios para comodato for technical equipment (Subcomponents 1.3 and 3.1)
- with State and Municipal Governments: Convenios de colaboración in REDD+ Early Action and Special Programs areas for the harmonization of policies at local level (Components 2 and 3)
- with ATLS (*Agentes Técnicos Locales*) and ADLs (*Agentes de Desarrollo Locales*): Convenio de colaboración for their capacity building and advising communities (Component 3). ADLs and ATLS are inter-municipal associations²⁹ (estimated 6 under the project) and local non-government organizations (estimated 20 under the project).
- with CONABIO/Corredor Biológico as a local governance body with demonstrated experience in financial management and procurement: Convenio de colaboración to support community-based REDD+ activities in Early Action areas (Component 3).

8. The draft agreements with CONEVAL, CDI, SEMARNAT, SAGARPA, CONANP, PROFEPA, and CONABIO will be attached to the Operational Manual. The Operation Manual will also include a template for the agreement with ATLS and ADLs. The above-mentioned partner agencies would not participate in project management. None of the collaboration agreements would involve any transfer of funds. All payments will be made directly by CONAFOR to providers and to beneficiaries.

9. Higher level, cross-sector coordination will be achieved through the Intersecretarial Commission for Climate Change (CICC)³⁰ and the Intersecretarial Commission for Sustainable Rural Development (CIDRS).³¹

²⁹ The intermunicipal associations will be created under the *Organismo Público Descentralizado* figure, such as the *Junta Intermunicipal del Río Yuquila* (JIRA) in Jalisco. Payments will be made directly from CONAFOR to communities

³⁰ Integrated by the Secretaría de Relaciones Exteriores; Desarrollo Social; Recursos Naturales y Medio Ambiente; Energía; Economía; Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; Comunicaciones y Transporte; y, como invitados, las Secretarías de Salud; Finanzas y Crédito Público; y de Gobernación (Publicado en el Diario Oficial de la Federación, 2005).

10. **Overall institutional framework related to forests and REDD+ in Mexico.** At federal level, the Ministry of Environment and Natural Resources of Mexico (SEMARNAT), is the government agency responsible for natural resources including forests. By law, SEMARNAT is responsible of “*formulating and implementing the national policy for the sustainable forest development, and to ensure its consistency with the national natural and environmental resources, as well as with the policies for rural development*”. SEMARNAT is also responsible of the sectoral plan and maintains control over the formulation of forest management plans.

11. CONAFOR is an entity from the Federal Public Administration that pertains to SEMARNAT, and has the objective to develop, advance and drive forest-related productive, protection, conservation and restoration activities, as well as the application of national policy instruments related to forests. CONAFOR operates the umbrella program ProArbol, which is the main federal program providing support to the forest sector. ProArbol articulates and organizes in one scheme, the provision of incentives to owners of forested land to carry out actions to protect, conserve, restore and manage the Mexican forest, jungle and arid areas in a sustainable manner. CONAFOR has 4,415 people on its payroll, from which 648 are based in CONAFOR’s headquarters and 3,767 are based in 32 State offices. CONAFOR’s preliminary budget for 2012 has a ceiling of 6.7 billion pesos, from which 65 percent will be allocated to direct subsidies for owners of forest resources, 11.4 percent to service providers, 9.6 percent as inputs and 12 percent for personal services.

12. The Federal Attorney for Environmental Protection (PROFEPA) is a decentralized body of the SEMARNAT, and is in charge of the inspection, surveillance and sanctions in the areas of forest production and natural protected areas.

13. The Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) also plays an important role in the forest lands through various programs (PROGAN, PROCAMPO) and components specifically focused on rural development. In the framework of the Special Climate Change Program, SAGARPA has implemented measures aimed at reducing pressure on forests, such as the installation of wood efficient stoves and the promotion of planned grazing and reforestation in marginal corn-fed production areas.

14. There are cross-sectoral coordination platforms. The need of coordination between sectors to confront climate change and to foster sustainable rural development led to the establishment of two high level coordination bodies: the Intersecretarial Commission for Climate Change (CICC)³² and the Intersecretarial Commission for Sustainable Rural Development (CIDRS)³³. Progress made in this context include the design of a National Strategy for Climate

³¹ Integrated by the Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; Economía; Medio Ambiente y Recursos Naturales; Finanzas y Crédito Público; Comunicaciones y Transporte; Salud; Desarrollo Social; Reforma Agraria; Educación Pública; y Energía (Diario Oficial Federación, 2001).

³² Integrated by the Secretaría de Relaciones Exteriores; Desarrollo Social; Recursos Naturales y Medio Ambiente; Energía; Economía; Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; Comunicaciones y Transporte; y, como invitados, las Secretarías de Salud; Finanzas y Crédito Público; y de Gobernación (Publicado en el Diario Oficial de la Federación, 2005).

³³ Integrated by the Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; Economía; Medio Ambiente y Recursos Naturales; Finanzas y Crédito Público; Comunicaciones y Transporte; Salud; Desarrollo Social; Reforma Agraria; Educación Pública; y Energía (Diario Oficial Federación, 2001).

Change, the Special Climate Change Program 2009-2012, and the Special Concurrent Program (PEC) for Sustainable Rural Development, aiming at achieving horizontal integration of public policies, in order to combat climate change and to achieve sustainability in rural areas.

15. There are several platforms for social participation. In terms of formal participation, various participative processes and consultation mechanisms have been established for environmental issues and related topics. These include the National Forest Council, the National Sustainable Development Council, the Technical Committees for Protected Areas, the Technical Advisory Committee for REDD+ and the National Indigenous Council. Several of them also have sub-national bodies. In relation to consultation instruments, CDI has developed a robust consultative process for all issues related to indigenous peoples, including those concerning natural resources.

B. Financial Management and Disbursements

16. **Summary.** The project is complex in terms of FM and the inherent FM risk is considered Substantial, mainly because Component 2 will involve several payments to multiple beneficiaries, which implies a considerable level of complexity in terms of its operational control, and Component 3 will involve transfer of funds to multiple co-executing entities that will be selected during the life of the project, which in accordance to their nature, may have limited FM capacity. From the FM perspective the project will be implemented by CONAFOR who has an adequate capacity to carry out the FM tasks given its accumulated experience in executing Bank's financed projects, and also has a sound internal control environment.

17. **FM Institutional arrangements and program description from the FM perspective.** CONAFOR is a decentralized public organism created on April 4, 2001, with legal and administrative autonomy, under the Ministry of Environment and Natural Resources (Secretaria de Medio Ambiente y Recursos Naturales, by its name in Spanish). Institutional arrangements under each component are described below:

- Arrangements under component 1 are simple, as all related payments will be operated directly by CONAFOR.
- Regarding component 2, payments will be made to the beneficiaries of the programs implemented by CONAFOR under defined operational rules after the fulfillment of the conditions established in each program. Resources will be first deposited into the Mexican Forestry Fund (Fondo Forestal Mexicano (FFM), by its name in Spanish), a Trust Fund managed by NAFIN, following the same scheme as in previous projects. For the operational control of the programs CONAFOR uses its SIGA system (Sistema de Gestion de Apoyos de la CONAFOR, by its name in Spanish), which is a suitable IT platform with the capacity to control all the processes related to CONAFOR's programs, from the inclusion of beneficiaries, until the payments are made to them.

- Institutional arrangements under Component 3 will imply transfer of funds to third parties for the implementation of subprojects. The entities that may receive funds include organizations such as Agentes de Desarrollo Local (ADL), Agentes Técnicos Locales (ATL), as well as the CONABIO (Comision Nacional para el Conocimiento y Uso de la Biodiversidad). The amount of the subprojects carried out under this component will range from US\$50,000 to US\$350,000, depending on the type of subproject and the type of entity. Before transfer any amount to these entities a FM Capacity assessment will be performed by CONAFOR, and approved by the Bank, under a methodology acceptable to the Bank.

18. It is expected that Nacional Financiera, SNC (NAFIN) will be the financial agent for this Project. Among other functions, this entails managing the loan disbursement processes, administering the project's banking account, and providing implementation support and oversight.

19. **Staffing arrangements.** CONAFOR has considerable experience managing Bank's financed projects. More recently it implemented the Environmental Services Project (LN7375 & TF56321), which closed on June 30, 2011. As noted earlier FM tasks under the project will be performed by CONAFOR as follows: (i) Technical matters will be carried out by 5 different units (subgerencias), which are under the following 2 divisions: Coordinación General de Producción y Productividad, and Coordinación General de Conservación y Restauración. (ii) Institutional FM tasks such as accounting of transactions, payments to providers of goods and services, and banking reconciliations, will be performed by the General Administrative Coordination (Coordinacion General de Administracion). (iii) Project's specific FM tasks will be performed by a FM coordinating unit that will be created, and through the inclusion of administrative staff in each of the 5 units that will implement the project from the technical perspective, which will liaise with the FM coordinating unit for the FM tasks of the project.

20. **Internal Control and internal auditing.** The internal audit function of CONAFOR is carried out by the Internal Control Unit (OIC), which reports to the Ministry of Public Administration (*Secretaría de la Función Pública* - SFP) and must follow the Public Audit Standards and Guidelines issued by SFP. The latter also approves the OIC's annual work programs, oversees its operation and receives its audit reports. Good systems are in place for timely follow-up to internal audit observations and implementation of recommendations.

21. **Accounting system.** CONAFOR will use its Sistema Integral de Información Financiera (SIIF), which is an integrated IT system (similar to SAP) used for budget, accounting, payments, and all other operational purposes. The system is quite robust, as all the above mentioned processes are automatically interfaced, and it is capable of managing the accounting records prepared on cash and accrual bases. State Delegations of CONAFOR also use the CONTPAQ system, a commercial accounting software used for registering all transactions related to the dispersion of funds to program's beneficiaries.

22. Notwithstanding the above mentioned, it is important to highlight that the accounting of resources under component 3 will be complex due to the inclusion of diverse co-executing entities that will use their own accounting systems. As noted earlier, a FM Capacity assessment will be performed before transfer any resources to these entities in order to ensure that they have an adequate infrastructure to manage Bank's funds.

23. **Periodic Financial Reporting.** CONAFOR will prepare consolidated semi-annual unaudited Project Interim Financial Reports (IFRs) and the annual audited Project financial statements, including the information generated by the co-executing entities under Component 3. These reports will be prepared on a cash basis, in local currency (i.e., Mexican pesos), using the standard formats agreed with the SFP for the Mexico portfolio. After loan effectiveness, the following financial reports will be presented to the World Bank:

Report	Due date
Semi-annual unaudited Project IFRs	Within 45 days after the end of each six-month calendar period.
Annual audit report on Project financial statements and eligibility of expenditures	Within six months after the end of each calendar year of loan disbursements (or other period agreed with the Bank).

24. **External audit.** Annual audits of Project financial statements and eligibility of expenditures will be performed by an independent audit firm selected by SFP and acceptable to the Bank in accordance with Bank policy, as reflected in the audit terms of reference and memorandum of understanding agreed between the Bank and SFP. CONAFOR is also subject to the audit scope of the Federal Supreme Audit Institution (ASF), which regularly executes a number of performance, financial and compliance audits. The results of these audits are made public in the annual audit reports on Federal Public Accounts. These external checks provide additional assurances about the program's operation and financial management.³⁴

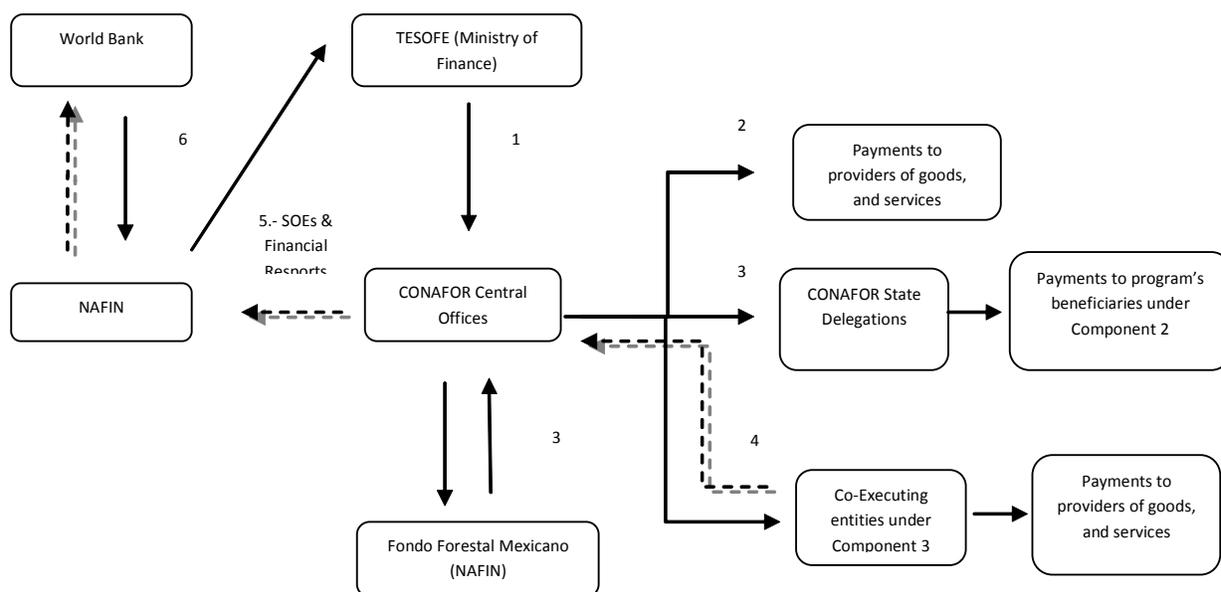
25. Because of the nature of this project, specific TORs will be added to those already agreed with the SFP with the objective of requiring the auditors to review a sample of files of the beneficiaries of the program and the payments made to them, to assess the compliance with the operational rules in the following matters: (i) adequate eligibility of the selected beneficiaries, (ii) adequate integration of the documentation required to the beneficiaries, (iii) ensure that payments were made according to the requirements established in the operating rules.

26. The audit reports for the projects currently in implementation were delivered on time, presented an unqualified opinion, and were considered satisfactory to the Bank.

27. **General flow of funds and information.** Subject to confirmation during further stages of project preparation, the primary disbursement method for this project will be the reimbursement of eligible expenditures, by which the Secretaría de Hacienda y Crédito Público

³⁴ ASF audit reports on Federal Public Accounts are issued 15 months after the end of the calendar year. Thus, while they remain an important source of information for fiduciary purposes, they cannot be used by themselves to meet the Bank's project financial audit requirements.

(SHCP, by its Spanish acronym) will pre-finance the total project spending passing through the standard budget of CONAFOR. The description of the funds flow is presented in the following diagram, where the solid lines represent the flow of money and the dotted lines represent the flow of information:



- (1) The National Treasury (TESOFE, an Undersecretariat at SHCP) will transfer funds to CONAFOR in local currency (Mexican Pesos) via its standard budget.
- (2) CONAFOR will pay directly to suppliers of goods and services for the implementation of the project's components related with consultancies, training, and goods.
- (3) CONAFOR's central office will transfer resources to the FFM managed by NAFIN, once the funds are assigned to the beneficiaries of programs financed by CONAFOR under component 2, and the respective contracts are signed, the FFM will transfer the resources back to the CONAFOR central office; which in turn will transfer the resources to its state delegations, which will make the payments to the program's beneficiaries. The recognition of expenditures will be after the payments have been made.
- (4) CONAFOR will transfer resources to ADLs, ATLs and CONABIO under component 3, which in turn will execute activities agreed with CONAFOR, and make payments to providers of goods and services. Recognition of expenditures will be after the payments to final beneficiaries have been made, and will be reported to CONAFOR through periodic financial reports.
- (5) CONAFOR will report to NAFIN the expenditures incurred through the periodic presentation of Statements of Expenditures (SOEs), and will also present the periodic financial reports required by the Bank.
- (6) NAFIN will retransmit the SOEs and financial reports to the Bank, which in turn will reimburse the funds in USD into a commercial banking account opened by NAFIN, which will be used to reimburse the resources to the TESOFE.

28. **Disbursement arrangements.** The loan disbursement arrangements³⁵ are summarized below. These arrangements still need to be confirmed by SHCP, NAFIN and CONAFOR, and will be updated before appraisal:

Disbursement method	The disbursement method for the project will be the reimbursement of eligible expenditures prefinanced by the Government.
Supporting documentation	SOEs. ³⁶
Limits	Different aspects such as the minimum value of applications for direct payments, ceiling of the Designated Account, and thresholds to deliver SOEs versus records, will be determined and agreed with CONAFOR and confirmed with LOA.
Retroactive expenditures	If retroactive expenditures are required under the project, these must fulfill the following conditions: (i) Eligible expenditures that do not exceed 20 percent of the loan amount. (ii) Made by the Borrower one year before the date of the Loan Agreement. (iii) The retroactive expenditures will be subject to the same systems, controls and eligibility filters described above in this Annex. These expenditures will also be subject to the regular Project external audit (see below).

