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Report No: PAD1975

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED STRATEGIC CLIMATE FUND - FOREST INVESTMENT PROGRAM
(SCF/FIP) GRANT

IN THE AMOUNT OF US\$6.00 MILLION

TO

RAINFOREST ALLIANCE MÉXICO-ALIANZA PARA BOSQUES A.C.

FOR A

MEXICO DEDICATED GRANT MECHANISM FOR INDIGENOUS PEOPLES AND LOCAL
COMMUNITIES PROJECT

August 23, 2017

Environment and Natural Resources Global Practice
Latin America and the Caribbean Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective August 16, 2017)

Currency Unit = Mexican Peso (MXN)

MXN 1 = US\$0.056

US\$1 = MXN 17.79

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CBA	Cost-Benefit Analysis
CDD	Community-Driven Development
CDI	National Development Commission for Indigenous Peoples (<i>Comisión Nacional para el Desarrollo de los Pueblos Indígenas</i>)
CFE	Community Forest Enterprise
CFM	Community Forest Management
CIF	Climate Investment Funds
CONAFOR	National Forest Commission (<i>Comisión Nacional Forestal</i>)
CPS	Country Partnership Strategy
CSO	Civil Society Organization
CTC	Technical Consulting Committee (<i>Comité Técnico Consultivo</i>)
DA	Designated Account
DGM	Dedicated Grant Mechanism
EMP	Environmental Management Plan
ENB	Beneficiary National Survey (<i>Encuesta Nacional de Beneficiarios</i>)
ESMF	Environmental and Social Management Framework
FCC	Forest and Climate Change
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
FIRA	Rural Development Bank (<i>Fideicomisos Instituidos en Relación con la Agricultura</i>)
FM	Financial Management
FOMIN	Multilateral Investment Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GSC	Global Steering Committee
IFR	Interim Financial Report
INEGI	National Institute of Statistics and Geography (<i>Instituto Nacional de Estadística</i>)
IP	Indigenous Peoples
IPF	Investment Project Financing
IPLC	Indigenous Peoples and Local Communities
IPP	Indigenous Peoples Plan

IRR	Internal Rate of Return
ISP	Implementation Support Plan
MDB	Multilateral Development Bank
M&E	Monitoring and Evaluation
NDC	Nationally Determined Contribution
NEA	National Executing Agency
NGO	Nongovernmental Organization
NPV	Net Present Value
NSC	National Steering Committee
OG	Operational Guidelines
PDO	Project Development Objective
PF	Process Framework
PMP	Pest Management Plan
PM&E	Participatory Monitoring and Evaluation
POM	Project Operational Manual
PROFOR	Program on Forests
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RF	Results Framework
SAGARPA	Ministry for Agriculture (<i>Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación</i>)
SCF	Strategic Climate Fund
SEMARNAT	Ministry of Environment and Natural Resources Management (<i>Secretaría de Medio Ambiente y Recursos Naturales</i>)
SFM	Sustainable Forest Management
SIIF	Integrated Financial Information System (<i>Sistema Integral de Información Financiera</i>)
SOE	Statement of Expenditures
SP	Standard Procurement
TOR	Terms of Reference
UNFCCC	United Nations Framework Convention on Climate Change

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MEXICO DEDICATED GRANT MECHANISM FOR INDIGENOUS PEOPLES AND LOCAL COMMUNITIES PROJECT

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PAD DATA SHEET

Mexico

Mexico Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (P151604)

PROJECT APPRAISAL DOCUMENT

LATIN AMERICA AND CARIBBEAN

Environment and Natural Resources

Report No.: PAD1975

Basic Information			
Project ID P151604	EA Category B - Partial Assessment	Team Leader(s) Carlos Tomas Perez-Brito, Katharina Siegmann	
Financing Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects [X]		
Project Implementation Start Date 02-Oct-2017	Project Implementation End Date 01-Feb-2022		
Expected Effectiveness Date 22-Dec-2017	Expected Closing Date 01-Aug-2022		
Joint IFC No			
Practice Manager/Manager Paul Jonathan Martin	Senior Global Practice Director Karin Erika Kemper	Country Director Gerardo M. Corrochano	Regional Vice President Jorge Familiar
Approval Authority			
Approval Authority Board/AOB Decision			
Recipient: Rainforest Alliance			
Responsible Agency: Rainforest Alliance			
Contact:	Edgar Gonzalez Godoy	Title:	Director General Rainforest Alliance Mexico
Telephone No.:	00525556877531	Email:	egonzalez@ra.org
Project Financing Data(in US\$, millions)			

<input type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee								
<input type="checkbox"/> Credit	<input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Other								
Total Project Cost:	6.00	Total Bank Financing:	0.00							
Financing Gap:	0.00									
Financing Source		Amount								
Borrower		0.00								
Strategic Climate Fund Grant		6.00								
Total		6.00								
Expected Disbursements (in US\$, millions)										
Fiscal Year	2018	2019	2020	2021	2022	2023	0000	0000	0000	0000
Annual	0.65	1.50	2.25	1.50	0.10	0.00	0.00	0.00	0.00	0.00
Cumulative	0.65	2.15	4.40	5.90	6.00	6.00	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Environment & Natural Resources										
Contributing Practice Areas										
Social, Urban, Rural and Resilience Global Practice										
Proposed Development Objective(s)										
The objective of the project is to strengthen the capacity of forest-dependent people from selected states to participate in local, national, and international REDD+ related processes.										
Components										
Component Name							Cost (US\$, millions)			
Component 1: Financing Mechanisms for Community Forestry Management							3.70			
Component 2: Capacity Building, Communication, and Advocacy							1.40			
Component 3: Management, Monitoring, and Evaluation							0.90			
Systematic Operations Risk- Rating Tool (SORT)										
Risk Category							Rating			
1. Political and Governance							Substantial			
2. Macroeconomic							Moderate			
3. Sector Strategies and Policies							Moderate			
4. Technical Design of Project or Program							Moderate			
5. Institutional Capacity for Implementation and Sustainability							Substantial			

6. Fiduciary	Substantial		
7. Environment and Social	Moderate		
8. Stakeholders	Substantial		
9. Other			
OVERALL	Substantial		
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes []		No [X]
Does the project require any waivers of Bank policies?	Yes []		No [X]
Have these been approved by Bank management?	Yes []		No []
Is approval for any policy waiver sought from the Board?	Yes []		No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]		No []
Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04	X		
Forests OP/BP 4.36	X		
Pest Management OP 4.09	X		
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10	X		
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Grievance Redress Mechanism and Complaints Procedures (Schedule 2, Section I E.)		01-Mar-2018	
Description of Covenant			
The Recipient shall, not later than sixty (60) days after the Effective Date, develop, in form and substance acceptable to the World Bank and following the guidelines set forth in the Project Operational Manual, a grievance redress mechanism that encompasses transparent, timely and fair procedures, for the purposes of ensuring that all complaints received from IPLCs and other interested stakeholders related to			

any activity under the Project, including grievances related to an IPLC Award or an award decision, representation in the NSC, or the governance arrangements related to the Project, are properly and timely addressed.

Name	Recurrent	Due Date	Frequency
Environmental and Social Management Plan (Schedule 2, Section I G.)	X		CONTINUOUS

Description of Covenant

The Recipient shall: (a) implement and cause the Project to be implemented in accordance with the ESMF and the PF; and (b) if applicable, cause the Eligible IPLC, prior to carrying out any activity under the pertinent Subproject, to prepare and implement the pertinent Environmental and Social Management Plan, in accordance with its terms and in a manner acceptable to the World Bank.

Name	Recurrent	Due Date	Frequency
Subproject Agreement (Schedule 2, Section I D.)	X		CONTINUOUS

Description of Covenant

For purposes of carrying out Part 1 of the Project, the Recipient shall, after the selection by NSC of a Subproject in accordance with the guidelines and procedures set forth in the Project Operational Manual, and before the Eligible IPLC carries out any activity under said Subproject, enter into an agreement with the Eligible IPLC (“Subproject Agreement”), under terms and conditions satisfactory to the World Bank as set forth in the Project Operational Manual.

Name	Recurrent	Due Date	Frequency
Withdrawal (Schedule 2, Section IV.B.1.)		Date of the Grant Agreement	

Description of Covenant

No withdrawal shall be made for payments made prior to the date of the Grant Agreement, except that withdrawals up to an aggregate amount not to exceed \$ 65,000 may be made for payments made prior to this date but on or after the date twelve (12) months prior to the date of the Grant Agreement, for Eligible Expenditures under Category (2).

Conditions

Source Of Fund	Name	Type
CSCF Article 4.01. (a).	Project Operational Manual	Effectiveness

Description of Condition

The Project Operational Manual has been adopted by the Recipient in a manner satisfactory to the World Bank.

Source Of Fund	Name	Type
CSCF Article 4.01. (b).	Execution and Delivery of the Grant Agreement	Effectiveness

Description of Condition

The execution and delivery of the Grant Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary corporate action.

Source Of Fund	Name	Type
----------------	------	------

CSCF Article 4.02.	Legal Opinion	Effectiveness		
Description of Condition				
As part of the evidence to be furnished pursuant to Section 4.01 (b) of the Grant Agreement, there shall be furnished to the World Bank an opinion satisfactory of counsel acceptable to the World Bank, showing that on behalf of the Recipient, that the Grant Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding.				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Carlos Tomas Perez-Brito	Team Leader (ADM Responsible)	Senior Social Development Specialist	Social Development	GSU04
Katharina Siegmann	Team Leader	Environmental Specialist	Environment	GEN04
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Extended Team				

Name	Title	Office Phone	Location		
Salvador Anta Fonseca	Consultant				
Locations					
Country	First Administrative Division	Location	Plan ned	Actual	Comments
Mexico	Yucatán	Yucatán		X	
Mexico	Quintana Roo	Quintana Roo		X	
Mexico	Oaxaca	Oaxaca		X	
Mexico	Campeche	Campeche		X	
Mexico	Jalisco	Jalisco		X	

I. STRATEGIC CONTEXT

A. Country Context

1. **Mexico's economy continues to expand at a steady though moderate rate of growth.** The increase in Mexico's GDP over the past three years, 2014-2016, at an annual average of 2.4 percent was slightly below the annual average growth posted during the previous two decades, 1994-2013, of 2.6 percent. The non-oil economy expanded between 2014 and 2016 at the same average annual rate of 2.8 percent as observed over the previous two decades. Yet, these rates of growth are only about half of the average growth observed in emerging market economies (5.3 percent between 1994 and 2016).

2. **Economic performance has been resilient in view of external shocks experienced in the past few years.** Mexico's economy endured several external shocks in the last two years including a sharp drop in oil prices with average oil prices down by 50-60 percent, an additional reduction in the volume of oil and gas production by 6 percent annually, international financial market volatility related to a normalization of monetary policy in advanced economies, and, more recently, uncertainty over the future of the U.S.-Mexico trade relation. Sensible monetary and fiscal policy responses to these shocks within an overall sound macroeconomic policy framework including a flexible exchange rate, an inflation-targeting monetary policy framework and a fiscal rule that ensures moderate public sector deficits, maintained macroeconomic stability in recent years.