29. **Disbursement Tables** [to be included before appraisal]

C. Procurement

30. **General Provisions** Procurement for the proposed Project would be carried out in accordance with the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits” dated January 2011; and “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated January 2011, and the provisions stipulated in the Loan Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

31. **Procurement Summary:** The main component of this operation, component 2 (USD270m), will support five CONAFOR programs (PES, PROCYMAF, PRODEFOR, Cadena and special programs). While one of these programs (PES) consists of financial transactions to private sector without any procurement activities; others require of small procurement activities

³⁵ For details, see the Disbursement Handbook for World Bank Clients.

³⁶ All SOE supporting documentation would be available for review by external auditors and Bank staff at all times during Project implementation, until at least the later of: (i) one year after the Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Loan Account was made; and (ii) two years after the Closing Date. The Borrower and the Project Implementing Entity shall allow the Bank’s representatives to examine these records.

to be executed either by CONAFOR itself or by other entities. During appraisal the scope of these programs, as well as the procurement roles of these entities will be further defined, as well as the appropriate mitigation actions, as needed. The Overall procurement risk for this operation is Substantial.

32. *Procurement of Works*. No civil works will be financed under this Project. (TBC during appraisal)

33. *Procurement of Goods and Non-consulting services*. Goods to be procured under this Project include the acquisition of databases and equipments including to support CONAFOR's monitoring and evaluation systems and environmental safeguards. In addition, the project will finance training, communication and outreach.

34. *Selection of Consultants*. The Project will require the services of consultants to carry out a variety of consultant services described in the Component 1, including those related to CONAFOR institutional capacity, and its collaboration with other relevant federal, regional and local Mexican agencies.

35. Short lists of consultants for services estimated to cost less than US\$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Universities, government research institutions, public training institutions and NGOs in some specialized fields of expertise could participate in the provision of consulting services as per Bank procurement guidelines and policies.

36. *Firms*. Most contracts for firms are expected to be procured using Quality and Cost Based Selection Method (QCBS). Except approved by the Bank, all the *interventorias* will be selected under QCBS Consultant assignments of specific types as agreed previously with the Bank in the Procurement Plan may be selected with the use of the following selection methods: (i) Quality Based Selection (QBS); (ii) Selection under a Fixed Budget (SFB), especially for works supervision contracts; (iii) Least Cost Selection (LCS); (iv) Selection Based on Consultants' Qualifications (CQS), for contracts estimated to cost below US\$ 200,000 equivalent; and, exceptionally (v) Single Source Selection (SSS), under the circumstances explained in paragraph 3.9 of the Consultants' Guidelines.

37. *Individuals*. Individual consultants will be hired to provide technical advisory and project support services and selected in accordance to Section V of the Consultant Guidelines. All sole source selection of consultants will be subject to prior review. Other specific procedures for the selection of these consultants will be described in the Operation Manual.

38. *Operating Costs. (TBC during appraisal)* The Project will finance Implementation Team operating costs: the incremental expenses incurred on account of Project implementation and training events, among other eligible activities, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs.

39. *Retroactive financing. (TBC during appraisal)*

40. **Assessment of the Implementing Entities' Capacity to Implemented Procurement (TO BE COMPLETED DURING APPRAISAL).** The main component of this operation, component 2 (USD270m), will support five CONAFOR programs: PES, PROCYMAF, PRODEFOR, Cadena and special programs. Their procurement activities are not complex, but they will be implemented under different schemes by entities different from CONAFOR. During appraisal the scope of these programs, as well as the procurement roles of these entities as well as the appropriate mitigation actions will be further defined.

41. CONAFOR's current community forestry program, which has been supported by two World Bank-financed projects, has demonstrated potential to provide incentives for improved forest management and to work directly with communities, many of which are indigenous communities. At the same time, CONAFOR is also implementing a Bank-financed Environmental Services Project to enhance the provision of environmental services of national and global significance and secure their long-term sustainability.

42. CONAFOR has demonstrated a sound capacity implementing World Bank procurement policies and procedures. Implementation of the Second Community Forestry Project was deemed fully satisfactory with regards to procurement policies.

43. Procurement for this Project as well for the FCPF-supported activities will be executed by at the central level by same staff as the current Environmental Services Project (P087038), which also is fully compliant with a good track record for procurement. However, the workload of the CONAFOR procurement team may have significantly increased. To overcome those risks related to a workload, during appraisal the Bank will closely review this staffing issue and work with CONAFOR to develop a contingency plan.

44. The Overall procurement risk for this operation is **Substantial**. Other specific mitigation measures, as needed, would be developed at later stages of the preparation and before negotiation, in particular under component 2.

Table 2: Contract Packages Procured following ICB

Ref. No.	City and Contract (Description)	Estimated Cost (USD 000)	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior/Post)
1						
2						

45. **Consulting Services:**

- (i) List of consulting assignments with short-list of international firms: Not expected;
- (ii) Consultancy services estimated to cost above \$200,000 per contract, as well as all single source selection of consultants (firms and individuals) will be subject to prior review by the Bank;
- (iii) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$ 500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
- (iv) Selection of key personnel.

Table 3: List consulting assignments with international short-list

Ref. No.	City and Contract (Description)	Estimated Cost (USD 000)	Procurement Method	Review by Bank (Prior/Post)
1				

46. **Project Operational Manual** The Project Operational Manual should cover the relevant procurement processes, including detailed institutional procedures, including accountabilities, composition of technical and administrative evaluation committees, and time frames for approvals, etc. The Operational Manual will also cover topics related to conflict of interests and fraud and corruption.

47. **Notification of Business Opportunities** A General Procurement Notice will be published in the *United Nations Development Business (UNDB)* informing prospective bidders on the upcoming ICBs under the Project. The Association will arrange for its publication in the UNDB on-line and in the Bank website. All procurement notices published in UNDB on-line will be also published in at least one newspaper of national circulation in the Borrower's country.

The Borrower is encouraged to develop instruments for public access to all the procurement activities to be financed under the loan, as described above.

48. **Bank's supervision** An 18-month Procurement Plan will be developed by CONAFOR, and to be approved by World Bank procurement staff before disbursement of funds. One mission will be undertaken by Bank procurement staff every year to monitor and review compliance with procurement policies.

D. Safeguards triggered by the project

Safeguard Policies Triggered by the Project	Yes	No
Piloting the Use of Borrower Systems to Address Environmental and Social Issues in Bank-Supported Projects (OP/BP 4.00)		X
Environmental Assessment (OP/BP 4.01)	X	
Natural Habitats (OP/BP 4.04)	X	
Pest Management (OP 4.09)	X	
Physical Cultural Resources (OP/BP 4.11)	X	
Involuntary Resettlement (OP/BP 4.12)	X	
Indigenous Peoples (OP/BP 4.10)	X	
Forests (OP/BP 4.36)	X	
Safety of Dams (OP/BP 4.37)		X
Projects in Disputed Areas (OP/BP 7.60)*		X
Projects on International Waterways (OP/BP 7.50)		X

E. Environmental (including safeguards)

49. CONAFOR has commissioned an Environmental Assessment (EA) which describes the Legal Framework, Institutional Design and Performance, Capacity and Track Record and in the field conditions relevant to the projects compliance with the safeguards policies. The policies triggered based on the analysis of the type of activities that will be supported and the implementation areas where they will be financed include: Environmental Assessment (OP/BP4.01), Natural Habitats (OP/BP4.04), Forests (OP/BP4.36), Pest Management (OP4.09) and Physical Cultural Resources (OP/BP4.11).

50. The Environmental Management Framework (EMF) that will be produced together with the EA report builds on almost two decades of experience of CONAFOR in the implementation

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

of good environmental practices in prior IBRD and GEF operations. These operations have contributed to build capacity in the institution and have produced a series of manuals to promote good management of the forest and soil and biodiversity conservation practices, both at the government level and in the communities that own over 70 percent of the forests in Mexico.

51. CONAFOR updates the operational rules of the participating program every year based on inputs from its technical committees as well as from the different consultative bodies that have accompanied the operations, in some cases since the 1940s. Operational rules incorporate criteria like land use planning, integrated watershed management to promote effective incentives to good management practices and local/regional initiatives to better manage landscapes, protected areas and productive mosaics.

52. The Project will be coordinated by an Operational Committee comprised of managers responsible for Community Forestry, Environmental Services, Sustainable Forest Management Promotion, Productive Chains, Forest and Soil Restoration, Planning, Evaluation and Financial Management. This committee will appoint designated liaisons to oversee fiduciary aspects and safeguards.

53. No environmental impacts beyond the current guidelines and regulations have occurred in the past and no additional impacts are expected from the activities included in the design of the current operation. The EMF incorporates a recommendation to include industrial health and safety principles in the training curricula for technical service providers, since CONAFOR's programs supported by the Bank have contributed to improve the management of the forest and extraction practices and more communities have developed capacity to transform timber into more elaborated products in their own facilities. As in the current operations, SEMARNAT (the Ministry responsible for Environmental Impact Assessment and Permits at the federal level) will continue to participate regularly in the technical committees. SEMARNAT is responsible for screening and scoping both the program design and the particular proposals from the communities to ensure, among other things, that any activity in the buffer zone of a Natural Protected Area is consistent with the relevant management plan for said area and they will inform the National Commission for Protected Areas to monitor any such activities.

54. Component 1 focuses on capacity building and offers the opportunity to mainstream environmental concerns in CONAFOR and in training programs for technical service providers. Component II will finance existing programs like Community Forestry and Payment for Environmental Services which have been financed by the Bank since they were launched in 1997 and 2003, respectively. Drawing from these experiences, the EMF incorporates additional provisions for the new programs: Productive Chains and Special Programs which focuses on landscape management –including productive landscapes–, which triggers the environmental safeguards to guide forest management, activities around protected areas, the potential use of pesticides and any chance finding of physical cultural resources.

55. The EMF will be distributed electronically to the relevant consultation bodies (Consejo Nacional Forestal, Consejo Técnico Consultivo, Consejo de Desarrollo Sustentable) and

discussed in a meeting convened by CONAFOR to receive feedback from forest communities' organizations, academia and CSOs.

56. Natural Habitats (OP 4.04) is triggered to guide the implementation arrangements proposed in the EMF to anticipate the possible impacts of activities supported by the project on Natural Protected Areas or any other relevant natural habitats identified in the National Commission for Biodiversity (CONABIO) Terrestrial Priority Regions and Gap Analysis reports.

57. Pest Management (OP 4.09). Although pesticides are not used for pest management in the productive forests, a selective use of chemicals may be indicated in nurseries and for timber treatment in their sawmills and furniture industries. The EMF will develop guidelines including both the restrictions on products and best practices regulated by the Health Ministry Commission for the Prevention of Sanitary Risk (COFEPRIS) and the relevant provisions in the Health and Safety Bylaws (Reglamento de Higiene y Seguridad), as well as particular recommendations for the criteria for the review of the need and alternatives to the use of chemicals and pesticides and the design of pest management plans, when required.

58. Physical Cultural Resources (OP 4.11). No large infrastructure works will be financed by the project, but some remodeling or new facilities for the forest communities may require relatively small works and there is a possibility of chance finds at any construction site. The EMF, based on the respective law (Ley de Monumentos y Sitios Arqueológicos) will guide the project team to follow the appropriate conduct in reporting and following up on any such case. CONAFOR should contact the state delegation of the National Instituto of History and Anthropology (INAH) who has designated personnel to explore and determine possible monuments or archeological sites discovered during civil works in the field.

59. Forests (OP 4.36). The Bank projects in Mexico have contributed to develop regulations and capacity both in the government and civil society: landowners, technical service providers and CSOs, since the creation of the Forest Stewardship Council and the launching of the Community Forestry project in the mid 90s. The main indicator of the project's environmental impact will be the reduction of forest degradation and achieving zero deforestation through: i) the incorporation of new forest areas to sustainable forest management (currently only about 8 million hectares, or 60 percent of the forest with timber potential, are under legal management). The aim would be to incorporate about. 1 million hectares per year; ii) expansion of the number of certified forest communities, from about 800,000 hectares to 1.6 million hectares of certified sustainable forest management; iii) increasing the community conservation areas, the area under payments for environmental services – particularly under “Fondos Concurrentes” - which support local mechanisms with counterpart funding, and the forest areas protected by Wildlife Management Units (UMAs).

60. Forest policy is supported by the legal requirement of the Forest Management Plan approval, which SEMARNAT will not issue for forest operations in Natural Protected Areas core areas and would require CONANP and/or CONABIO's assessment prior to authorizing activities in the buffer zone of Natural Protected Areas or critical habitats; the promotion of best forest

management practices through the technical manuals developed under the previous Community Forestry, and the creation of incentives and support to further advance FSC type certification and markets for certified products.

B. Social (including safeguards)

61. A Social Assessment was carried out by CONAFOR in order to provide a comprehensive review and knowledge on the socio-cultural context of the proposed project areas. Some of the key findings of the Social Assessment involve (i) the role of women in forest management; (ii) indigenous peoples; (iii) participation; (iv) out-migration; and (v) social conflicts. In terms of gender, according to Procuraduria Agraria statistics, there are approximately 600,000 women registered in the Program of Land Certification accounting for about 15 percent of the land registered as ejido (16 million hectares) as compared to only 1 percent some 35 years ago. Women have increasingly become managers of their parcel agrarian and forests lands by default through inheritance and absence of the male. There is a tendency of social exclusion and triple discrimination for being poor, women and indigenous peoples. Based on these numbers, women participation in the ejidos' governance structure is still limited and, most often, the decision-making process overlooks the specific socio-economic and cultural importance of forest resources to women. In the project context, consultation process will include a gender approach.

62. With regard to indigenous peoples, Mexico has strong domestic legislations for recognizing the distinctive rights of indigenous peoples. Mexico has ratified ILO Convention 169 on Indigenous and Tribal People. However operationally, Mexico applies the concept of ejidos (community unit which may often be composed of indigenous peoples and other local communities alike) and communities on the ground. This is a reflection of the socio-cultural context of Mexico where many ejidos and communities are not homogenous. In the project context, this poses an operational challenge on how to ensure the distinctive treatment of indigenous peoples in regards to CONAFOR's programs at the same time without excluding non-indigenous communities and ejidos. It is important both to recognize indigenous peoples as distinct group (to comply with OP4.10), and to ensure that such recognition will not exclude other non-indigenous communities and ejidos.

63. The project will seek broad participation from within indigenous peoples and other local communities for accessing CONAFOR incentive programs and, for sharing benefits. The Asamblea Ejidal, composed of the owners of the land (ejidatarios), will provide adequate platform of participation and decision-making. In others, where the Asamblea Ejidal may not necessarily have broad representation and may not include the participation in the decision-making process of other groups living in the ejido, namely the *avecindados* (persons that live in the territory without being ejidatarios) and *posesionados* (persons that have users' rights in the territory). The design of the consultation process will involve broad participation of ejidatarios and comuneros, and will explore the appropriate participation platforms to engage with *posesionarios*, *avecindados* as well as women groups.

64. Out-migration from indigenous peoples and other local communities is a growing trend with a number of sociopolitical and economic implications. For example, it affects the ejido

governance structure as the ejidatarios are migrating to other parts of the country and overseas in search of better economic opportunities. Youth often leave to seek education and other career opportunities and few of them return to their home communities to continue the traditional occupation. Women are also migrating to improve their family incomes.

65. A number of information dissemination efforts were carried out during preparation at the national, regional and local levels with a wide range of stakeholder groups. These efforts were in the form of selected national and regional workshops with indigenous peoples and local communities, dialogue with regional organizations and state governments, among others. A comprehensive multi-level communication and information dissemination strategy is being prepared in order to create the first basis for a future process of consultation with a wide-range of stakeholder groups, including indigenous peoples and local communities. Due to the large size of the country, institutional capacity and coordination to roll out, upscale and maintain the information dissemination flow will need to be strengthened.

66. CONAFOR prepared an Investment Plan as required by FIP, which corresponds to parts of Components 1 and all Component 3 of the Project. The Investment Plan was disclosed on [insert date] on CONAFOR's website, it was also presented to the CTC-REDD and was disseminated through a series of 6 regional workshops that were carried out in Jalisco, Campeche and Yucatan in August and September 2011 in order to seek feedback and comments from stakeholders on the national REDD+ process as well as on the FIP Investment Plan. The meetings included diverse topics such as analysis of causes of deforestation, strategic pillars of the REDD+ vision, input to the SESA matrix, and inputs on how to do consultations at the local level and on the FIP activities.

67. With regards to social safeguards, the Indigenous Peoples policy (OP4.10) and the Involuntary Resettlement Policy (OP4.12) have been triggered to tailor project benefits and/or address potential impacts on indigenous peoples and to manage potential restriction of access to natural resources, respectively. The project will not finance any community infrastructure such as community roads. In compliance with the Indigenous Peoples Policy (OP4.10), a comprehensive Social Assessment and an Indigenous Peoples Planning Framework (IPPF) were prepared and disclosed on [DATE]. In compliance with the Involuntary Resettlement Policy (OP4.12), a Process Framework was prepared and disclosed on [DATE]. The social safeguards instruments are available on CONAFOR's website.