3. **Moderate economic growth over recent years has hampered significant poverty reduction and improvements in shared prosperity.** Driven by income poverty, the official poverty rate has stagnated: the same percentage of the population (46 percent) lived in poverty in 2010 as in 2014. The extreme poverty rate has declined from 11.3 percent in 2010 to 9.5 percent in 2014. Income inequality is high and stagnant in Mexico; the Gini coefficient declined only slightly from 0.51 in 2010 to 0.50 in 2014. Poverty is particularly concentrated in few states. In 2014, more than 40 percent of the poor were concentrated in only five of the thirty-two states: Chiapas, State of Mexico, Oaxaca, Puebla and Veracruz. Poverty rates are much higher among the indigenous peoples (IP). It is estimated that 12 million people live in and around forest areas of Mexico with more than half of them living in impoverished conditions, and 5 million attributed to IP.

4. **Mexico is also a megadiverse country and its biological diversity provides substantial opportunities for socioeconomic development.** Mexico has 64 million ha of forests. One-third of the country is covered by forests. Of the total national territory (196.4 million ha), just over 66 million ha (33 percent) are covered by tropical forests and temperate forests; 37 percent are covered by arid ecosystems and other types of vegetation, while the remaining 30 percent corresponds primarily to agricultural and livestock, as well as urban areas. However, Mexico's forest ecosystems have been subjected to profound changes expressed mainly in deforestation and degradation processes resulting from human intervention, which have a long history including periods of major changes in land use. As a result, deforestation rates during 1976 and 2000 are estimated at 0.76 percent for tropical rainforests and 0.25 percent for other types of forests. During 2005–2010, these rates have decreased to an average of 0.24 percent for all types of forests. This represents about 155,000 ha per year. However, these data hide the heterogeneity of the phenomenon that is expressed in significantly higher rates for some regions in the country.

B. Sectoral and Institutional Context

5. **The drivers of deforestation and forest degradation show significant variation across the country and include direct and underlying factors.** The direct causes of deforestation and degradation include economic, social, and institutional factors such as the profitability of alternative land uses; land use change, particularly related to agriculture and livestock production; weak management; governance

and leadership capacity by *ejidos* and *comunidades* for conducting forest operations; and pressure created by other rural and landless populations on *ejidos* and communities' forest resources. As a result, environmental degradation and depletion of natural resources in Mexico have an economic cost equivalent to roughly 6.3 percent of Mexico's national GDP, being even higher in deforestation hot spots, and the country is among the top 10 countries globally in net forest loss. Deforestation rates are particularly high in tropical dry forests and tropical rainforests in the states that are the focus of the Mexico Dedicated Grant Mechanism (DGM) Project: Quintana Roo, Oaxaca, Campeche, Yucatán, and Jalisco.

6. **The causes of land use changes and forest degradation in Mexico are particularly complex, requiring a set of different interventions not only to reduce emissions but also making forests economically viable to communities.** Natural forests are central to livelihoods of millions of Indigenous Peoples and Local Communities (IPLC)¹ in Mexico. Evidence shows that communally managed forests in Mexico have experienced less deforestation than protected nature reserves and forests under logging bans.² However, forest-dependent people tend to be poor and with limited entrepreneurial and economic activities and dividends. Over a quarter of the forest populations lives in extreme poverty (Forest Investment Program [FIP] - Mexico: 2011).³ In 2008, 57 percent of the poorest quintile of rural households obtained almost one-quarter of their income from natural resource extraction, most of which was forest related. While forests contribute a modest 1 percent of GDP, they represent an essential source of employment, income, and livelihood for people living in and around forests that can be further strengthened by proper sustainable forest management (SFM) and other productive activities in forest landscapes, beyond timber and non-timber products.

7. **Sustainable management of natural resources in forest landscapes can play a major role for reducing emissions from deforestation and forest degradation (REDD+), income generation, and conservation.** There are already many indigenous organizations and local communities in Mexico that are actively managing natural resources to both enhance conservation and generate income. However, without the organizational, technical, financial, and entrepreneurial capacity to profitably and sustainably manage forest and natural resources in forest landscapes, alternative land uses (agriculture, cattle, and so on) become more economically viable but with severe direct effects on deforestation and forest degradation. Sustainable management of forest and natural resources requires constant investments beyond subsidies.

8. **Financial inclusion for productive activities is a key driver to alleviate poverty and enhance conservation.** Sustainable productive activities in forest landscapes require planning, organization, and investment. Thus, the management of natural resources in forest landscapes depends on technical knowledge, integration, and meeting financial needs. Funding allows communities to impulse sustainable productive activities, such as timber and non-timber production, and agriculture—coffee and honey, for

¹ IPLC for this project refers to *ejidos*, communities, and other groups such as *avecindados* and other nontenure holders living in rural communities.

² Brady, D.B. and L. Merino. 2005. *La experiencia de las comunidades forestal en México: veinticinco años de silvicultura y construcción de empresas forestales comunitarias* (The Experience of Forest Communities in Mexico: Twenty-five Years of Silviculture and Building Community Forestry Enterprises), SEMARNAT-Fundación Ford, Mexico. Available at <http://www.inecc.gob.mx/descargas/publicaciones/461.pdf>; Porter-Bolland, L., et al. 2011. "Community-Managed Forests and Forest-protected Areas: An Assessment of their Conservation Effectiveness Across the Tropics" *Forest Ecol. Manage.*

³ The estimates on community owned forests range from 60 percent up to 80 percent. It is also estimated that IP hold up to 45 percent of Mexico's forest lands, whereas 15 percent are privately owned and just 5 percent are public lands. INEGI. *Censo Agropecuario 2007, IX Censo ejidal.*

example—in forest landscapes, management of *acahuales*,⁴ or ecotourism. However, forest communities face several barriers to access finance under typical market conditions. While there have been considerable efforts to overcome the financial exclusion in geographical and social terms, inclusion numbers are still very low. The 2005 Financial Inclusion Survey by the National Institute of Statistics and Geography (*Instituto Nacional de Estadística*, INEGI) shows that from the total rural population, only 11 percent request formal credits, and 28.5 percent rely on informal sources of credit. Out of those seeking formal credit, 39 percent did not complete the process due to inability to meet the requirements, mainly lack of guarantees, stable sources of income, and so on. In addition, only 16 percent of IPLC are able to access some kind of financial instrument for productive management, mostly for agriculture activities. The most recent analysis shows⁵ that only 5 percent of *ejidos* and communities engaging in SFM have accessed financial services.

9. Mexico’s unique land tenure structure provides a firm basis for collective management of forest resources. More than 70 percent of the forests (45.5 million ha) are under collective ownership by forest communities (*ejidos and comunidades*), with the remaining owned by small landowners and the state. There is a total of 31,514 *ejidos and comunidades* in Mexico, of which about 9,000 are forest or tropical rainforest owners. It is estimated that about 3,000 communities and *ejidos* are engaged in forestry as their main activity. This land tenure system of *ejidos and comunidades* is unique in the world and provides a firm social, economic, and legal basis for collective management of forest resources.

10. Community forestry still faces challenges to access finance and better management practices. Although 65 percent of the community forests have commercial potential, less than a quarter of them have developed forest management plans and less than 9 percent have evolved into community forest enterprises (CFEs).⁶ In addition, the sector represents only 0.01 percent of total loans by the banking sector. Only 16 percent of the *ejidos* and communities have been able to apply for loans—the vast majority of which are for agriculture and herding activities. This represents a challenge, as well as an important opportunity to develop tailor-made financial inclusion schemes in the forestry sector of Mexico under an integrated landscape approach that allows for productive integration.

11. Mexico is also at the forefront in the preparation and implementation of the REDD+ scheme. Nationally, Mexico is committed to curb deforestation and degradation through policy and institutional reforms through its National Forestry Commission (CONAFOR) and cross-sectoral coordination platforms, including civil society and indigenous organizations networks such as the National Development Commission for Indigenous Peoples (*Comisión Nacional para el Desarrollo de los Pueblos Indígenas*, CDI). In addition, Mexico’s ambitious Nationally Determined Contribution (NDC)⁷ recognizes the essential role of forests in mitigation actions and establishes the goal of 0 percent deforestation by 2030. In addition, Mexico’s climate change commitments emphasize forests’

⁴ Formally deforested land that through natural recovery has forest coverage again. Ecosystem typically found in the Yucatán Peninsula.

⁵ Financiera Nacional 2016.

⁶ Depending on their level of vertical integration, CFEs are classified into four types: (a) forest owners with potential to benefit from its resources but lack the management plans authorized to do it, (b) forest owners who rent their land and resources to a contractor to exploit the area without the owners’ participation, (c) forest owners with authorization to benefit from the forest’s economic activities and participate in it, and (d) raw materials producer with infrastructure for transformation and commercialization. PROFOR (Program on Forests). 2013. *Competitividad y Acceso a Mercados de Empresas Forestales Comunitarias en México*.

⁷ Intended NDCs under the United Nations Framework Convention on Climate Change (UNFCCC), mitigation and adaptation commitments defined before the 2015 Conference of the Parties in Paris and intended to contribute to the global mitigation efforts of global warming below 2 degrees Celsius, http://unfccc.int/focus/indc_portal/items/8766.php.

contribution to adaptation by reducing local communities' vulnerability to natural disasters and economic downturns. The efforts on REDD+ are addressed through Mexico's ambitious REDD+ agenda, a comprehensive set of instruments and interventions under the National REDD+ strategy, (*La Estrategia Nacional REDD+*, ENAREDD+). Mexico participates in many platforms of technical and financial support for REDD+; it is one of the 44 developing country participants of the Forest Carbon Partnership Facility (FCPF),⁸ one of the FIP pilot countries, and a member of the United Nations-REDD program. Significant amounts of domestic funds and internationally pledged funds are committed to the forestry sector and with various projects under way, including the FIP.⁹

B. Higher Level Objectives to which the Project Contributes

12. **The proposed Mexico DGM Project is consistent with the World Bank Group's Country Partnership Strategy for Mexico (CPS)¹⁰ FY2014–2019 and the FIP.** One of the four strategic themes of this CPS relates to the promotion of green and inclusive growth, which includes the reduction of the footprint of growth, and the optimal use of natural resources. The CPS acknowledges not only the costs of land and forest degradation but also the importance of forests as an essential source of employment, income, and livelihood and its important role in mitigating and adapting to climate change. Likewise, the project has an important relationship with the thematic area of 'increasing social prosperity', as the proposed activities will support new and innovative SFM activities identified by *ejidos* and communities. Through its focus on improving livelihoods and economic opportunities of IPLC, the project is aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity.

13. **The DGM is aligned with and will complement the overall Forest and Climate Change (FCC) programmatic approach—including the FIP—that provides financing for REDD+ efforts to address key drivers of deforestation and forest degradation.** The FIP is one of the three programs under the Strategic Climate Funds (SCF) to provide fast-track climate financing to reduce deforestation and forest degradation in tropical countries. Mexico's FIP Investment Plan—approved in 2011—integrates four projects, two implemented by IBRD (US\$25.66 million in loan and US\$16.34 million in grants), currently executed by CONAFOR, and blended with an US\$350 million IBRD loan.¹¹ Thus, the proposed DGM engagement complements the World Bank's engagement in climate change and REDD+ in Mexico. While the FIP focuses on increasing institutional and local capacity on REDD+ and on promoting sustainable rural development, the DGM will focus on new and innovative (demand-driven) interventions identified by *ejidos* and communities through a participatory process, and will strategically focus on issues not yet attended through any of the interventions: bottom-up, community-driven activities identified and led by *ejidos* and communities themselves that will therefore enhance ownership and participation. The DGM will also bring forward the landscape approach in forest landscapes, and will aim for mainstreaming productive natural resource management into REDD+ and conservation efforts. It will

⁸ Mexico's Readiness Preparation Proposal was approved by the FCPF in 2010 and the Legal Agreement was signed in 2014. Mexico's Emission Reduction Project Idea Note was approved in April 2014. The Letter of Intent for an Emission Reductions Program (known as ERP, also called 'Mexico's Emission Reductions Initiative') was signed on November 2014.