68. CONAFOR has extensive experience working with indigenous peoples and other local communities. Through the project, CONAFOR's institutional capacity will be strengthened and additional human resources will be added to follow and manage social processes at multiple levels. This is critical for the project as it involves a substantial scale-up in activities, includes new mechanisms such as the FIP and needs to coordinate REDD+ activities financed by the FCPF under one forest and climate change agenda. The Unit of Coordinacion y Concertacion will take the lead responsibility for the overall social aspects and social safeguards implementation for the SIL and FIP as well as the FCPF in order to address social issues in a comprehensive and coordinated manner. This unit has an ongoing engagement with indigenous peoples, women and youth in the context of the CONAFOR programs while cooperating with

other federal agencies such as CDI (*Comision Nacional para el Desarrollo de los Pueblos Indigenas*) and other state governments.

F. Monitoring & Evaluation

69. See Annex 1, section B, above.

G. Role of Partners (if applicable)

70. The proposed combined IBRD-FIP project is closely coordinated with the following operations: (i) the forestry pillar of the proposed IBRD US\$300 million Social Resilience to Climate Change DPL; (ii) the euro 300 million budget support operation from the French Development Agency which uses the same forestry policy matrix as the Bank's DPL; (iii) the US\$3.6 million Readiness Grant from the Forest Carbon Partnership Facility and a potential future FCPF Carbon Fund Emissions Reduction Payment Agreement; (iv) the proposed US\$17 million Innovative Financing Instruments project to be funded under the FIP and implemented by *Financiera Rural* with the Inter-American Development Bank; and (v) the NOK90 million grant from Norway for the MRV system to be implemented with UNDP and FAO. The FCPF is a global partnership for REDD+ that brings together over 50 forest and donor countries, many of which also participate in the FIP.

Annex 4: Operational Risk Assessment Framework (ORAF)

Stage: Appraisal

1. Project Stakeholder Risks		Rating: Medium- I			
Description : The project will be associated, directly or indirectly, with new initiatives that attract high interest globally such as the FIP and the FCPF. Ineffective communication and/or consultation with stakeholders could affect CONAFOR's image and delay project implementation. Forest and Climate Change-related initiatives, especially REDD+, are the center of attention of various local and national stakeholders. The FIP component as well as the FCPF and Forest Bond associated to the project, could be questioned by stakeholders who may oppose REDD+ either generally or specifically in Mexico.	Risk Management: CONAFOR's communication capacity will continue to be strengthened during project implementation, and a pro-active communication strategy will be implemented in coordination with CONAFOR. Significant efforts will be undertaken for stakeholder groups at various levels to understand the objectives of the different mechanisms as well as the different processes of participation (such as the National CTC-REDD, the regional CTCs-REDD, the SESA Follow-Up Group, etc.) and those that are already in existence (Consejo Forestal at the national and regional levels, for example). Stakeholder groups will be afforded specific representation and/or roles in the different processes and how these processes contributing to the project activities and design of the REDD+ strategy.				
	Resp: Client/Bank	Stage: Design/Implementation	Due Date : Permanent	Status: Ongoing	
Description : Consultations with local-level stakeholders (ejidos, indigenous peoples, small-scale forest producers as well as local and regional civil society organizations) may be perceived as insufficient or not fully inclusive. Consultation process may be challenging due to the size and complexity of the country, the large number of communities and ejidos as well as budgetary and time constraints.	Risk Management: CONAFOR will build upon the positive experiences garnered with the PROCYMAF and PSA programs and expand the consultation process more widely. Early identification of local grass roots organizations representing indigenous peoples, and other key stakeholders, especially in the priority regions, will be a basis for dissemination of information, engagement and consultation. CONAFOR will foster the creation of local consultative mechanisms similar to the CTC-REDD+ in the priority regions. Special attention will be paid to consulting directly with indigenous peoples, and in that regard, the CDI (<i>Comision Nacional Indigena</i>) may play an important role in disseminating information and receiving feedback especially in local languages.				
	Resp: Client	Stage: Design/Implementation	Due Date : Permanent	Status: Ongoing	
2. Operating Environment Risks					
2.1. Country (description and rating are not disclosed)		Rating: Medium- I			
		Risk Management :			

Annex 4: Operational Risk Assessment Framework (ORAF)

<p>predictable macroeconomic management. This contributed to an adequate and timely policy response to the global crisis which has set the stage for a strong economic recovery. Commitment to the main elements of the fiscal and monetary policy framework—fiscal discipline, inflation targeting, and flexible exchange rate—remains strong. Sound public debt management has reduced vulnerability to financial shocks. Public debt policy favors local currency financing that reduces exposure to exchange rate volatility.</p>	<p>Resp:</p>	<p>Stage:</p>	<p>Due Date :</p>	<p>Status:</p>
<p>Description : Fiscal policy is conducted within the framework of a fiscal responsibility law that contains a balanced budget rule to ensure fiscal sustainability and mechanisms to limit the impact of oil price volatility on public spending. The latter includes an oil stabilization fund and a policy to leverage resources in the fund through the contracting of oil price hedges.</p>	<p>Risk Management :</p>			
<p>Description : The Government has begun a reorganization of police forces. It is also designing a broad National Crime Prevention and Citizen Participation strategy. With these actions the Government is determined to increase its ability to contain and reduce the impact of organized crime.</p>	<p>Risk Management :</p>			
<p>Description : The programs supported in this operation have not faced monitoring difficulties due to the rise in violent crime (less than 1 percent of the supported projects presented monitoring difficulties related to violence during 2011). Insecurity issues in violent forest areas remain limited and focalized, and CONAFOR has the technical and human resources to assure alternative monitoring systems (for example, satellite information for PES projects)</p>	<p>Risk Management : CONAFOR will continue to develop alternative monitoring strategies for remote areas with a rise in violent crime.</p>			
<p>2.2. Sector/multi-sector</p>	<p>Rating: Substantial</p>			
<p>Description : Different government institutions involved in forestry may have different views and different levels of capacity and commitment to stakeholder consultation and public participation, which may complicate the implementation of the project .</p>	<p>Risk Management : Key institutions will be involved in further project design to ensure their buy-in and commitment, and the project would support the establishment of formal collaboration agreements. Key partner institutions would also benefit directly from the project through institutional support provided under Component 1 Involvement of key ministries and agencies through the CICC/REDD+ WG and direct dialogue will help ensure those agencies participate in the process.</p>			
	<p>Resp: Client</p>	<p>Stage: Design/Implementation</p>	<p>Due Date : Permanent</p>	<p>Status: Ongoing</p>

<p>Description : REDD+ related activities in Mexico are being designed and implemented by a range of actors and institutions, with different approaches and drivers.</p>	<p>Risk Management : The role of CONAFOR as the coordinating agency for REDD+ related activities is widely supported and recognized. The FCPF will help ensure national consistency. Moreover, CONAFOR will use the forums for participation, especially the CTC at local and national level, to promote greater coordination, minimizing the risk of inconsistency in the schemes.</p>			
	<p>Resp: Client</p>	<p>Stage: Design/ Implementation</p>	<p>Due Date : Permanent</p>	<p>Status: Ongoing</p>
<p>3. Implementing Agency Risks (including fiduciary)</p>				
<p>3.1. Capacity</p>	<p>Rating: Medium-I</p>			
<p>Description : The projects entail a significant scale-up of previous initiatives (Community Forestry Projects and Payment for Environmental Services) and also a significant component of new and innovative projects that will include payments to multiple beneficiaries and procurement processes. The main FM risk is related to the scale up of the operation which could increase the risk of financing ineligible payments to multiple beneficiaries, who are widely spread over the country, and implies a considerable level of complexity in terms of its operational control.</p>	<p>Risk Management : In addition to the suitable internal control infrastructure already in place in CONAFOR, the following measures are proposed to mitigate the main FM risks of this project:</p> <ul style="list-style-type: none"> • Reinforce the current organizational structure of CONAFOR through the creation of a Project unit, which will include a coordinator and a FM Specialist, and the inclusion of administrative staff in each of the 5 units that will implement the project from the technical perspective, which will liaise with the FM coordinating unit for the FM tasks of the project. • The preparation of an operational manual which will document the FM procedures. • Specific TORs will be required for the external audit of the project, requesting the auditor’s opinion on the adequate application of the key operational and financial controls of the program. • Specifically for CONABIO as co-executing entity under component 3, as part of the institutional arrangements that will be agreed between CONAFOR and CONABIO it is necessary to include covenants acceptable to the Bank in order to ensure that funds will be administered under an adequate control environment, and the expenditures will be adequately supported and reported back to CONAFOR. 			
	<p>Resp: Bank and Client</p>	<p>Stage: Design/ Implementation</p>	<p>Due Date : Permanent</p>	<p>Status: Ongoing</p>
<p>Description : Procurement staff in CONAFOR enjoys good professional status but is overloaded and has no stability. In the case of the SIL many of the procurement activities will be conducted by beneficiaries with lack of experience in World Bank procurement</p>	<p>Risk Management : Specifically for the co-executing entities under component 3, as part of the institutional arrangements that will be agreed between CONAFOR and these entities, it is necessary to include covenants acceptable to the Bank in order to ensure that funds will be administered under an adequate control environment, and the expenditures will be adequately supported and reported back to CONAFOR. These arrangements should be also appropriately reflected in the project’s operational manual.</p> <p>The workload of the CONAFOR procurement team may have significantly increased. To overcome those risks related to a workload, during appraisal the Bank will closely review this staffing issue and work with CONAFOR to develop a contingency plan.</p> <p>During implementation a well trained and experienced full time specialist will be required for procurement monitoring and supervision activities.</p> <p>During preparation of SIL agreement will be reached regarding a strong monitoring and supervision system, including training, dissemination materials and specific instructions to beneficiaries.</p>			

Annex 4: Operational Risk Assessment Framework (ORAF)

	Resp: Bank and Client	Stage: Appraisal/ Implementation	Due Date : Permanent	Status: Not yet due
3.2. Governance	Rating: Medium- L			
Description : The project is fully aligned with the Implementing Agency's and the Government's overall agenda and the commitment to the project are high. However, possible changes in leadership in the government and in the implementing agency after the 2012 federal elections may modify commitment	Risk Management : Team will work with transitional/new team to promote ownership of the project, fostering the continuation of high-level political support, especially after the 2012 elections.			
	Resp: Bank	Stage: Implementation	Due Date: from December 2012- December 2013	Status: Not yet due
Fraud & Corruption (sub-category of Governance risk)	Rating: Medium- I			
Description: CONAFOR has experience with the Bank procurement and financial management guidelines.	Risk Management: The project will be annually audited by an acceptable audit firm, designated by the SFP, and in accordance with the ToR acceptable for the Bank.			
	Resp: Client/Bank	Stage: Implementation	Due Date : Annually	Status: Not yet due
4. Project Risks				
4.1. Design	Rating: Medium- I			
Description: While the project will continue and scale up activities that have been part of previous projects (Community Forestry and Environmental Services) it also includes new elements and aims to promote innovation. This may create opportunities, as well as unexpected risks, mainly in the pilot regions.	Risk Management: The project design will be based on consultations with key stakeholder groups especially with regard to innovative elements in the priority regions. The project will adopt a flexible approach allowing for regular stakeholder feedback and adjustments of the implementation strategy. Innovative policy tools would be tested on a pilot basis allowing for iterative, collective learning before implementation at a larger scale. In line with FIP guidelines, a learning and knowledge component will be developed. The project would also draw from experiences with similar programs in other countries. Moreover, all potentially new project subcomponents will be fully assessed from FM perspective in order to propose any additional specific arrangements or mitigating measures. The Bank will carry out close supervision/implementation support including regular field visits to the priority regions and dialogue with key stakeholders to ensure the project strategy is updated in light of their views and feedback.			
	Resp: Bank	Stage: Design/Implementation	Due Date : Permanent	Status: Ongoing
Description: The multi-scale institutional strengthening component will require collaboration of other federal institutions and vertical integration with local institutions. This requires a close coordination with a vast number of institutional actors.	Risk Management : Key institutions will be involved in further project design to ensure their buy-in and commitment, and the project would support the establishment of formal collaboration agreements. Key partner institutions would also benefit directly from the project through institutional support provided by the project.			
	Resp: Client	Stage: Design/Implementation	Due Date : Permanent	Status: Ongoing

Annex 4: Operational Risk Assessment Framework (ORAF)

<p>Description: Technical Private Services Providers are crucial partners for the success of Component 2. Poor training and control over private service providers has been a problem in previous CONAFOR projects.</p>	<p>Risk Management: The project design included in Subcomponent 1.4 certification process of Private Services Providers will be a new requisite to offer technical assistance to CONAFOR’s beneficiaries. It will include training to develop the abilities, aptitudes and skills. CONAFOR will hire external Certification Institutions, including academic and research institutions, as well as professional collegiate groups with forestry activities to assure the quality of the services.</p>			
<p>Resp: Client</p>		<p>Stage: Design</p>	<p>Due Date: Completed</p>	<p>Status: Complete</p>
<p>4.2. Social & Environmental</p>				
<p>Description : The operation aims at targeting indigenous peoples and other non-indigenous communities and ejidos. However, benefits may not be broadly shared within the communities and ejidos if decisions on the use and management of resources are taken only by <i>ejidatarios</i>. In such case, <i>avecindados</i> and <i>poseionarios</i>, for example, are not included in this process. Moreover, equipment for acquiring broad community support of indigenous peoples as per OP4.10 may be a challenge due to the involvement of approximately 3,000 local communities in forest areas. The program incentives are only limited to those indigenous peoples and other local communities with clear land tenure, while communities with unclear land tenure are not eligible to these programs. This might exacerbate inequalities. However, the Project intends to support communities with unclear land tenure through capacity-building and technical assistance.</p>	<p>Risk Management: For this specific project, project activities involving indigenous peoples will be based on community demand-driven grants. While there is an underlying community and/or ejido support for proposal submitted for funding, a specific mechanism and/or procedure will be put in place and described in the IPPF whereby CONAFOR assesses and verifies that there is a broad participation in and support for the proposals prior to funding. This mechanism will ensure that the dominant section of the local communities do not impose their decision on the vulnerable section (women, poor or numerically small Indigenous Peoples in an ejido). The Social Assessment includes an analysis of the risks and measures to mitigate the inequity arising from project activities. The project IPPF will provide a mechanism to ensure broad participation of indigenous peoples and non-indigenous local communities. The PF will include measures to carry out broad consultations and ensure participation.</p>			
<p>Resp: Client</p>		<p>Stage: Design/Implementation</p>	<p>Due Date : Permanent</p>	<p>Status: Ongoing</p>
<p>Description : On gender, the important traditional decision-making role of women regarding use and access to forest resources may be undermined by the expansion of the program. Role of women may be undermined.</p>	<p>Risk Management : CONAFOR identifies women as distinct stakeholder group for consultation and ensures their effective representation in the local decision-making mechanisms and/or bodies. Through the Unit of <i>Coordinacion y Concertacion</i>, a gender strategy is being developed for CONAFOR programs.</p>			
<p>Resp: Client</p>		<p>Stage: Design/Implementation</p>	<p>Due Date : Permanent</p>	<p>Status: Ongoing</p>
<p>Description : Regulating management of natural resources may not be socio-culturally compatible for Indigenous Peoples. The project mainly supports previously evaluated Bank-financed activities. Therefore, the possible environmental risks are on new/upscale activities.</p>	<p>Risk Management : The Bank is assisting CONAFOR in preparing a comprehensive package of social and environmental assessments, consultations, and safeguards instruments that cover the entire Forest and Climate Change agenda, while also meeting the specific requirements of the SIL, FIP and FCPF instruments. A comprehensive grievance mechanism will be established. The project will develop indicators to track the project impacts through the dissemination of sustainable management practices.</p>			
<p>Resp: Client/Bank</p>		<p>Stage: Design/Implementation</p>	<p>Due Date : Permanent</p>	<p>Status: Ongoing</p>
<p>4.3. Program & Donor</p>				
<p>Rating: Medium- L</p>				

Annex 4: Operational Risk Assessment Framework (ORAF)

<p>Description : The IA is currently engaged with a variety of donors for forest-related projects. The Bank has been in close contact with them assuring the objectives' alignment. During preparation, the Bank coordinated a meeting to discuss this project with donors working on Forests in Mexico.</p>	<p>Risk Management : The Bank team will continue the donors' coordination during the implementation and will participate in joint missions with other donors during the process. Two donors meetings where the project was presented (one for the FIP in September 2011, one for the SIL in October 2011) supported the complementarities and coordination with bilateral and multilateral donors working on Forests and Climate Change.</p>		
<p>4.4. Delivery Monitoring & Sustainability</p>	<p>Rating: Substantial</p>		
<p>Description : The proposed project is relatively broad in terms of scope and potential beneficiaries. To maintain its sustainability after Bank support is crucial. Financial sustainability of the interventions would depend on a combination of continued Government commitment (especially for programs like PES), market viability (mostly for productive programs like <i>Cadenas Productivas</i>) and future REDD+ funding flows and success in reducing emissions (allowing for the integration of global, carbon-based funding in the future financial mix).</p>	<p>Risk Management : Four elements on the project design would contribute to the sustainability of the subprojects at community level: (i) subprojects are demand-driven and therefore should reflect the priorities and specificities identified by the communities themselves; (ii) all subprojects would include a significant element of community capacity building and training in addition to physical works and goods; (iii) the project would support multi-year subproject – an important innovation consistent with the nature of forest planning and management; and (iv) the project would support/enhance the capacity of private service providers, ADLs and ATLS that assist communities in implementing forestry projects, hence improving the quality of assistance and advice available to the communities</p>		
<p>Description : Although most resources will go to existing programs and will scale up previous successful engagement with the Bank, the project also includes innovative elements in terms of priority regions, thematic areas, policy tools, and partnerships. Moreover, REDD+ is a new and untested instrument and will include a large number of pilot projects in early Action Areas that will need frequent field visits.. Monitoring innovative project activities and evaluating its impacts will be complex, and there could be challenges related to the measurement of innovative indicators (for example, forest degradation).</p>	<p>Risk Management : During the preparation stage, the team identified the monitoring and evaluation issues and included in the project design under Component 1 and improve their quality. In addition, CONAFOR's strategy is to involve local institutions in the design, implementation and monitoring of project activities. This would include municipalities, states, associations of municipalities, non-government organizations, and would greatly enhance the project's capacity to successful reach out to and support communities, and to ensure adequate monitoring and evaluation. Bank supervision will need to rely on frequent field visits and dialogue with local stakeholders, as well on CONAFOR's own monitoring systems.</p>		
<p>5. Project Team Proposed Rating Before Review</p>			
<p>5.1. Preparation Risk Rating: Medium-I</p>	<p>5.2 Implementation Risk Rating: Substantial</p>		
<p>Comments: This rating was selected because the project will build upon previous successful Bank-supported projects with the same Borrower and Implementing Agency.</p>	<p>Comments: This rating was selected because the project will significantly scale up previous engagement, includes new elements and experimental activities, includes a variety of stakeholders and may be implemented under the leadership of a different administration.</p>		
<p>6. Risk Team</p>			
<p>6.1. Preparation Risk Rating</p>	<p>6.2 Implementation Risk Rating</p>		

Comments:	Comments:
7. Overall Risk Following Review	
7.1. Preparation Risk Rating:	7.2 Implementation Risk Rating:
Comments:	Comments:

Annex 5: Implementation Support Plan

1. The strategy and approach for implementation support will include formal supervision and field visits will be carried, and will focus on the following:

2. **Overall project management.** Special attention will need to be paid to: (i) the supervisión of a large number of small subprojects in the field, especially in the context of Component 3 which will innovative REDD+ projects in Early Action Areas – Bank supervisión will need to rely on frequent field visits and dialogue with local stakeholders as well as on CONAFOR’s own monitoring systems and possibly on partnerships with other development partners and non-governmental organizations; (ii) synergies with the REDD+ Readiness Preparation process that will be supported under the Bank-administered FCPF grant, especially when it comes to conducting the SESA and designing the REDD+ strategy (retrofitting lessons learned from pilot projects supported under Component 3-FIP into the policy-making process, and conversely adjusting pilot approaches in light of progress in the SESA and in the design of the REDD strategy; (iii) implementing a pro-active communication strategy in a coordinated manner with CONAFOR; and (iv) fostering the continuation of high-level political support for the community-based, participatory REDD+ agenda and for improved inter-institutional cross-sector coordination, especially after the 2012 elections.

3. **Fiduciary requirements and inputs.** Specialist under the project coordinating unit and the elaboration of the project’s Operational Manual must be ready before project’s negotiations. The other proposed mitigation measures are part of the standard process of project’s supervision and for that reason the timing for mitigation will be during implementation. The scope of project supervision will review the implementation of FM arrangements and FM performance, identify corrective actions if necessary, and monitor fiduciary risk. It will take place on a semi-annual basis and include (a) reviewing of IFRs; (b) reviewing of the auditors’ reports and follow-up of any issues raised by auditors in the management letter, as appropriate; (c) participation in project supervision and (d) updating the FM rating in the Implementation Status Report (ISR).

4. **Environmental and Social Safeguards.** CONAFOR will need to further strengthen their capacity to manage social and environmental issues given the complexity of the current operation and the processes to be managed: FCPF, SIL and FIP. CONAFOR will need to rely heavily on its in-house social specialists in the *Gerencia de Coordinación y Concertación* and propose specific institutional arrangements to support the different programs and activities. It is essential that management of social issues and social safeguards be mainstreamed within CONAFOR through the *Gerencia de Coordinación y Concertación* in order to handle engagement with stakeholders, implement consultations, lead the SESA (Strategic Environmental and Social Assessment) processs, and monitoring of social safeguards in a coherent and comprehensive manner for all the instruments: FCPF, SIL and FIP. Adequate budget to support current staff in *Gerencia de Coordinación y Concertación* need to be allocated as well as providing the responsibility to hire and manage additional human resources that is needed.

Annex 6: Economic and Financial Analysis

1. The project would support and strengthen existing forestry incentive programs operated by CONAFOR nationwide, and pilot their use to reduce emissions from deforestation and forest degradation (REDD) in early action areas.

- Component 2 focuses on making payments under the existing CONAFOR forest programs;
- Component 1 will integrate the various forestry programs and improve them;
- Component 3 will pilot the use of PSAB and other tools to reduce emissions reductions.³⁷

2. A full economic analysis of the project is not possible, as many benefits, particularly from the PSAB program which accounts for the bulk of both CONAFOR's current program and the project, have not been quantified; the opportunity costs of forest lands, which account for the bulk of economic costs, have also been imperfectly quantified (improvements in monitoring and evaluation under component 1.1 seek to address these shortcomings). The analysis here thus focuses on estimating the level of benefits, or the magnitude in the improvements of these benefits, that would be necessary for the project investments to be justified. Available information shows that the break-even levels needed to justify the project investments are very low and well within reach.

3. **Component 2: Consolidation of Priority Community-Based Programs at National Level.** Although the project would support five CONAFOR programs, the bulk of efforts would focus on two main programs: Payments for Forest Environmental Services (PSAB) and Community Forestry (PROCYMAF). Accordingly, this analysis focuses on these activities. The project will initially support these programs in their current form. These programs will gradually be improved, however, thanks to the activities under component 1. The analysis here focuses on the benefits of the forestry programs in their current form, while the next section examines the benefits of activities designed to improve the programs.

4. **Payments for Environmental Services.** The PSAB program aims to induce landholders to adopt land uses that primarily benefit others – downstream water users, in the case of the Hydrological window, for example. As such, this program differs qualitatively from the other CONAFOR programs, which support activities that primarily benefit the participants directly.

5. The PSAB program currently covers about 2.2 million ha. Participating landholders are paid to conserve existing forests.³⁸ Contracts are for five years, and are renewable. Applications

³⁷ Some activities of this component are technically under component 1, but they are considered here as part of the Component 3 activities.

are ranked according to their score on prioritization criteria (*criterios de prelación*) and are accepted according to their score until the available budget is exhausted. After the first year, payments are conditional on having maintained the enrolled forest area to the prescribed standard.

6. *Costs.* The costs to Mexico of undertaking the PSAB include (i) the opportunity costs of foregone land uses, in cases where land users would indeed have undertaken other land uses; (ii) any management costs involved in complying with PSAB contracts; and (iii) the transaction costs of the PSA program, including FONAFIFO's administrative costs and costs borne by program participants.³⁹ A crucial point here is that the payments themselves are not an economic cost, though they are a financial cost to CONAFOR.

- *Opportunity costs.* An INE study prepared during preparation of the PSAB program estimated the average opportunity costs to be about US\$40/ha for maize producers and US\$70/ha for livestock producers, but with substantial numbers of producers having lower opportunity costs (Jaramillo, 2002). The high demand for participation at the initial payment level of US\$30/ha confirmed this. As participation is voluntary, it is safe to assume that those who choose to participate have opportunity costs, plus any necessary management costs and transaction costs borne by participants (see next bullet), lower than the offered payments, which until 2010 were of about US\$30/ha/yr (US\$40/ha for cloud forests). Indeed, there is reason to believe that the opportunity costs are zero in at least part of the area enrolled, as there is reason to believe that some areas would have been conserved even in the absence of the PSAB program (see below).
- *Management costs.* Participants must undertake a variety of activities in conserved forests. As noted, these costs and opportunity costs together are almost certainly less than payments for participating landholders.
- *Transaction costs.* CONAFOR's own costs are limited to 4 percent of payments, or about US\$1.60/ha/year. It is likely, however, that some additional costs are also borne under other parts of CONAFOR's budget. To allow for this, we round up administrative costs to US\$2/ha/year. These costs apply irrespective of whether the land use change is additional or not.

The *upper bound* of the costs of PSAB is thus about US\$32/ha/year. As landholders with lower opportunity costs have the greatest incentive to participate, it is likely that per hectare costs are lower in much of the contracted area. Indeed, in some areas with low or no additionality, costs may be little more than CONAFOR's own transaction costs.

³⁸ Although this is technically an avoided deforestation contract, it also functions as an avoided degradation contract, as it specifies the minimum forest quality that must be maintained (as well as mandating certain protective activities such as reducing the risk of forest fires and proscribing certain damaging activities such as grazing livestock in forest areas).

³⁹ For completeness, one should also include (iv) any deadweight losses arising from the way in which financing is generated, and (v) any induced costs resulting from general equilibrium effects (for example, because of reduced agricultural production). No data are available on these costs, but a recent study of Costa Rica found that country's PSA program (which is proportionally larger than Mexico's) to have negligible general equilibrium effects (Ross and others, forthcoming).

7. *Benefits.* From an economic perspective, the PSAB program's benefits to Mexico depend on:

- The degree to which it succeeds in avoiding deforestation or degradation that would have occurred in the absence of the program. To the extent that the PSAB pays to conserve forests that would have been conserved anyway, no net benefits are generated.
- The difference in the value of the desired services generated by conserved forests compared to the value of the services that would be generated by degraded forests or under alternative land uses.

8. *Additionality.* Two studies have examined the extent to which PSAB has reduced deforestation. Alix-Garcia and others (2010) find a small positive effect among participants enrolled in 2004, with considerable heterogeneity across regions and types of properties (Alix-Garcia and others, 2010). A separate study by INE finds that deforestation among PSA recipients fell from 1.6 percent to 0.6 percent over the years 2000 and 2007 (Muñoz Piña, 2011).⁴⁰ As the PSAB program has sought to target areas at higher risk of deforestation in recent years, its effectiveness in reducing deforestation is likely to have increased over time.⁴¹

9. *Service generation - Water.* The primary benefit sought by the PSAB program is the preservation of downstream water services. Beyond the additionality issue already discussed, its impact in this regard depends on two factors:

- The extent to which PSAB is spatially targeted to hydrologically important areas. Appropriate land uses will only help if they are in the right place, as water services, by their nature, are highly site-specific. PSAB has made considerable efforts in this regard, through the definition of eligible areas (which are based primarily on hydrological criteria) and the use of prioritization criteria. Thanks to these efforts, the share of PSAB area in watersheds with over-exploited aquifers quadrupled between 2003 and 2006, for example.
- The extent to which forests generate the desired services. To date, the PSAB has not undertaken any monitoring on its impact on the desired water services.⁴² In general, forest conservation as undertaken under the PSAB is likely to have its greatest positive impact on water quality⁴³, thus reducing the cost of treatment downstream and/or avoiding the siltation of reservoirs. With the possible exception of cloud forests, forests would generally tend to reduce total water availability.⁴⁴

Although the actual magnitude of benefits cannot be quantified, contracts that are in both high hydrological value areas and high risk of deforestation areas are most likely to have high value.

⁴⁰ Note that parcels participating in the PSAB were only enrolled for an average of 2.4 years during this period, as the program only began in 2004.

⁴¹ According to INE's estimates, average deforestation from 2000 to 2007 in a random sample of 160,000 forested parcels was 3.7%, while average deforestation among PSAB recipients in the sample would have been only 1.6%. Thus, at least through 2007, high deforestation risk areas were under-represented in the program.

⁴² A monitoring system designed under the previous Environmental Services Project is being put in place, but is not yet operational.

⁴³ Manson (2007) found that the physical and chemical properties of water have improved in watersheds in the states of Veracruz and Mexico where PSAB has been active.

⁴⁴ Recognizing the importance of cloud forests, the PSAB has since its inception paid more for their conservation than for the conservation of other forests.

Current targeting has improved substantially since the beginning of the program, but there remains room for improvement. Component 1 would help further improve targeting.

10. *Service generation - Carbon.* Carbon sequestration, along with biodiversity conservation, was the objective of the PSAB program's CABSAs window, which accounted for about 10 percent of the enrolled area. Even the hydrological window, however, would have resulted in carbon sequestration to the extent that it reduced deforestation. INE estimated that about 3 million tCO₂ were avoided thanks to avoided deforestation in its sample (taking into account carbon stocks in different kinds of forests), or about 1.7tCO₂/ha on average over all participants. Assuming a carbon price of US\$5/tCO₂ (based on the implicit value per ton under the recent agreements Norway signed with Brazil and Guyana), and assuming that 20 percent is spent on transaction costs, gives a value of about US\$6.5/ha. These benefits are thus currently very low on average, but with considerable room for improvement (see discussion of Component 3 below).

11. *Net benefits.* Without better estimates of benefits, it is impossible to estimate the current net benefits of the PSAB program. However, with an *upper bound* on its cost being only US\$32/ha/year, while it could be as low as US\$2/ha/year, it is clear that relatively modest average levels of hydrological and other benefits per hectare would be sufficient to justify the program.

12. *Fondos Concurrentes.* Since 2009, CONAFOR has been implementing a program of matching funds (*Fondos Concurrentes*), in which it pays up to 50 percent of the cost of conservation payments in cooperation with local actors, many of them local water users. These agreements currently increase the net area under conservation by the PSAB by over 50,000 ha. Although these agreements still account for only a small part of the overall program, they are significant in that they demonstrate that the willingness to pay for water services is not just theoretical but real. They also provide *prima facie* evidence that these water users perceive the benefits of conservation to exceed the costs, or they would not commit their own resources to conservation.

13. *Financial analysis.* From the landholders' perspective, the costs of participation include the opportunity costs of the most profitable alternative to forests, plus any out of pocket costs resulting from the need to comply with their contracts (such as the cost of undertaking fire patrols). The benefits include the payment received and any benefits they may derive from the conserved forest area in ways that do not conflict with contract requirements. The PSAB program has been very popular, and regularly receives applications covering substantially greater areas than its budget allows it to enroll. This suggests that participation is financially beneficial to participating landholders; if it were not, they could simply choose not to participate.⁴⁵ In addition to financial benefits, participating communities are also thought to have benefitted through improvements in social capital.

⁴⁵ There is some concern, however, that benefits and costs may be distributed un-evenly within participating communities. Ultimately, this is an internal matter for these groups; however, the program seeks to minimize the risk of such problems by requiring applications to participate to be approved by the community's assembly. As an additional measure, new contracts will also make payments conditional on the assembly approving a plan for the use of revenues received.

14. **Community Forestry.** CONAFOR's Community Forestry Program (PROCYMAF) is the other main program that Component 2 will support. As under PROCYMAF I and II, a variety of activities aimed at strengthening the competitiveness of community forestry enterprises CFE will be supported, such as territory planning, improved forest management practices or small investments aimed to enhance or diversify timber and non timber production. The net benefits of these activities are well established. A detailed economic analysis of activities supported by the PROCYMAF II Project found that community forest production projects had an IRR of 20.2 percent, while non-timber forest products projects had an IRR of 22.1 percent (World Bank, 2009).⁴⁶ It is expected that community forestry activities supported under Component 2 would have at least similar rates of return.⁴⁷

15. These activities are also financially attractive to participating communities: community forest production projects had a financial rate of return (FRR) of 29.3 percent, while non-timber forest products projects had an FRR of 23.4 percent.

16. **Component 1: Policy Design and Institutional Strengthening.** Component 1 will invest US\$17.5 million to coordinate and improve the various CONAFOR forestry programs. In the case of PSAB, for example, this will include continued improvements to prioritization criteria, so as to improve targeting to areas with the highest-value environmental services and most at risk of deforestation; to program rules, so as to better adapt conservation activities and payment levels to local conditions in different parts of the country; and to program management, so as to reduce transaction costs. There will also be efforts to combine the different programs; one option being considered, for example, is a PSAB contract for productive community forests. The benefits of the investment under this component would be experienced in the form of improvements in the level of benefits generated by the forestry programs. An improvement in net annual benefits of US\$0.55/ha in the area enrolled in PSAB alone would be sufficient to justify this investment.