⁹ According to the REDD+ study (Muñoz, C., and J. Ortega. 2013. *National Report for Mexico*. Follow-up of REDD+ finance 2009–2012), from 2009 to 2012, Mexico has received US\$773.5 million in REDD+ and forest-related financial commitments up to 2018, of which 43 percent comes from the country's own budget. The potential for emissions reduction by 2020 are estimated at 32 tCO₂eq. (SEMANART/INECC 2012).

¹⁰ Country Partnership Strategy for the United Mexican States (FY2014-2019) (recently updated with Report 104752).

¹¹ The other two FIP projects are implemented: i) one with the Inter-American Development Bank (US\$10 million in loan and US\$5 million in grants); and ii) one with the Multilateral Investment Fund, FOMIN, (US\$1.8 million in loan and US\$1.2 million in grants) blended with a US\$3 million grant.

hereby directly tackle poverty alleviation among rural poor by providing sources of income and livelihoods and prevent forest degradation and deforestation.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

14. The Project Development Objective (PDO) is to strengthen the capacity of forest-dependent people from selected states to participate in local, national, and international REDD+ related processes.

15. In the spirit of the DGM’s collaborative approach to design and implementation, the DGM Project’s objective is consistent with the interests and aspirations of IPLC expressed in the DGM design proposal and the DGM Framework Operational Guidelines (OG). Likewise, the proposed PDO has an overarching approach which leaves enough room to allow the selection of activities based on the principle of demand-driven interventions and identified through an extensive participatory and representative process which is the nature and essence of the DGM at the national and regional levels.

16. The Global DGM Project’s PDO is to strengthen the capacity of forest-dependent people to participate in local, national, and global REDD+ processes. The mandate of the DGM is to address IPLC’s capacity to play a greater role in the FIP and REDD+ at the country and international levels by strengthening capacities at both levels: (a) core institutional capacities of IPLC organizations through management of grant-financed initiatives of their choice, and (b) IPLC voice and participation in regional and global forums by the global platform for learning and knowledge exchange through cross-regional learning events and strengthening of IPLC networks and alliances. Thus, grant-financed initiatives will in most cases lead to a range of other benefits related to livelihoods, income, sustainable management of forests, wood energy, and so on, depending on the activities agreed upon but these outcomes are—by mandate—not the objective of the DGM country projects.

Project Beneficiaries

17. The main beneficiaries of the project are IPLC from Mexico’s FIP and REDD+ early action areas targeted states: Jalisco, Oaxaca, and the Yucatán Peninsula (Campeche, Yucatán, and Quintana Roo).¹² For the purpose of this project, IPLC includes individuals and communities such as *ejidatarios*, *comuneros*, and *avecindados*, organizations of community producers and community forest and non-forest enterprises. In addition to having a geographical targeting, the project will also include a set list of eligible activities under a forest and landscape management approach and integration between communities and associations of producers and markets (see annex 2).

Table 1. Groups of Beneficiaries

<p>Ejidos and comunidades</p>	<p>In Mexico, <i>comunidades</i> (or agrarian communities) are long-standing rural population centers that have been given formal ownership of their traditional or customary lands. Theoretically, agrarian communities are entirely composed of indigenous peoples. <i>Ejido</i> 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 <i>campesinos</i>. Both types of community property are governed by a similar structure, with an ‘<i>asamblea</i>’ of all <i>ejidatarios</i> or <i>comuneros</i>, a ‘<i>Comisariado Ejidal</i>’ or ‘<i>Comisariado de Bienes Comunales</i>’ and a ‘<i>Consejo de Vigilancia</i>’. It</p>
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¹² For a full description of the regional focus, and specifically FIP and REDD+, early action areas within the five states, see annex 2.

	is estimated that 9,000 communities and <i>ejidos</i> have a forest area equal to or greater than 300 ha, of which about 3,000 are engaged in forestry as their main activity.
Avecindados	Persons who live in the territory without being <i>ejidatarios</i> or <i>comuneros</i> .
Associations or organizations of producers	Two or more <i>ejidatarios/comuneros</i> or <i>ejidos/comunidades</i> that are dedicated to the same productive activity and choose to combine efforts under a cooperative contribution scheme, regardless their legal recognition.
Community enterprises	Legally established and recognized organization of an <i>ejido</i> or <i>comunidad</i> that is dedicated to a productive activity in benefit of their <i>ejido(s)/comunidad(es)</i> and follows a formally established business structure and purposes.

18. Women participation in forest community management programs in Mexico is very low. On average, less than 25 percent of direct beneficiaries are women due in part to a legally established collective land tenure system known as *ejidos* and communities that tend to benefit men both for land tenure and governance structures of this communal land. As a result, some of the main barriers to active participation of women in CFM is legal and institutional in nature because eligibility criteria for subsidy programs are conditioned to the proof of land tenure and women hardly participate in communities' governance body. These are in addition to other barriers such as gender norms, access to information and resources, and psychological agency. These constraints have been well analyzed in the country under different gender studies and at the program level with a specific focus on behavior-based barriers (for more details, see the safeguards section in Annex 2). Based on the analyses, the key gender gaps relate to removing barriers to women's ownership and control of assets. Considering already existing strong evidence, overcoming gender exclusion highly depends on proactively supporting forestry activities that are not necessarily linked to land tenure. For these reasons, a key design feature of the Mexico DGM is a dedicated sub-grant window for women, youth, and other non-land-tenure holders (social inclusion window 50 percent of total sub-grant funding) that will target these key vulnerable populations as direct beneficiaries for funding. The objective of this component is to help remove barriers to control over natural resource management and assure direct finance access for these activities. In addition, the project aims at enhancing women's voice and agency through both funding activities and governance structure. This social inclusion window is directly measured through the Results Framework (RF) indicators having two direct indicators to measure outcomes besides having key indicators disaggregated by gender. In addition, the project includes participatory monitoring and evaluation (PM&E) tools to ensure women's participation in measuring their own outcomes. The project as designed is aligned with the World Bank Group gender strategy and will contribute to reducing gaps as they relate to pillar 3 – Removing barriers to women's ownership and control of assets.