17. **Component 3: Innovation for REDD+ in Early Action Areas.** Component 3 will invest US\$37 million to pilot using PSAB and other tools to reduce emissions reductions from deforestation and forest degradation (REDD). Mexico is currently designing a REDD strategy, with support from the Forest Carbon Partnership Facility (FCPF), and hopes to participate in the FCPF's Carbon Fund. The early action projects undertaken under this project would be a major input into the development of the country's REDD strategy. In particular, although the precise

⁴⁶ The analysis was based on the results of field work conducted by the Universidad Autónoma Chapingo (UACH) in late 2008, which examined 22 demand-driven productive subprojects (11% of subprojects supported by the project), including 15 Community Forest Production subprojects and 7 Non-timber Forest Products (NTFPs) projects.

⁴⁷ Two economic assessments carried out in Oaxaca during preparation illustrate the potential. A timber production project (investment in a saw sharpening unit) was found to have an IRR of about 46 percent, while a non timber project (spring water production with an automatic unit to fill bottles) had an estimated IRR 66 percent. Other recent analyses in Durango State found timber production projects involving timber kiln, plywood production, and modernized sawmills to have an average IRR of 49 percent (with the highest of 57 percent). These results are robust to changes in assumptions.

rules of a REDD mechanism remain to be established, all the current proposals call for REDD payments to countries to be based on results: on the emissions avoided by reducing observed deforestation and forest degradation, and by improving carbon stocks in existing forests, relative to an agreed reference level. It is thus critical to determine how to best use the range of available tools to achieve such results. The benefits of the early actions in Component 3, therefore, will arise primarily from the improved effectiveness of CONAFOR's forestry programs in reducing emissions, rather than from the direct benefits of the early actions themselves. Indeed, to ensure that their effectiveness is well understood, the early action pilots supported by Component 3 will include a strong impact evaluation program, which will increase their cost. The analysis here, therefore, focuses on the potential improvements that Component 3 activities would generate for a future national REDD strategy.

18. INE estimated that about 3 million tCO₂ were avoided between 2000 and 2007 thanks to avoided deforestation by PSAB recipients in its sample (taking into account carbon stocks in different kinds of forests). Adjusting for the fact that participants were only enrolled for 2.4 of the 7 years covered by the analysis, INE estimates avoided deforestation would have been twice as high for PSAB recipients over the entire length of a 5-year contract. Averaging the resulting reduced emissions over all PSAB recipients gives an average reduction of about 3tCO₂/ha. Assuming a carbon price of US\$5/tCO₂ (based on the implicit value per ton under the recent agreements Norway signed with Brazil and Guyana), and assuming that 20 percent is spent on transaction costs⁴⁸, gives a value of about US\$12/ha. Assuming this is received over 30 years, at a 5 percent interest rate, gives a payment of about US\$0.78/ha/year.

19. As noted, CONAFOR's costs of contracting participants are about US\$1.60/ha/year⁴⁹, without even considering opportunity costs, so selling carbon credits to a REDD mechanism at this price would be a losing proposition if carbon sales were the only benefit. These estimates, however, are based on avoided deforestation in the early years of the program, when deforestation risk was not a prioritization criterion (even now, it is only one of many). Efforts focused on areas at high risk of deforestation (such as the early action areas) are likely to yield much higher rates of avoided deforestation and reduced emissions. INE estimates deforestation among participants could have been reduced by 3.5 percent, rather than 1 percent, if areas at high risk of deforestation had been targeted. Benefits can also be increased by targeting forests whose loss would result in more emissions. In INE's sample, average emission reductions were about 170tCO₂/ha, but varied from about 113 tCO₂/ha to over 200 tCO₂/ha. There is thus very considerable scope to increase emissions reductions from the average of 3tCO₂/ha observed in the period up to 2007. While perfect targeting will never be possible, if it could be improved to the point that 1 in 10 enrolled hectares achieved the 170tCO₂/ha average emissions reductions,

⁴⁸ The transaction costs here are those of participating in the REDD mechanism (for example, to cover the cost of MRV systems), and not those of contracting with participants, already discussed above. As Mexico (and other countries) are still developing their REDD strategies, it is impossible to know at this stage how high their transaction costs might be. The Scolel Té carbon project in Chiapas (which sells to the voluntary carbon sequestration market) has transaction costs of about 40 percent (Tipper, 2002), but a nationwide program would probably have much lower costs because of economies of scale.

⁴⁹ In addition to the costs of participating in the REDD mechanism itself, but these have already been allowed for by discounting the price received, see previous footnote.

the average benefit from carbon payments alone, net of the costs of participating in the REDD mechanism, would come to US\$68/ha, or US\$4.5/ha/year over 30 years at 5 percent interest rate.

20. The activities to be undertaken under component 3 are precisely intended to learn how to generate such improvements in targeting, so that a long-term REDD strategy might be designed that generates more emissions reductions from the application of each selected tool (whether PES or other). Reaching the improved targeting levels on about 575,000 ha would be sufficient, at US\$5/tCO₂, to make the FIP investment of about US\$37 million economically attractive. As the current PSAB program cover 2.2 million ha, 575,000 ha represents only about a quarter of its area. The improved targeting could also be achieved through other tools, however, such as community forestry or protected areas, or combinations of tools. Moreover, these estimates are very conservative, as they assume that the improved targeting generates only carbon benefits. Any increase in the additionality of PSAB or other programs, however, would also generate greater water services and biodiversity benefits. Thus the threshold for the FIP investments under component 3 to be viable would be lowered further.

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Annex 7: World Bank Climate Change Engagement in Mexico

1. The Government of Mexico and the World Bank have a long-standing, deep engagement on climate change. This commitment encompasses the initial steps of international efforts to build a broad agenda. This engagement has progressed in recent years, with subsequent stages built on previous actions. The Bank's engagement in the field of climate change in Mexico currently comprises the full range of Bank instruments, including:

- a. *Knowledge Services*: providing advice on a range of development options to tackle climate change and acting as an incubator of innovation.
- b. *Financial services*: including investment lending, Development Policy Loans (DPLs) as well as CTF concessional financing, Global Environment Facility (GEF) and other grants. The Bank also provides credit enhancement, hedging swaps, catastrophe risk management and advisory services.
- c. *Convening and Coordination Services*: including knowledge sharing, event organization and high-level coordination.

2. Four stages of climate change engagement between the Bank and Mexico can be distinguished: (i) Foundations; (ii) Early Support; (iii) Strengthening; and (iv) Consolidation.

3. **During the first stage, *Foundations (before 1999)***, Bank support was focused on small investment projects in the waste, transport and forest management areas. Moreover, with the launch of the GEF in 1991, Mexico gained new opportunities for grants on projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. Although climate change was not explicitly included in the programs, this laid the foundations of the climate change engagement between the Bank and Mexico, leading to the creation of the Mexican Office for Greenhouse Gas Mitigation in 1999.

4. **The second stage, *Early Support (1999–2007)***, corresponds to Mexico's ratification of the Kyoto Protocol, which led to the establishment of a national strategy and sectoral committee on climate change issues. During this stage, support to the climate change agenda became explicit. The projects were mainly focused on specific sectors such as clean transport, waste management and energy provision. The Bank's leading role in knowledge on climate change was recognized by a series of Knowledge Services and represented a new relationship with the Government, going beyond traditional financial services.

5. **In the third stage, *Strengthening (2007–2010)***, Bank support was focused on cross-sectoral strategies to address climate change and was closely related to the National Climate Change Strategy. The flagship of this period is the *Climate Change DPL* (US\$501 million) which was presented to the Board for its approval jointly with a new Country Partnership Strategy. In this stage, the analytical and knowledge activities continued to increasing,

evidencing the Bank's technical expertise on climate change. One of the key activities developed during this stage was the preparation of the Clean Technology Fund Investment Plan, which provides support for the low-carbon growth objectives in Mexico's 2007–2012 National Development Plan, Climate Change Strategy and Special Climate Change Program. Preparation of the Investment Plan was led by the GoM and the Bank, in partnership with the Inter-American Development Bank and the International Finance Corporation.

6. In the fourth and current stage, *Consolidation* (2010–), the focus has been on mainstreaming mitigation and adaptation to climate change across sectors and levels of government. Some of the key instruments that were deployed and are underway include:

- a. The Urban Transport Transformation Program (2010), which combines various Bank instruments, contributes to the transformation of urban transport in Mexican cities toward a lower carbon growth path and improves the quality of urban transport systems.
- b. The Green Growth DPL (US\$1.504 billion), which recognized and supported the cross-cutting mitigation measures embedded in the objectives of the Special Program for Climate Change (PECC).
- c. The Low-carbon DPL (2010) in the amount of US\$401 million, which recognized and supported the Government's reforms and implementation of policies and programs under the PECC. This DPL included the energy, transport, urban housing and forestry sectors and was informed by the flagship Low-carbon Study (MEDEC, P108304).
- d. The Subnational Climate Change Program (2010–), which is composed of a series of activities including the Subnational Climate Change Plans, the Local Sustainable Development and the Cities Alliance Grant, to help develop municipal climate change strategies.
- e. These are complemented by an Engagement in the Water Sector and Climate Change, which defines an integrated series of instruments, including the Adaptation to Climate Change in the Water Sector DPL.

7. The ongoing and planned activities for FY12 and FY13 will consolidate the engagement through incorporation of new sectors and instruments, with activities :

- a. The Social Resilience to Climate Change DPL (FY12) seeks to reduce the impacts of climate change on the poor through policies to (a) promote sustainable territorial development and reduce vulnerability to natural disasters; (b) strengthen long-term climate change adaptation planning; and (c) implement pro-poor climate change measures in the forestry sector.
- b. The Ecosystems Adaptation DPL (FY13), which will be built upon the Social Resilience and Climate Change DPL and will support policy actions that build resilience through ecosystem-based adaptation, simultaneously addressing challenges of climate change adaptation and protecting biodiversity and landscapes that are essential for human well-being and provide economically valuable services.

- c. Other future activities include the Hydrometeorological Service Specific Investment Loan (FY12), the Climate Change Public Expenditure Review (FY12) and the Energy Efficiency (Supply-side Management) Investment Loan (FY13).
- d. The Forest and Climate package of collaboration, composed of the FCPF Readiness fund and Carbon Fund, the forestry pillar of the Social Resilience DPL, the proposed SIL and FIP investment operation, and PROFOR grants for advisory services.

Annex 8: Lessons Learned from Previous Projects and REDD+ Engagement

1. The design of the proposed project has been enriched from lessons and recommendations from several previous initiatives. This annex reviews the achievements and lessons learned in the Community Forestry Program (PROCYMAF), Community Conservation Project for Biodiversity (COINBIO) and the Environmental Services Project (PSA). The instruments developed and challenges faced by both projects are also reviewed.

2. **Main achievements of PROCYMAF.** The PROCYMAF Program initiated as a Bank pilot project to help forest communities and *ejidos* to improve the management and conservation of their forests, and generate alternative sources of income in a sustainable manner. The project was highly successful and promptly expanded from one to three states during its first phase (1997-2003). The Bank continued its support to the GoM by approving a loan for a second phase (2004-2008), which refined its instruments of assistance and expanded its coverage to three additional states.

3. The project introduced and enforced a new paradigm of government interventions in the forest sector, which recognized that communities had the right to manage their own forests as common pool resources, based on their collective governing and customary institutions, traditions and bylaws. This in contrast to the a previous model of concessions where the government and the private sector managed forests and controlled assets, paying communities a small stumpage fee that did not reflect the real value of timber.

4. Project design recognized the important value of social capital for community forestry and introduced mechanisms to create and strengthen such capital at different hierarchical levels (e.g. individual communities, horizontally among communities in a particular region, and vertically by linking local communities with second and third level organizations and federal government institutions). New forms of social capital emerged as alternative ways of government agencies to engage with community organizations were developed.

5. The project conditioned its support to communities that had a minimum level of organization and governing structures. It relied in community institutions where decisions were made democratically, transparently and based on statutes or bylaws that regulated the use of common pool natural resources and included sanctions that were truly enforced. When these conditions were not met, the project did not financed investment subprojects, but assisted communities in developing such conditions.

6. At the regional level the project also helped to create Regional Participatory Committees, which integrated forest communities (and other relevant stakeholders like the private sector and technical private service providers) occurring in a specific geographical area. These new intermediate institutions, another form of social capital, facilitated the integration and unification of local producers giving them more power to negotiate timber prices, government support for

road infrastructure and other local investments, and a stronger voice to participate in second and third level organizations to influence sectoral policies.

7. The project introduced a typology of Community Forestry Enterprises (CFEs) that recognized four different levels of development. This typology was used to design *ad hoc* instruments and methodologies to assist communities in a differentiated manner according to their specific needs and conditions. An individualized and regular assistance was offered to communities by promoters paid by the project to assist communities as “forest extensionists” orienting them in every step of the way, from identifying a productive activity, selecting a technical service provider, executing a subproject, and conducting M&E activities.

8. The project also relied in the availability of local private technical service providers (PSTs) to assist communities in developing and implementing their productive initiatives. The project established a roster of certified PSTs and made it available to beneficiary communities, who chose to hire them based on their qualifications and experience. The government did not intervene in this selection as it occurred in the past. Communities not only now could select their own PSTs, but were also responsible to supervise and evaluate their work and performance.

9. Human capital was another crucial element of community development. Training to community members and PSTs yield important results, measured in terms of the more active participation of community members in forest management activities, and an improvement of the quality of the services supplied by PSTs.

10. The project dedicated many efforts to build and strengthen social capital and technical capacities by using a variety of instruments and methodologies, which were designed and applied with a participatory approach. Some of these instruments included the Participatory Rural Evaluations, Community Zoning Plans, Forest Management Plans, community to community activities, and development of community statutes and bylaws.

11. Communities assisted by Procymaf, not only improved the management of their forest resources and expanded the benefits coming from them, but also developed the capacity to leverage funds from other programs, both from CONAFOR and from other government agencies. An example of this was the access to the Payment for Environmental Services (PES) program, where 206 communities received an estimate of MX\$395 million, and covered close to 300,000 ha (about 30 percent of PES subprojects were the direct result of Community Zoning Plans which identified eligible areas for this program).

12. **Main achievements of PSA** Financed through a \$45 million IBRD loan and \$15 million GEF grant, the Environmental Services Project in Mexico aimed to enhance the provision of environmental services of national and global significance and secure their long-term sustainability. Furthermore, the project also contributed to the protection of biological diversity and globally significant forest and mountain ecosystems in Mexico. The project was approved on March 29, 2006 and closed on June 30, 2011 after a five year successful implementation.

13. This project also contributed in establishing an endowment fund to finance PES schemes for conservation of biodiversity of global significance where other sources of financing do not

exist. Over its duration, this successful project has resulted in at least 500,000 additional hectares under environmental service contracts (from existing sources) that contribute to increased hydrological, biodiversity conservation and carbon sequestration services. As many as 53 proposals for carbon sequestration projects have been submitted to PRONATURA for its possible commercialization. A project in Oaxaca has managed to commercialize 78,821 tons of Carbon in a surface of 2,973 ha from 2008 to 2011. In addition, about four stand-alone local PES mechanisms for contracting (buying and generating) environmental services in priority areas are being supported and are currently working, in Cuenca del Rio Pixquiac, Veracruz; Fabricas de Agua Centro de Sinaloa; SAS Veracruz and Cuenca del Alto Nazas Irritila.

14. At a global benefits level, the project resulted about 317,265 hectares of biodiversity contracts which includes of forests and other natural ecosystems of global biodiversity significance under effective conservation (protection and sustainable management) by landowners. At the end of the project, about 5409 PES contracts to conserve forests or other natural ecosystems are current, counting only the hydrological contracts, which are all for forest conservation.

15. **Challenges for PROCYMAF and PSA** Both projects proved to be most effective in areas with higher levels of natural capital (e.g. timber, and non timber products and services), and where a minimum level of social capital was present. In areas where the natural capital had been degraded, was not present or had small commercial value; and in communities where social structures and governing institutions were weak or deteriorated, the project was less successful.

16. The instruments developed by PROCYMAF are labor and budget intensive and requires well equipped and technically sound local implementing units, which can offer individualized, constant, and tailor-made assistance to beneficiary communities. The project was designed as a pilot operation to generate new experiences to influence forest policies and programs in support of community forestry. The expansion and scaling up of the instruments developed by PROCYMAF needs to be carefully targeted to selected priority areas where adequate social and natural capital conditions are present.

17. The project was also limited in its ability to promote community to community, or community to private company associations and joint ventures. This is an important step that CFEs – particularly those that are less developed- need to take in order to increase their scales of production, integrate more vertically in productive chains, add value to their products and become more efficient in a forest products markets that continue to emerge and become highly competitive. The project also came short in identifying and implementing other strategies to improve competitiveness of CFEs in these emerging markets.

18. More efforts could have been directed to expand opportunities to youth and women's groups, and residents of communities with no formal rights (*avencindados*). The project financed the establishment of small enterprises to be managed by women (e.g. water bottling plants and commercialization of non-timber products) that were successful but limited in scope. Little was done, however with youth groups and *avecindados*.

19. Among the main challenges faced by the PSA Project was balancing the definition and enforcement of clear operational procedures and eligibility criteria, with a flexible project approach, which allows for more targeted site-specific approaches. The PSA project implemented differentiated payment schemes in order to account for both the magnitude of the benefits to be achieved through conservation and the costs of that conservation.

20. Another important challenge was to incorporate poor and marginalized groups as service providers, which requires significant investments on training and capacity building for less-organized and deprived *ejidos*.

21. **Lessons from PROCYMAF** One of the most important contributions of the project was to demonstrate that indigenous and non-indigenous forest communities were capable of conducting a sound management of their collectively owned forest resources for the small to medium size production and commercialization of forest and non-forest products sustainably.

22. Social capital at different levels (e.g. community, regional organizations) is a central element in the development for community forestry initiatives leading to the sustainable management and conservation of forest resources of collective ownership. Despite the difficulties of assessing social capital, the project was successful in this regard by using proxy indicators such as formal community bylaws, levels of participation in assembly meetings, community zoning plans, and engagement in community to community activities.

23. The inclusion of large areas under different regimes of forest planning and management contributes to forest conservation and environmental sustainability. The project facilitated the expansion of sustainable land management through its zoning, forest management and conservation plans.

24. Community Zoning Plans are excellent tools for communities to bring focus on their development and conservation efforts while facilitating access to other donor and government programs, including Payment for Environmental Services and more recently REDD+.

25. Promoting linkages among sectors, themes, and institutions can foster greater impacts in the forest sector. Forestry has links to many other sectors (e.g. agriculture, water, environment and conservation). Understanding this links and improving communication with key agencies can help to guide development of the forest sector and foster greater impacts.

26. **Lessons from the COINBIO project.** Decentralized management models including multiple levels of governance are difficult to implement in the short-term, however they generate large gains from a governance point of view over the long-term. Decentralized management and a strong focus on participation from stakeholders create the best long-term impacts. Participation in decision making during execution also increases the likelihood that activities will be sustainable following project closure, as ownership by stakeholders is increased.

27. Social capital is an important result of investments but difficult to quantify under traditional economic and financial analysis methods. Proxies or models must be found to highlight the value of the gains. Traditional economic valuation methods of internal rate of return

and net present value do not always capture the value of generating social capital. Investments that do not generate directly measurable financial returns must be measured indirectly. New tools are needed to help analysts cope with these demands, which are of increasing importance.

28. Community conservation projects can serve as a focal-point for organization and breaking cycles of conflict within communities. Many communities face internal conflicts related to land disputes, politics, financial management, and leadership while others may suffer from a breakdown in social cohesion and focus for development. The conservation model and approach promoted by the project generated a relatively non-controversial theme for communities to focus on, and helped to reinvigorate their dialogue and cooperation in other community matters.

29. Demand-driven approaches are more effective when community organizational capacities are relatively high. Demand-driven approaches place much of the burden on communities to prepare their presentations, paperwork, legal documents, while also requiring specialized technical assessments and assistance. However, when target communities have very limited capacity, the learning curve can be quite high, and can delay implementation. This is especially problematic, when short implementation periods are required or expected.

30. **Lessons from PSA** The successful results obtained with implementation of the PSA project could be attributed in part to the incorporation of lessons learned from previous experiences in Mexico (PSAH and CABSAs Programs) and elsewhere (Costa Rica Ecomarkets). The following lessons learned with the implementation were instrumental in the design of the proposed project:

31. *High-level government buy-in.* High-level government commitment and substantial budgetary allocations was crucial for the PSA project success. The support from reputable members of the academia and the studies conducted provided credibility to the program and helped secure SHCP buy-in as well as from the large majority of the entire chamber of the legislative branch, which guaranteed continuity and expansion of CONAFOR's budget and supported the necessary adjustments in legislation.

32. *Establishment of strong interinstitutional arrangements.* The Program expanded and created new arrangements for creation of local site-specific mechanisms for payment for environmental services involving state and municipal governments and the private sectors. The National Water Commission (CNA) became a champion for creation and implementation of these local mechanisms, which has contributed the expansion of the project well beyond the original target areas. The PSA project also created alliances with biodiversity conservation institutions (FMCN, TNC, Rare) for promotion and strengthening of the local beneficiaries associations.

33. *Development of robust monitoring and evaluation.* The credibility of environmental services programs relies not only on fiduciary monitoring but mainly on quantification of the actual impacts of environmental services. The PSA Project developed a monitoring and evaluation system which includes definition of baselines, regular monitoring of vegetation cover with remote-sensing technologies, and intense field work for evaluation of environmental and

social impacts. The system needs to be refined and improved to accommodate for the expansion of the current program under the new operation.

34. **Contributions to a new operation** The new operation is capitalizing on the strategies, instruments and methodologies generated by PROCYMAF in its more than 10 years of existence, and by the five years of PSA implementation. Programs like this can be used as “arrow head” that first intervenes in a selected area to strengthen social and human capital and prepares the ground for further investments by CONAFOR’s programs (e.g. PRODEFOR, *Cadenas Productivas, Pagos por Servicios Ambientales*), as well as other government programs.

35. The initial support and guidance offered to communities to conduct Participatory Rural Evaluations, Community Zoning Plans, and Community Statutes and bylaws, have proven to be not only desirable but a almost a condition for the successful implementation of most of the Pro Árbol programs. As mentioned above, the PSA project has been one of the most benefited since communities have used their Zoning Plans to identify eligible areas for payment. Communities reaching this level of development would also be the desirable candidates to implement REDD+ activities in the targeted priority regions that would be supported by Component 3 of this project.

36. **Lessons Learned from Early REDD+ Initiatives Globally.** Some of the lessons learned from early REDD+ initiatives worldwide are summarized in the following paragraphs:

37. *Stakeholder participation.* Countries are now grappling with how to operationalize the inclusion of stakeholders in REDD+ policy and implementation, raising new issues of control over resource management and the respective decision making processes.

38. *Cross-cutting challenges.* REDD+ presents new challenges in sectoral coordination that may be solved by embedding the REDD+ strategy in overarching policy frameworks and by mobilizing decisive political will.

39. *Timing.* REDD+ needs some time, some space, and some flexibility to be fairly experimented with over the next few years. REDD+ requires financial resources, skilled staff, and institutional capacity to come together in a timely manner. Political timing is also key to sustain progress made.

40. *Learning from previous experiences.* While REDD+ may be a new concept, its success will depend on how it can integrate existing instruments and lessons learned to form new policy approaches that allow effective management of natural resources and sharing of benefits and burdens.

41. *REDD+ is about financial incentives and governance.* Early experiences confirmed that two key challenges facing the success of REDD+ will be. The first one is that other forms of land use are often more valuable than forests in the near and medium term. The second is the inability or lack of implementation of existing legislations and regulations to halt deforestation and degradation.

42. *National scope with sub-national and local implementation works.* REDD+ offers magnitude and scope that were not possible under project-based approaches. A national-level accounting framework would overcome problems associated with project-level implementation like leakage and additionality, while also allowing a range of sub-national activities to take place.
43. *Partnership.* A partnership among sometimes contentious stakeholders in tropical land use can find ways to communicate and explore highly policy-sensitive topics, if it builds trust and willingness to share new ideas.
44. *Methodological issues.* Addressing methodological issues such as reference level and measurement, reporting and verification (MRV) is a key entry requirement for REDD+ programs. In the absence of clear policy guidance from the international level and price signals for REDD+, countries could embark on a no-regrets stepwise approach to begin building capacity.
45. *REDD+ funding.* Early initiatives to finance REDD+ have illuminated a paradox: In spite of the high level of international commitments to REDD+ funding, the mechanics of multilateral programs to move resources to REDD+ partner countries require due diligence and safeguards that improve the quality and inclusiveness of the REDD+ efforts but tend to slow the flow of funds to countries.

Annex 9: Forest Investment Program

- 1. The Forest Investment Program (FIP).** The Forest Investment Program is part of the Climate Investment Fund.⁵⁰ It supports developing countries' REDD+ efforts to reduce deforestation and forest degradation and promotes sustainable forest management that leads to emission reductions and the protection of carbon reservoirs. The FIP achieves this by providing up-front bridge financing for readiness reforms and fostering public and private investments identified through national REDD+ readiness strategies. The FIP takes into account country-led priorities and strategies for the containment of REDD, while building on existing forest and related initiatives. It promotes programmatic investments aimed at transformational change in the forest sector and/or sectors affecting forests. Primarily, FIP funded activities will finance efforts to address the underlying causes of deforestation and forest degradation.
- 2.** Mexico was selected as a FIP pilot country in July 2010. In June 2011, the FIP Sub-Committee proposed allocating to Mexico US\$ 32.16 million in grant and US\$ 27.84 million in concessional finance, for a total of US\$ 60 million. CONAFOR is the operational coordinating agency for the Government of Mexico. The Government of Mexico selected the IBRD as the coordinating MDB, considering CONAFOR's longstanding collaboration with IBRD in forestry, climate change, and the REDD agenda.
- 3.** In addition to the eight pilot countries' allocations, the FIP tentatively set aside US\$50-75 million to provide direct support to Indigenous Peoples and Local Communities. The purpose of this Dedicated Grant Mechanism (DGM) is to ensure *“the full and effective, continuous participation of indigenous peoples and local communities in the design and implementation of FIP investment strategies... This participation will be highly dependent on strengthening the capacity of these groups to play an informed and active role in national REDD+ processes in general and FIP processes in particular, as well as on recognizing and supporting their tenure rights, forest stewardship roles, and traditional forest management systems.”* Currently, the FIP Subcommittee is finalizing the design and operational modalities of the MDG
- 4. The Mexico FIP Investment Plan.** Building on the analytical work carried out under the REDD+ Readiness process, the FIP Investment Plan presents the immediate or direct and respective underlying causes of deforestation and degradation, as a starting point to design priority interventions for FIP funding in Early Actions in priority areas. Table 1 summarizes the underlying and the direct causes of deforestation and degradation, and the proposed mitigation measures.
- 5. Opportunities for greenhouse gas abatement in Mexico.** In 2010, the National Institute of Ecology identified various activities in Mexico's forest sector with an emission reduction potential of 58 million tons of CO₂e for the year 2020 and 96 million tons for the year 2030. These projections indicate that the forest sector in Mexico would be a net sink in the year 2022.

⁵⁰ <http://www.climateinvestmentfunds.org/cif/node/1956>

The FIP investment plan is expected to become a strategic instrument that would contribute to both generate an enabling environment for these activities and meeting this target⁵¹.

⁵¹ Semarnat/INE (2010) Potencial de mitigación de gases de efecto invernadero en México al 2020 en el contexto de la cooperación internacional;

Table 1. Main Causes of Deforestation and Forest Degradation in Early Action REDD+ Areas - Mexico's FIP Investment Plan

Forest Type	Underlying Causes	Direct Causes	Potential Mitigation Measure
Tropical dry forests	<p><i>Economic</i></p> <ul style="list-style-type: none"> • Low profit margin of forest management. • Limited access to financial services for local (Ejidos) and indigenous community forest management. <p><i>Policy and Institutional</i></p> <ul style="list-style-type: none"> • High transaction cost due to forest regulatory compliance. • Leakages and perverse incentives for agriculture and livestock production. <p><i>Social</i></p> <ul style="list-style-type: none"> • Informal land leasing and sharecropping practices in local and community forestlands. 	<ul style="list-style-type: none"> • Forestland conversion to subsistence food production in transition to pasture for extensive livestock for meat production in local and indigenous communities and small landholdings. • Forestland conversion for agro-industry (agave). • Forest degradation for extensive livestock grazing in local and indigenous communities lands. • Forestland conversion due to urban development; infrastructure for human settlement. • Forest degradation due to illegal logging and over-exploitation for fire-wood and charcoal production. 	<ul style="list-style-type: none"> • Agriculture and livestock policy, legislation and program implementation review and short and midterm recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Review of and recommendations regarding forest regulations; review and simplification of forest control and supervision procedures to reduce transaction costs and promote environmental best practices. • Cooperative agreements between rural government agencies for sectoral policy alignment and implementation, and multi-sectoral action to implement integrated sustainable agriculture, livestock and forestry programs in forest landscapes. • Establishment of the Landscape Management Entity to coordinate technical assistance programs, financing, land use programs, sustainable forest management and ejidal and indigenous community development. • Design and implementation of multi-sectoral development programs, support for financial services and promotion of sustainable agriculture, livestock and forestry production systems with emphasis on low impact tillage, agroforestry, silvo-pastoral practices, agro-ecology techniques. • Identification and promotion of best practices for non-timber forest products extraction (natural fiber and bromelias). • Socio-economic analysis of the "Avecindados" and landless peoples and recommendations for preventing environmental impacts from informal access to natural resources use.
Tropical moist forests	<p><i>Economic</i></p> <ul style="list-style-type: none"> • Low profit margin for forest management. • Limited access to financial services for Local (Ejidos) and Indigenous community forest management activities associated to lack of productive infrastructure and limited 	<ul style="list-style-type: none"> • Primary and secondary forests conversion due to commercial and agro-industry expansion (sugar cane, agave, jatropha, palm oil, coffee, etc.) in local and indigenous communities, and small landholdings. • Primary forest conversion due to pasture expansion for extensive 	<ul style="list-style-type: none"> • Agriculture and livestock policy, legislation and program implementation review and short and midterm recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Review of and recommendations regarding forest regulations; review and simplification of forest control and supervision procedures to reduce transaction costs and promote environmental best practices.

	<p>technical assistance.</p> <p><i>Policy and Institutional</i></p> <ul style="list-style-type: none"> • Sectorial assistance programs for agro-industry that contribute indirectly to deforestation and degradation. • Limited government capacity for forest control and supervision. • High transaction cost due to forest regulatory compliance. • Tourism and urban development policies and lack of appropriate law enforcement and environmental safeguards. • Lack of compliance and law enforcement by State and Municipal governments related to urban and tourism development. <p><i>Social</i></p> <ul style="list-style-type: none"> • Weak indigenous and local community organizational structure and limited technical capacity for forest management. 	<p>livestock grazing in local and indigenous community lands and small landholdings.</p> <ul style="list-style-type: none"> • Degradation of primary and secondary forests due to selective harvesting and over-exploitation of high value timber and non-timber species in local and indigenous community lands and small landholdings. • Degradation of primary forests due to over-exploitation and unsound forestry practices as consequence of community-forest industry standing timber logging contracts. • Conversion of mangroves and flooded forests due to tourism and urban development infrastructure in coastal ecosystems of the Yucatan Peninsula and Jalisco. 	<ul style="list-style-type: none"> • Technical assistance and financial services programs for supply chain development and added value incorporation to forestry production. • Cooperative agreements between rural development government agencies for sectoral policy alignment and implementation, and multi-sectoral action to implement integrated sustainable agriculture, livestock and forestry programs in forest landscapes. • Establishment of the Territorial Management Entity to coordinate and facilitate technical assistance action and financial services for the SFM. • Technical assistance and financial services programs for supply chain development to promote added value incorporation to forestry production. • Implementation of simple verification systems for securing legal origin of timber to prevent illegal activities in forestry operations and related trade. • Indigenous and local community promoter participation in monitoring community-forest industry logging contracts to prevent unsound socio-economic and environmental practices. • Design and implementation of communication programs about market information of forest products. • Development of the National Forest Certification System. • Conservation status analyses of high commercial value timber species and identification of lesser-known species. • Environmental and socio-economic analysis for short and midterm recommendations to prevent and mitigate urban and tourism infrastructure development • Strengthening and promotion of Payments for Environmental Services initiatives.
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<p>Temperate pine forests</p>	<p><i>Economic</i></p> <ul style="list-style-type: none"> • Low profit margin for forest management particularly in local and indigenous forestlands. <p><i>Policy and Institutional</i></p> <ul style="list-style-type: none"> • Sectorial assistance programs for agro-industry that contribute indirectly to deforestation and degradation. • High transaction cost due to forest regulatory compliance. <p><i>Social</i></p> <ul style="list-style-type: none"> • Weak indigenous and local community organizational structure and limited technical capacity for forest management. • Deficient organizational development and business administration of local and indigenous community organizations. 	<ul style="list-style-type: none"> • Deforestation of primary and secondary forests for commercial agriculture in local and indigenous community forestlands and small land holdings. • Degradation of primary and secondary forests due to selective and over harvesting of timber and non-timber forest products. • Degradation due to illegal logging and over-exploitation of timber and firewood collection. 	<ul style="list-style-type: none"> • Agriculture and livestock policy, legislation and program implementation review and short and midterm recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Review of and recommendation regarding forest regulations; review and simplification of forest control and supervision procedures to reduce transaction costs and promote environmental best practices. • Implementation of simple verification systems for securing legal origin of timber to prevent illegal activities in forestry operations and related trade. • Indigenous and local community promoters participation in monitoring community-forest industry logging contracts to prevent unsound socio-economic and environmental practices. • Capacity building programs on forest management and support for financial services and technical assistance programs for community forestry. • Promotion and strengthening of Payments for Environmental Services initiatives.
<p>Temperate deciduous forests Oak</p>	<p><i>Economic</i></p> <ul style="list-style-type: none"> • Low profit margin for forest management particularly in local and indigenous forestlands. • Rural unemployment and under-employment and severe poverty. 	<ul style="list-style-type: none"> • Deforestation due to agriculture and extensive livestock for meat production in local and community forestlands and small holders. • Forest degradation due to illegal and informal logging practices in community and local lands. • Forest degradation due to extensive use of natural pasture for livestock grazing. • Forest degradation due to unsustainable firewood collection, charcoal production in local and 	<ul style="list-style-type: none"> • Agriculture and livestock policy, legislation and program implementation review and short and midterm recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Establishment of mechanism for cooperation agreements that facilitate sector development, policy alignment and integrated multi-sectoral implementation of sustainable agriculture, forestry and livestock production. • Technical assistance and financial services programs for value chain development. • Technical assistance programs for sustainable firewood collection. • Implementation of secondary forest enrichment and establishment of local woodlot programs for sustainable firewood production. • Promotion and strengthening of Payments for

	indigenous community lands.	Environmental Services initiatives.
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Table 2. Logic model of the FIP Mexico Investment Plan