PDO-Level Results Indicators

19. The PDO and the results of the project would be measured by the following indicators:

- **PDO Indicator 1:** Targeted beneficiaries receiving sub-grants and matching grants through the project (disaggregated by type of beneficiary: (a) single *ejidatario*, *comunero*, or *avecinado*; (b) *ejido* or community; (c) associations or organizations of producers; and (d) community enterprises and by window: (e) social inclusion and (f) market-oriented and financial inclusion)
- **PDO Indicator 2:** Share of targeted *promotores comunitarios locales* with improved capacity supported by the project (disaggregated by gender)

- **PDO Indicator 3:** People in targeted forest and adjacent communities with increased monetary or nonmonetary benefits from forests (disaggregated by indigenous and non-indigenous and by gender)
- **PDO Indicator 4:** Percentage of participants in the capacity development activities with increased role in the FIP and other REDD+ processes at local, national, or global levels

III. PROJECT DESCRIPTION

A. Project Components

Component 1: Financing Mechanisms for Community Forestry Management (US\$3.7 million)

20. This component will support IPLC subprojects for conservation and integration of sustainable productive activities in forest landscape management activities related to (a) avoided deforestation and forest degradation through SFM, (b) protection of environmental services, (c) enhancement of carbon stocks in forest landscape, (d) agroforestry and sustainable use of timber and non-timber products, (e) low-carbon production systems in agriculture, and (f) strengthening of community forest and non-forest enterprises. For a list of detailed eligible activities, see annex 2.

Subcomponent 1.1: Demand-Driven Community Projects (US\$3.1 million)

21. This subcomponent will finance the provision of sub-grants and matching grants to IPLC from eligible selected states and thematic areas and activities. All sub-grants and matching grants proposals will be assessed by the National Steering Committee (NSC) and the National Executing Agency (NEA) using the following criteria: (a) improving local population livelihoods, (b) strengthening participation of indigenous and local communities in the overall forest landscape management, (c) targeting low-carbon emission and sustainable forest landscape products and value chains, (d) addressing climate change mitigation and adaptation and the ability to offer additional environmental co-benefits such as biodiversity and hydrological services, (e) socioeconomic feasibility, (f) number of potential beneficiaries, and (g) evidence of broad community support.

22. Considering the current scenarios faced by IPLC from the different target states, proposals will be eligible for funding under two sub-grant windows:

- **Social inclusion subprojects window.** Small and innovative sub-grant proposals that can be fully funded coming from but not limited to social priority and vulnerable groups including indigenous women, youth, and *avecindados*.
- **Market-oriented and financial inclusion subprojects window.** These will be proposals from producer organizations and community (forest and non-forest) enterprises that will be funded with the goal of matching and leveraging resources, and to strengthen regional organization between communities, organizations, and enterprises (horizontal integration), as well as access to markets (vertical integration) and usage and quality of financial services.

23. A total share of 50 percent of the funds allocated for this component will be targeted to the social inclusion window and a share of 50 percent to the market-oriented window.

Subcomponent 1.2: Training and Sustainability Assistance (US\$0.6 million)

24. This subcomponent will finance technical assistance and operational costs of conducting critical project management activities for preselected and selected sub-grants. This activity will focus on

enhancing the organizational, technical, and managerial capacities of beneficiary organizations from preselected and selected proposals under a financial inclusion scheme to ensure sustainability and extend access to markets and financial services existing in Mexico. This activity will also support workshops by region to help develop preselected innovative ideas into full proposals eligible for funding for any of the windows. These activities will be executed by the NEA as part of launching the first official call for proposals and directly after an initial assessment of all preselected proposals to identify technical gaps that need to address long-term sustainability and to define tailor-made workshops and a specific technical assistance package.

Component 2: Capacity Building, Communication, and Advocacy (US\$1.4 million)

25. This component will support technical assistance and financing of operational cost for (a) training to local community promoters (*promotores comunitarios locales*); (b) conduct knowledge-sharing and know-how workshops and exchanges among IPLC, associations of producers, and community enterprises through community schools (*ejidos-escuela*); (c) develop and adapt training modules on financial inclusion to complement and fill the gaps in already existing training materials; and (d) develop a culturally appropriate communication and advocacy strategy for the DGM activities and REDD+ processes.

Subcomponent 2.1: Capacity Building (US\$1.1 million)

26. This subcomponent will support technical assistance and financing of operational costs for capacity building and knowledge-sharing and exchange activities through two delivery mechanisms:

- (a) **Select and train a roster of 20 qualified young professionals to become local community promoters.** The 20 local community promoters will train on financial inclusion topics and REDD+ processes using training modules and materials developed or adapted under part c. The local community promoters identified and proposed by *ejidos* and communities from each of the targeted regions will also help in the promotion for the selection of subprojects, and support IPLC from their own regions in financial inclusion and PM&E issues. For the selection of these local community promoters, a special consideration will be given to young female community leaders who are fully supported by their own communities to participate in this project.
- (b) **Conduct 50 knowledge-sharing and know-how workshop and exchanges through ejidos-schools (*comunidades instructoras*).**¹³ This capacity-building activity will be carried out following an *ejido-to-ejido* and community-to-community approach to improve the capacity of incipient *ejidos* and communities to conduct integration of sustainable productive activities in forest landscapes, successful access to markets and financial services, key lessons learned, culturally appropriate approaches and build synergies among communities, associations of producers, financial intermediaries, and government institutions for sustainable production in forest landscapes. These workshops will be given by already successful *ejidos* and the CFEs preidentified for this purpose from within targeted regions or beyond, if needed, to conduct the exchanges. Subsequently, approximately 50 exchanges will be carried out through the lifetime of the project, which will allow strengthening of knowledge among IPLC.