Global – CIF Final Outcome (15-20 years)	Improved low carbon, climate resilient development			
Mexico Transformative impact (10-15 years)	Core objective: Reduced GHG emissions from deforestation and forest degradation, and enhanced forest carbon stocks contributing to achieve the net zero national 2020 target*			
	Co-benefit objective 1: Reduced poverty in indigenous and local communities through increased incomes from sustainable forest landscapes management and productive mosaics		Co-benefit objective 2: Reduced loss in biodiversity and services, and increase resilience of forest landscapes to variability and climate change	
Mexico Catalytic Replication Outcomes (5-10 years)	Reduced deforestation and forest degradation and enhanced conservation through forest landscapes management			
	Increased direct management of forest landscapes by indigenous and local communities	Improved enabling environment for REDD+ and sustainable management of forest landscapes including Territorial Management Entities	Access to predictable and adequate financial resources, including results-based incentives for REDD+ and sustainable management of forests through direct investments and a dedicated financing line	
Mexico Program – FIP Outputs and Outcomes (2-7 years)	Forest and non-forest areas under sustainable management of natural resources in productive mosaics			
	Sustainable management of forests and forest landscapes to address the drivers of deforestation and forest degradation in the Early Action REDD+ Areas	An institutional and legal/regulatory framework that supports sustainable management of forest landscapes and protects the rights of indigenous and local communities in priority forest landscapes within the Early Action REDD+ Areas		New and additional resources for REDD+ implementation Leveraging increased other public and private sources of financing/investment
Mexico Program – FIP Activities (1-5 years)	Increased institutional and local capacity, and sustainable investment to address the direct and underlying drivers of deforestation and forest degradation in the Early Action REDD+ Areas			
	Investment within the forest landscapes, and launching a step wise approach for sustainable competitive productive mosaics	Investments on institutional capacity, forest governance, implementation of Territorial Management Entities and strategic evaluation platforms	Strengthening participation of indigenous and local communities in the overall forest landscape management and the strategic evaluation platforms	Create financing mechanisms targeted at low carbon activities which enable financial access to communities and <i>ejidos</i> and promote productive mosaics in forest landscapes
FIP Inputs: New and additional resources supplementing existing ODA flows for REDD+ and related strategies addressing different drivers of deforestation and forest degradation				

* Goal specified in Mexico's Vision for REDD+: <http://www.conafor.gob.mx/portal/index.php/cambio-climatico-y-bosques/1-proceso-de-redd-en-mexico/a-fcpf>

Table 3. Project-level indicators as proposed in the Mexico Forest Investment Plan and reflected in the SIL-FIP Result Framework (see [Annex 1](#)).

Expected Key results from the Implementation of the Investment Plan consistent with FIP Results Framework:	
Result	Success Indicator
Reduced pressure on forest ecosystems	<ul style="list-style-type: none"> a) Change in hectares (ha) deforested in project/program area b) Change in hectares (ha) of forests degraded in project/program area c) Amount of non-forest sector investments identified to address drivers of deforestation and forest degradation
Sustainable management of forests and forest landscapes to address drivers of deforestation and forest degradation	<ul style="list-style-type: none"> a) Increase in number of communities building social organization and generating income from sustainable production of forest goods and services
An institutional and legal/ regulatory framework that supports sustainable management of forests and protects the rights of local communities and indigenous peoples	<ul style="list-style-type: none"> a) Percentage of participating communities receiving support from new ATLS/ADLs [local entities that integrate REDD+ across sectors, levels, and territorially] b) Number of agreements between CONAFOR, SAGARPA, and States in support of REDD+
Empowered local communities and indigenous peoples and protection of their rights	<ul style="list-style-type: none"> a) Number of new community-based, economically viable, REDD+ focused initiatives with demonstrated potential for replication at scale
Increased capacity to address direct and underlying drivers of deforestation and forest degradation	<ul style="list-style-type: none"> a) A national strategy or action plan b) A national reference level(s) c) A robust and transparent national multi-scale monitoring system including subnational and community level components d) An information system on how safeguards are being addressed
New and additional resources for forest and forest-related projects	<ul style="list-style-type: none"> a) Increase in the proportion of coordinated financial resources being mobilized in Early Action REDD+ Early Areas

6. Mexico's track record in effective programs for mitigation and removals of greenhouse gas emissions, particularly during the last five years, is very encouraging. CONAFOR's programs have contributed to achieving reforestation and forest restoration of over 3 million hectares from 2007 and 2012, while the PES program has covered about 3.3 million hectares since its creation in 2003. These programs have made significant progress in increasing forest carbon stocks.

7. *Landscape approach.* One of the most challenging conditions to be faced by initiatives under Mexico's FIP Investment Plan is the tailoring of national policy implementation and investments for local level actions considering the very particular socio-economic, political and institutional conditions of targeted forest areas. To that end the initiative uses the forest landscape as the spatial unit for resource deployment and activities implementation. Forest landscapes are defined as forested rural spatial units together with productive mosaics. The spatial configuration of those forest landscapes are decided by the specific objectives related to natural resource management and sustainable rural development.

8. Throughout the implementation of all projects under the FIP and the design of investment and institutional mechanisms, particular attention will be given to indigenous peoples as well as gender issues. There are criteria and mechanisms to promote a greater social balance and inclusion of vulnerable groups in forest public policy, such as eligibility criteria and specific indicators being incorporated across the federal government agencies. FIP investments will reinforce such mechanisms.

9. **The FIP Logic Model as applied to Mexico.** In order to assist countries for monitoring and future evaluation of the impact, outcomes and outputs of FIP-funded activities, a Results framework was developed. The framework is intended guide pilot countries and MDBs in developing their results frameworks to ensure that FIP-relevant results and indicators are integrated in their own monitoring and evaluation systems at the country or the project/program level. The associated Logic model and set of suggested indicators was adapted to the Mexican context and was included in the Forest Investment Plan. The Logic Model (included in the table below), considers as a basis the outputs and outcomes of FIP projects and programs, but also expands them to the broader outcomes of catalytic replication at the national level, their transformative impact and the ultimate global outcome of improved low-carbon, climate resilient development. Some of these outcomes will only be realized in the long term, with only the program/project level outcomes and outputs expected to be achieved during the lifespan of FIP investments. See [Tables 2 and 3](#).

10. **Proposed FIP Projects, and integration of FIP Projects 1 and 2 into the broader Forest and Climate Change collaboration with the World Bank.** Specific investments identified in the FIP Investment Plan are clustered in four groups according to their potential to increase institutional and local capacity, and their potential to address the drivers of deforestation and forest degradation in the Early Action REDD+ Areas. The four FIP projects are listed in [Table 5](#) below. Projects 1 and 2 for a total of US\$42 million would be implemented with the World Bank, and Projects 3 and 4 for a total of US\$18 million would be implemented with the Inter-American Development Bank.

11. Mexico is currently developing with the IBRD a broader package of collaboration on Forests and Climate Change which make it possible to coordinate and integrate financial and non-financial instruments more effectively. The full package is described in [Annex 2, Section D](#). It includes the new IBRD loan, the Social Resilience DPL, Mexico's participation in the FCPF Readiness and Carbon Funds, and advisory services supported by the PROFOR program.

12. In order to maximize the transformative and innovative impacts of the FIP and to enhance synergies among REDD+ efforts, it was decided to integrate the proposed FIP projects 1 and 2 with the new SIL. Within this context, the FIP would provide the space and resources for innovation and local capacity building for REDD+. It would also inform the design of future national REDD+ strategies, and lay the foundation for future REDD+ programs. The FIP Investment Plan is fully in line with Mexico's proposal for REDD+ Readiness which is being supported by the Forest Carbon Partnership Facility (FCPF).

13. In that regard, FIP project 1 and 2 were mainstreamed into the IBRD investment operation linking it to two of the three components as described in [Table 4](#) below. A detailed budget breakdown is presented in [Table 6](#). Specifically:

- FIP Project 1 (Capacity Building for Sustainable Forest Landscapes Management) was mainstreamed into SIL subcomponents 1.1, 1.2, 1.3 and 3.2;
- FIP Project 2 (Mitigation Resilience and Sustainable Profitability in Forest Landscapes) was mainstreamed into SIL subcomponents 1.4 and 3.3.

14. The proposed integration of FIP projects 1 and 2 with the IBRD investment project offers direct opportunities for replication and scaling up of successful REDD+ models at national level. Indeed, Component 2 would support ongoing nationwide CONAFOR programs, while Component 3 would promote innovative REDD+ activities in two Early Action areas. The annual process of revision and improvement of the CONAFOR procedures that apply to Component 2, provide a straightforward mechanism to integrate successful REDD+ models that were tested under Component 3 into the large-scale programs supported under Component 2.

Table 4. Mainstreaming of FIP Projects 1 and 2 into Components 1 and 3 of the IBRD SIL

Component	Subcomponent	Grants	Loans	Project 1	Project 2
Component 1. Policy Design and Institutional Strengthening.					
	Subcomponent 1.1 Monitoring and Evaluation	2	0	y	
	Subcomponent 1.2 Policy Design, Participatory Processes, and Knowledge Sharing	5	0	y	
	Subcomponent 1.3 Strengthening of CONAFOR and Cross-Sector Coordination	1.66	0	y	
	Subcomponent 1.4 Improvement of Private Advisory Services to Communities	3	0		y
Component 2: Consolidation of Priority Community-Based Programs at National Level					
Component 3: Innovation for REDD+ in Early Action areas					
	Subcomponent 3.1 Policy Innovation and Cross-Sector Harmonization	0	0		
	Subcomponent 3.2 Building Capacities for Landscape-Level Forest Management	7	0	y	
	Subcomponent 3.3 Community Investments in REDD+ Early Action areas	7	16.34		y
TOTAL		25.66	16.34		

Table 5. Specific FIP projects, as outlined in the draft Investment Plan

Project	Activities
<p>Project 1. Capacity building for sustainable forest landscapes management</p> <p>Objective: Enable and promote policy and program implementation alignment for integrated multi-sectoral action in priority forest landscapes using the support of Territorial Management Entities and enhancing coordination mechanisms to effectively assist sustainable forest management to prevent deforestation and degradation and enhance forest carbon stocks.</p> <p>Budget: 15.66 million (grant) To be implemented with IBRD</p>	<ol style="list-style-type: none"> 1. Design and implement management models for sustainable productive landscapes. 2. Identify, promote and strengthen local development agents (ATLs, ADLs) in Early Action REDD+ Areas. This also includes mechanisms to enable funding, equipment allocation and training. 3. Create capacity within different levels of public agencies for integrated multi-sectoral policy and program implementation in productive rural landscapes. 4. Design innovative mechanisms for development policy, incentives and program alignment in Early Action REDD+ areas, including the use of special guidelines for forest programs. 5. Support participatory processes for indigenous, local communities and other relevant stakeholders in the management of forest landscapes. 6. Monitor results and strategic assessment of the Forest Investment Plan, including participatory mechanisms and documentation and dissemination of experiences.
<p>Project 2. Mitigation resilience and sustainable profitability in forest landscapes</p> <p>Objective: Promote investments in sustainable productive mosaics targeting local and indigenous community organizations, as well as small landholders in priority forest areas and along their value chains. Selected investments should be able to generate mitigation, increase resilience to climate change, increase the economic value of forest products and contribute to the sustainable economic viability of productive mosaics.</p> <p>Budget: 10 million (grant), 16.34 million (loan) To be implemented with IBRD</p>	<ol style="list-style-type: none"> 1. Invest in sustainable forest management primarily for local communities to improve supply and value chains, including but not limited to training, appropriate technology development, land and natural resource use; planning investments also include mechanisms for forest ecosystem service compensation, use of innovative conservation practices and landscape restoration, among others. 2. Strengthen organizational capacity, technical assistance for community-based enterprises, forest certification, etc. 3. Outside forest sector investments through alignment mechanisms and co-investments from other sectors to increase the value of productive mosaics by incorporating forests within other rural productive activities (agro-forestry, afforestation, reforestation, silvo-pastoral production systems, etc.).
<p>Project 3. Creation of a dedicated financing line for low carbon strategies in forest landscapes</p>	<ol style="list-style-type: none"> 1. Framework analysis: (a) analyze Financiera Rural's credit portfolio and project pipeline in order to identify potential activities within forest landscapes that may be eligible to receive

Objective: Create a dedicated financing line accessible to *ejidos* and other local communities and finance low carbon activities in forest landscapes.

Budget: 5 million (grant), 10 million (loan)
To be implemented with IDB

- financing for low carbon emission, and (b) market research to identify potential demand for local production.
2. Design and prepare financing strategies for low carbon community-based activities within forest landscapes that will in turn facilitate credit access to *ejidos* and other local communities: (a) design strategies taking into account existing local and national strategies; and (b) emphasize identifying and strengthening financial intermediaries within these forest landscapes.
3. Develop and train credit agents and promoters within Financiera Rural to identify and handle low carbon loans.
4. Promote, implement and monitor loans and related financial instruments.

Project 4. Strengthen the financial inclusion of *ejidos* and other local communities through technical assistance and capacity building for low carbon activities in forest landscapes

Objective: Establish a technical assistance facility to build local and indigenous community capacities to develop viable financial and technical proposals, and to develop basic business administration and entrepreneurial skills for sound community-based enterprises to meet REDD+ targets. This will help reduce the risks on the loan recipient side that other financial intermediaries are not willing or able to take, even if adequate financing instruments are developed.

Budget: 1.5 million (grant), 1.5 million (loan)
To be implemented with IDB

1. Identify *ejido* and other local community needs related to REDD+ projects and financial services.
2. Strengthen technical, administrative, institutional and financial capacity of community organizations to create bankable projects to support profitable social enterprises with high environmental and social co-benefits.
3. Develop community enterprises and economic integration of productive chains in forest landscapes with a low carbon approach.
4. Leverage additional financial resources by mobilizing other sources of funding from private investors.
5. Develop business models for promoting sustainable and productive low carbon activities in participating communities in forest landscapes.

Table 6. Tentative Breakdown of FIP resources (US\$42 million) within Components 1 and 3 of the proposed SIL-FIP operation

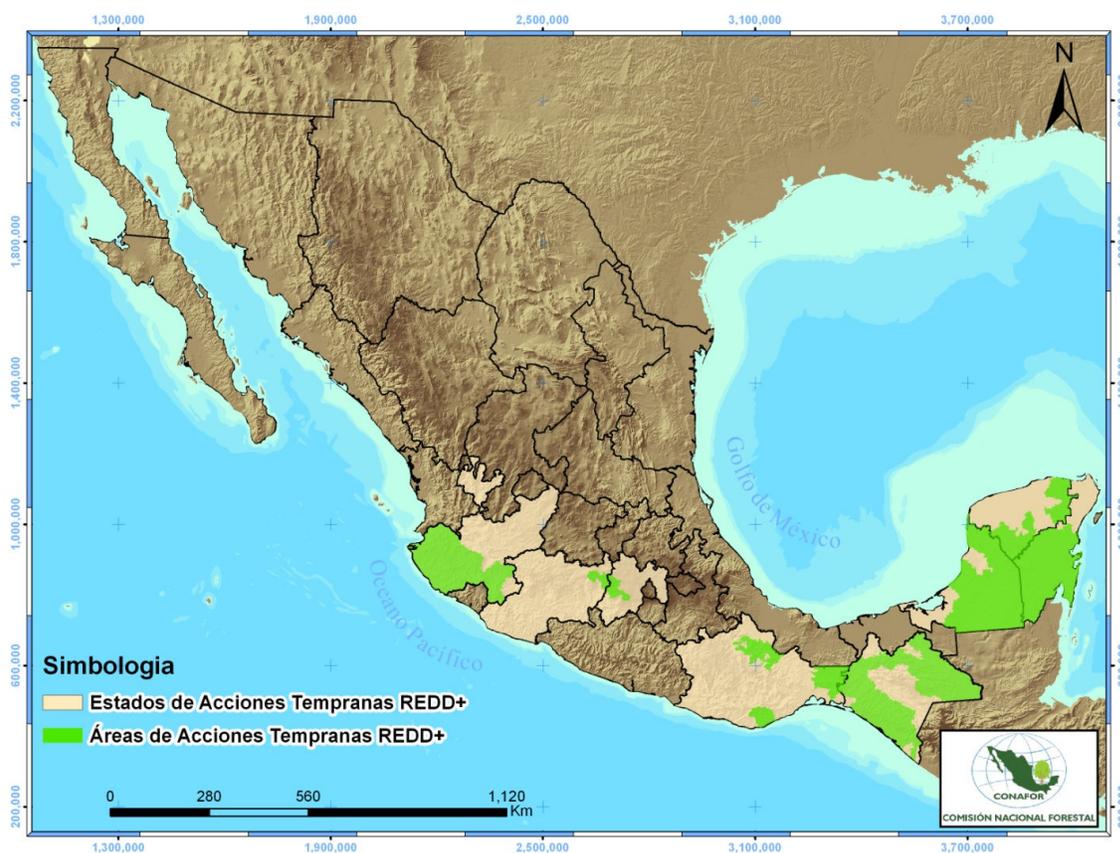
FIP financed Activities in Components 1 and 3 of the proposed SIL-FIP Operation	Amount	Category of Expenditure
Component 1: Policy Design and Institutional Strengthening – US\$11.66 million		
Subcomponent 1.1: Monitoring and Evaluation – US\$2 million (grant from investment plan project 1)		
<u>Activity 2.</u> Design of REDD+ MRV system in two Early Action Areas	2 m	Equipment, Studies Technical assistance
1. <i>Development of the baselines (carbon, social & environmental) and Monitoring of REDD+ social and environmental (in collaboration with CONEVAL)</i>	1	Consultant services Specialized staff Workshops
2. <i>Pilots of community-based REDD+ monitoring techniques</i>	1	Operating Costs
Subcomponent 1.2: Policy Design, Participatory Processes and Knowledge Sharing – US\$5 million (grant from investment plan project 1)		
<u>Activity 2.</u> Design of Innovative Policy Approaches for REDD+	1 m	
1. <i>Harmonization of forest and agriculture incentive programs</i>		Studies Technical assistance
2. <i>Adaptation of CONAFOR programs to REDD+ objectives</i>		Consultant services Specialized staff
3. <i>Design and promotion of landscape-level local development entities</i>		Specialized staff Workshops Operating Costs
<u>Activity 3.</u> Management of Socio-Environmental Impacts	3 m	
1. <i>Field surveys of social and environmental impacts of REDD+ pilots</i>	1	Training Study Tours
2. <i>Communication and Consultation with Indigenous Peoples and local communities (in Collaboration with CDI and other relevant partners)</i>	2	
<u>Activity 4.</u> Knowledge Management and Learning	1 m	
1. <i>Production and diffusion of knowledge assets related to REDD+</i>	0.5	
2. <i>Support of South-South REDD+ initiatives</i>	0.5	
Subcomponent 1.3: Strengthening of CONAFOR and Cross-Sector Coordination – US\$1.66 million (grant from investment plan project 1)		
<u>Activity 1.</u> Strengthening of CONAFOR	1.66 m	Equipment Training
1. <i>Rehabilitation of CONAFOR offices in two REDD+ Early Action areas</i>	1.66	
Subcomponent 1.4: Improvement of Private Advisory Services to Communities – US\$3 million (grant from investment plan project 2)		
<u>Activity 1.</u> Training and accreditation of private technical assistants	3 m	
1. <i>Training program for private service providers</i>	2	Consultant services Operating costs
2. <i>Operation of the new accreditation system</i>	1	

Component 2: Consolidation of Priority Community-Based Programs at National Level – US\$0		
This Component is financed by IBRD and GoM		
Component 3: Innovation for REDD+ in Early Action areas – US\$30.34 million		
Subcomponent 3.1: Policy Innovation and Cross-Sector Harmonization (for information, budgeted under component 1.2)		
<u>Activity 2.</u> Design of Innovative Policy Approaches for REDD+ <ol style="list-style-type: none"> 1. <i>Harmonization of forest and agriculture incentive programs</i> 2. <i>Adaptation of CONAFOR programs to REDD+ objectives</i> 3. <i>Design and promotion of forest landscape-level development entities</i> 	Budget included in Component 1.2	
Subcomponent 3.2: Building Capacities for Landscape-Level Forest Management – US\$7 million (grant from project 1)		
<u>Activity 1.</u> Building capacity of local development agents (ATL, ADL) and <i>Creation/strengthening of six inter-municipal associations in Early Actions</i> <i>Creation/strengthening of twenty NGOs in REDD+ Early Actions areas</i>	6 m 3 3	Equipment Training Technical assistance
<u>Activity 2.</u> Design of integrated REDD+ action plans at landscape level	1 m	TA, workshops
Subcomponent 3.3: Community Investments in REDD+ Early Action areas – US\$23.34 million (from project 2, US\$7m grant and US\$16.34m loan)		
<u>Activity 1.</u> Estimated 440 demand-driven grants to forest communities to pilot innovative REDD+ management models, using policy models and landscape-based capacities developed under Components 3.1 and 3.2. Represents 63 percent of FIP resources dedicated to the proposed SIL-FIP project.	23.34 m	Community grants
TOTAL FIP Resources for Components 1 and 2	US\$42 million	

15. **REDD+ Early Action Areas.** In Mexico, RED+ interventions should be designed to address the specific drivers of deforestation and degradation in each particular State or region. Mexico has proposed starting with a subnational approach, in priority areas known as REDD+ Early Action Areas. This operation would support two of the initial investment areas in the States of Jalisco and the Yucatan Peninsula (States of Yucatan, Campeche, and Quintana Roo) (See Map 1). In these areas, regional diagnoses of the drivers of deforestation will be undertaken, and specific REDD+ actions will be designed. Sub-national reference levels and forest monitoring systems will be designed in each area. This will need to be coordinated with relevant governmental and non-governmental organizations at the state and local level. Successful approaches and models would be expanded to Replication Areas (proposed in the States of Chiapas, Oaxaca, Mexico, Michoacán) and then at national level. This will allow investments to be shaped taking into account the diverse ecological and socio-economic conditions of the target areas.

16. The criteria for selecting the Early Action areas include: (i) potential for achieving emission reduction outcomes; (ii) potential for improving local population livelihoods and other socio-economic co-benefits; (iii) potential for achieving environmental co-benefits including biodiversity and watershed protection, (iii) implementation feasibility, including a critical mass of local partners and political support; and (iv) short term transformational impact useful for local and national scaling up strategies

Map 1. REDD+ Early Action and Replication areas as presented in the FIP Investment Plan.



17. **FIP as a key element of Mexico's REDD+ agenda.** The Mexico's Investment Plan builds on various ongoing efforts by the Mexican Government to be prepared for REDD+ implementation mechanisms in the country. REDD+ Preparatory work began with the development of the Readiness Preparation Proposal (R-PP) under the Forest Carbon Partnership Facility (FCPF), and continued with the design of the *Mexico Vision for REDD+: Towards a National Strategy*. Mexico's R-PP has been approved by the FCPF Participants Committee. It identifies the necessary actions to build a solid national REDD+ strategy with an effective participatory process and a strategic assessment of social and environmental impacts. Progress is being made in preparing the baseline, a MRV system, and other key elements of the REDD+ Readiness Package. These design efforts are sometimes referred to as REDD+ Phase I.
18. In the meantime, progress is being made in piloting new REDD+ governance models in priority landscapes and in testing new tools for measurement and monitoring of forests. The FIP Investment Plan, combined with the proposed IBRD operation, seeks to intensify Mexico's REDD+ design and innovation efforts, and to bring them into practice in the field. It aims to strengthen capacities and align policies for REDD+, to deliver reductions of carbon emissions along with environmental and social co-benefits, and to generate experiences and scalable models for future replication in Mexico and other parts of the world. The efforts are often referred to as REDD+ Phase 2, and will be supported by the proposed SIL-FIP operation and the forestry pillar of the Social Resilience DPL.
19. Mexico's vision is to achieve steady progress in the transition from Phase 1 (design) and Phase 2 (adjustment of policies and investments for capacity) toward REDD+ Phase 3 which would consist of payments for verified emissions reductions. Mexico is actively participating in the design of the FCPF Carbon Fund. It will seek opportunities to refine its institutional and financing arrangements and eventually engage in an Emissions Reduction Payment Agreement with the Carbon Fund.
20. The Readiness Preparation Plan for REDD+ and the REDD+ Vision document set out some important goals and principles. Some of the most notable principles are:
 - Sets out a goal of zero net emissions from forest land use change and a significant reduction in the rate of degradation by 2020.
 - It recognizes that deforestation and degradation factors are frequently out of the forest sector and that the most effective way to face these factors is with a territorial, cross-sectoral and sustainable rural development approach.
 - It commits to maintain and promote community management of forests, which is the most common form of forest ownership, by promoting the rights of indigenous and local communities.
 - Multiple co-benefits will be sought for the implementation of REDD+, including: poverty alleviation, biodiversity conservation, climate change adaptation, as well as other forest environmental services.

21. Given the cross-sectoral nature for REDD+, the REDD Vision was also endorsed by the Sustainable Rural Development Intersecretarial Commission. The Vision of Mexico on REDD+⁵² was developed through a participatory process involving civil society, the academic community and several government agencies. Mexico is currently elaborating its National REDD+ Strategy and will carry out an extensive consultation to inform the design of the strategy. The CTC-REDD was created as a multi-stakeholder and specialized space to analyze and provide feedback in the REDD+ process. The CTC was created in 2010 and it has been actively involved in the REDD+ policy-making process as well as the FCPF R-PP and the FIP Investment Plan. These participatory forums are expanding with the creation of CTC-REDDs at the state level in the Early Action areas.
22. **Risks and mitigation measures.** In addition to Section V.B and Annex 4, the following paragraphs highlight some of the risks and mitigation measures related to the implementation of the proposed FIP investment plan.
23. *Diversity of situations, national consistency.* The diversity of ecosystems and of social contexts in Mexico poses a challenge in terms of implementation capacity and participation of local stakeholders, and consistency in a national program. The design of REDD+ strategies, the MRV and the Reference Level pose technical challenges. REDD+ is a new and untested instrument and will be operated in a diverse national context. The preparation and implementation will necessarily involve a wide range of governmental and nongovernmental stakeholders, which will be added to the complexity of its coordination. The proposal to concentrate efforts in Early Action areas mitigates these risks to some extent. While Early Action area will develop its own processes, including the determination of reference levels, assessment and intervention schemes, the role of CONAFOR as the coordinating agency, and the additional support offered through of the readiness funds of the FCPF, will help ensure national consistency. The various forums for participation, especially the CTC at local and national level would also promote coordination and consistency of the emerging REDD+ approaches.
24. *Lack of harmonization of forest and non-forest policies.* The harmonization of policies across multiple government agencies and at various levels (federal, state, local) is not easy, with many legal, technical and political aspects. It is worth noting that the Vision of Mexico on REDD+ was supported by the Inter-secretarial Commission on Climate Change and by the Sustainable Rural Development Commission. The Vision was presented by the President of Mexico in Cancun, with the participation of both the Secretary of the Environment (SEMARNAT) and the Secretary of Agriculture (SAGARPA). This suggests that the process there is growing commitment for harmonizing policy objectives across sectors.
25. *Social and governance risks.* Mexico has a strong history implementing initiatives with indigenous peoples and other forest dependent communities, of which it is worth mentioning the PROCYMAF, PSA and COINBIO programs. These programs demonstrate the capacity to operate in several areas relevant for REDD+ nationally and at the local level, including the recognition of the rights of the Indigenous Peoples. However, the Government of Mexico

⁵² Disponible en <http://www.conafor.gob.mx/portal/index.php/cambio-climatico-y-bosques/1-proceso-de-redd-en-mexico/a-fcpf>

recognizes the need to further promote the full participation of civil society and other key actors, particularly indigenous and local communities. In addition, in the context of REDD+, it will be important to define carbon rights and benefit sharing mechanisms. These are new undertakings that may be subject to controversy. These mechanisms will be defined as part of the design of the National REDD+ Strategy and the SESA supported by the FCPF based on stakeholders' consultations especially Indigenous Peoples and other forest-dependent communities.

26. *Risks associated with land rights and resources.* The rights of land and resources are an issue of international concern in relation to REDD+. Over the several decades, Mexico has made important progress in establishing and securing community land rights, so the risks related to lack or unclear tenure rights are lower than in many other tropical forest countries. The Land Law provides the legal framework for ejidos and communities and outlines their internal structures and procedures. The ejido or community Assemblies, serve as a decision making body on land use on communal lands matters. Their internal rules regulate land use in detail. The specific land titles, both individual parcels and common lands within the ejido, are registered in the National Agrarian Registry. PROCEDA, a major agrarian reform program, issued certificates for parcels and for common lands in most of the ejidos and communities. The program concluded its work in 2006, with over 85 percent of ejidos and communities with certified land titles. There are regions with land disputes (demarcation boundaries between ejidos, and internal conflicts among ejidatarios). Such disputes can be settled with the mediation of the Procuraduría Agraria, or through the Agrarian Tribunals, or through out-of-court processes. The extent of land conflicts vary significantly between States. Most conflicts appear to affect only a portion of the land and many seem to find a resolution through out-of-court process. As part of the REDD preparatory phase, attention will be paid as to how a REDD+ mechanism will address pending land issues areas in the future. The proposed investment operation will only provide capacity building to communities with pending land issues.
27. **Expected Co-Benefits.** The proposed FIP investments are expected to generate important social, environmental, and institutional co-benefits, described in the following paragraphs.
28. *Social.* FIP activities included in the Priority Actions will focus on increasing community capacity and improving livelihoods of indigenous and local communities. The proposed FIP activities offer clear social co-benefits that will build self-reliance of community members and leaders engaged in local stakeholders platforms at the community and forest landscape level. Stakeholder platforms are expected to guide the implementation of integrated sustainable development programs based on environmentally sound productive activities in and outside of the forest sector. Sponsored low carbon impact agricultural and livestock practices are expected to contribute to improving the quality not only of natural resources management but also of livelihoods by providing increased local employment and income opportunities. Developing capacities include designing and implementing self-development plans at the community and landscape levels. Based on a pro-active strategy to promote integrated multi-sectorial actions and to incorporate forests in the productive mosaics, the implementation of self-development plans will prepare communities to practice resilience and adapt to climate change events and disasters. In order to successfully promote

community self reliance the Early Actions will sponsor activities targeting rural communities rather than individuals thus offering opportunities for leadership and benefit sharing and for including traditionally vulnerable community members such as women, children and the elderly.

29. *Environmental.* Consistent with the strong environmental commitments and policies of the Government of Mexico, FIP initiatives are expected to focus on investments that will highlight the benefits of hydrological services to ensure quality water for human consumption, for productive activities and for maintaining hydrological regimes. Community forestry, sustainable agricultural and animal husbandry production systems will contribute to healthy productive landscapes by using best practices for land and other natural resource planning and watershed management. These services will particularly benefit those women and children settled in vulnerable landscapes such as those found in the coastal areas and in downhill forestlands. Securing ecosystem connectivity through rural productive mosaics that include agro-forestry, afforestation, silvo-pastoral production systems and landscape restoration activities will increase forest, freshwater and coastal ecosystem resilience to climate change disaster events. These activities will also increase forest landscapes' biodiversity richness thus ensuring their capacity to improve the quality of environmental goods and services for the benefit of the local population.
30. *Institutional.* FIP sponsored activities will also focus on the establishment of Local Development Agents (ATLs, ADLs), cross-sectoral development bodies, together with new or existing Strategic Evaluation Platforms. In collaboration with municipal governments and other existing participatory schemes, the ATLs and ADLs and Strategic Evaluation Platforms would make up the cornerstone of local governance and the socio-economic development framework. Full stakeholder engagement, transparency and accountability will provide the basic local building blocks for the eventual low carbon development strategy. The ATLs and ADLs are expected to implement an integrated multi-sectorial agenda that includes technical assistance, capacity building and resource mobilization in support of environmentally sound development of local and indigenous communities within the targeted landscapes. The rules of engagement and participation for all stakeholders (particularly for the most relevant--those who own the forests--such as Ejidos and indigenous communities) are expected to foster opportunities for full democratic participation in policy, legislation and program implementation.