¹³ Comunidades-Instructoras is a concept designed by CONAFOR that builds on the assumption that learning is most efficient through culturally appropriate communication among rural communities and showcasing success stories by peers. The project will build on this existing structure, which besides technical registration elements requires infrastructure to carry out exchange programs to bring together rural communities from the project's intervention zones.

- (c) **Develop and adapt training modules on financial inclusion to complement and fill the gaps in already existing training materials.** One of the main barriers faced by IPLC with regard to accessing funding for their activities is the lack of knowledge and information on key requirements to access different financial resources available in the country and also technical expertise to prepare proposals. The goal of this activity is to tackle those issues by developing training modules on key financial inclusion topics to complement some already available modules and also adapt some others to conduct tailor-made training for the local community promoters and to be used as part of the overall knowledge-sharing and exchanges in the *ejidos*-schools.

Subcomponent 2.2: Communication and Advocacy (US\$0.3 million)

27. This subcomponent will support technical assistance and financing of operational cost to conduct communication and advocacy activities by

- (a) Developing a culturally appropriate communication and advocacy strategy for the DGM activities. Particularly, this strategy will facilitate the successful implementation of project activities, including the design and administration of the Mexico DGM Internet website, support effective and culturally appropriate calls for proposals for subprojects, identify and disseminate lessons learned and good practices, and showcase successful subprojects to both internal and external audiences and interested parties such as CONAFOR, CDI, Ministry for Agriculture (SAGARPA), Rural Development Bank (FIRA), *Financiera Nacional*, and so on and the international community. With this activity, the NEA will ensure that targeted beneficiaries, organizations, and communities in the selected areas within the geographical intervention of the DGM know about the project, the funding windows, call for proposals for subprojects, and overall activities; and
- (b) Supporting the participation of the DGM beneficiaries, NSC, and regional subcommittees members in key DGM and REDD+ processes and events at the local, national, and international levels.

Component 3: Management, Monitoring, and Evaluation (US\$0.9 million)

28. This component will support two main areas. First, it will support activities that increase the capacity of IPLC to oversee and assess their forest resources and to monitor and evaluate project activities using a participatory approach. Second, it will cover the incremental management costs of the NEA to implement the subprojects and facilitate capacity building. That said, the component and its cost are part of an integrated approach to cover project management, monitoring under a participatory approach, and supervision.

Subcomponent 3.1: Participatory Monitoring and Evaluation (PM&E) (US\$0.1 million)

29. This subcomponent will support technical assistance and financing of operating cost for (a) design and implementation of a pilot PM&E system to test the concept within the context of the project and areas of intervention; (b) implementation of the PM&E system in all subproject areas, with the key feature to focus on participation, not only to oversee the results of the project but also to serve as a tool to empower forest-dependent communities to improve the management of their own resources and to promote collaborative learning; (c) implementation of a subproject-level survey to compare with national existing metrics provided by CONAFOR's annual National Beneficiaries Survey (*Encuesta Nacional de Beneficiarios*); and (d) dissemination and exchange of lessons learned of the use of the PM&E system (under the Global DGM component). Monitoring and evaluation (M&E) will include reporting of outputs and outcomes based on the indicators specified in the RF in Annex 1 and will be collected mostly using a participatory approach.

Subcomponent 3.2: Management (US\$0.8 million)

30. This subcomponent will finance the incremental operational and managerial costs of the NEA to carry out its task and responsibilities. The maximum total operational cost of the NEA is 12 percent of the total donated amount, equivalent to US\$720,000, and not including costs of audits. These responsibilities include (a) serving as Secretariat to the NSC, including technical and financial support for the organization of the annual NSC and regional subcommittee meetings and the provision of technical assistance to support the NSC’s approval process; (b) providing technical coordination and M&E of the project; (c) reporting to the World Bank, NSC, and the Global Steering Committee (GSC); (d) providing the project’s financial management (FM), procurement, and social and environmental safeguard; (e) designing and implementing the project’s Grievance Redress Mechanism (GRM); (f) supervising the implementation of community initiatives and results assessments; and (g) developing a robust Project Operational Manual (POM). Additional US\$80,000 will cover the cost of contracting the annual project audits for the life of the project. This component will finance studies, training, travel, and limited procurement of software and hardware.

B. Project Financing

Project Cost and Financing

31. The proposed operation is an Investment Project Financing (IPF) supported by an SCF grant in the amount of US\$6 million.

Project Components	Project Cost (US\$, millions)	FIP Financing (US\$, millions)	FIP Financing (% of total)
1. Financing Mechanisms for Community Forestry Management	3.7	3.7	100
1.1. Demand-Driven Community Projects	3.1		
1.2. Training and Sustainability Assistance	0.6		
2. Capacity Building, Communication, and Advocacy	1.4	1.4	100
2.1. Capacity Building	1.1		
2.2. Communication and Advocacy	0.3		
3. Management, Monitoring, and Evaluation	0.9	0.9	100
3.1. Participatory Monitoring and Evaluation	0.1		
3.2. Management	0.8		
Total Financing Required	6.0	6.0	100

Lessons Learned and Reflected in the Project Design

32. The project design benefited from reviews of several previous World Bank DGM operations in Peru and Brazil and Mexico’s FIP Investment Plan. In addition, the Mexico DGM fully fits into and complements the broader World Bank engagement under the FCC programmatic approach. The following lessons have been incorporated into the project’s design: (a) participatory and inclusive stakeholder approach to empower IPLC grassroots organizations and promote the devolution of decision making to them have been introduced in the project’s design as a joint partnership, which built a strong sense of ownership by the key stakeholders; (b) culturally adequate technical assistance, and timely on-site training to enhance managerial and technical capacities will be provided to IPLC’s grassroots organizations; and (c) given Mexico’s unique land tenure situation, REDD+ necessarily leads to a

community-driven approach that identifies activities for climate change mitigation but also to increase the economic value of timber, non-timber, and other products from forest landscapes.

33. In terms of environmental and social safeguards, the instruments developed for forest programs within CONAFOR and particularly, the inclusion of environmental and social requirements in the rules of operation have shown the effectiveness of its implementation and enforcement. For this reason, the Environmental and Social Management Framework (ESMF) already integrates most of the lessons learned to have a clear set of requirements, mitigation measures, and best practices to adequately monitor compliance during the implementation of the program.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

34. The Mexico DGM Project is designed and implemented under a large-scale national REDD+ effort led by the Government of Mexico. Due to the geographical targeting of the project, three regional subcommittees have been set up by region: Jalisco, Oaxaca, and the Yucatán Peninsula. The main governance body is the NSC that it is composed of elected representatives of each one of the subcommittees. The NSC receives direct support from a small technical committee composed of members from the NSC. The roles and responsibilities of the NSC is outlined in the Rules and Procedures Document (*Reglamento Interno*) that is part of the POM. In the specific case of Mexico, in addition to the NSC that is composed of community and *ejido* representatives and *ejido* organizations and producer groups, two government parties—CONAFOR and CDI—have been named as observers.

35. The NSC will provide overall governance for the Mexico DGM, which is the result of 16 informed and free consultation workshops that started in 2014 to assure a participatory consultancy to design the project's governance structure. This included two regional meetings with indigenous representatives in the Yucatán Peninsula and Oaxaca that selected the *Consorcio Chiclero* from Yucatán as the Chair of the NSC. The NSC will review and approve the annual work plan of the NEA and the subprojects' proposals submitted by IPLC, associations of producers, and CFEs from the selected states.

36. Rain Forest Alliance México-Alianza para Bosques A.C. was selected as the NEA in Mexico, through a competitive process led by the NSC and supported by the World Bank. The Selection Committee included representatives from CONAFOR and CDI. The World Bank completed a capacity assessment of the NEA on key aspects of project implementation such as FM, procurement, and safeguards, and will provide close guidance and support during the life of the project. Relevant aspects of this support are included in the Implementation Support Plan (ISP) (annex 4).

37. To facilitate project readiness and ensure consistency with their own internal policies and procedures, the NEA will prepare the POM, with an ESMF that was drafted with support from the World Bank, and will develop a GRM and Complaints Procedures; for more information on the GRM, see annex 3. The resources allocated for the Mexico DGM will be disbursed to the NEA according to the provisions of the Grant Agreement. The NEA will assume full responsibility for the administration of grant resources, compliance with the World Bank's fiduciary and safeguard policies and procedures, and all project-related monitoring and reporting.

38. **Implementation period and supervision budget.** The project will be implemented over a period of five years (2017–2022). The World Bank's administrative costs for project preparation and supervision will be financed from the reserve fund under the FIP and in accordance with Climate Investment Funds (CIF) benchmarks. The administrative costs for the NEA (and any costs that may be incurred for the process of deliberation by the NSC) will be financed from project budget.

B. Results Monitoring and Evaluation

39. **There will be several levels of project-related results M&E.** The Global DGM Executing Agency, Conservation International, will monitor high-level indicators for the DGM Project as a whole and incorporate results and lessons learned from each of the country-level DGMs.

40. **During implementation, the NEA will be responsible for overall project monitoring.** In close collaboration with the World Bank and the NSC, the NEA will establish a participatory M&E system (see annex 3 for a detailed description of the PM&E system) and surveys based on the indicators established in the RF. Progress will be tracked against these indicators during implementation. The subproject agreements with IPLC will also include those project indicators that are relevant to the activities to be financed and that can be directly linked to the community-based M&E system. The M&E plan will include at least two formal evaluations during the project execution period (including a midterm and final review) and the parameters will be outlined in the POM. The NEA will also be responsible for providing regular progress updates to the NSC and participating in implementation support missions to be undertaken by the World Bank and the NSC up to two times per year, where progress related to the indicators will be reviewed (up to three during the first year of implementation).

41. To measure progress toward the PDO and to follow a certain direction in the project activities, see the project RF in annex 1. This RF covers various aspects of the strengthened capacity of IPLC. PDO Indicator 1 covers access to finance, , while PDO Indicator 2 captures the capacity building of forest-dependent communities in general. PDO Indicator 3 and PDO Indicator 4 are DGM indicators that cover increased benefits (monetary and nonmonetary) and the core of the PDO statement, that is, capacity to participate in REDD+ related activities, respectively.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

42. **The overall risk of the project is rated substantial due to its innovative design and implementation arrangements and contextual challenges.** First and foremost, specific interventions will be identified through a participatory process and transparent call for proposals for the selection of subprojects. NSC and three regional subcommittees have been established, which played a key role in elaborating the terms of reference (TOR) for the NEA. During project implementation, a formal communication and advocacy strategy will be prepared by the NEA to support the calls for proposals and a continuous flow of information about the project, gather lessons for the midterm review and final evaluation, and track progress toward achieving the indicators.

43. **The basic design of the DGM poses serious challenges in the Mexican context in terms of governance, representation, and gender parity.** In terms of governance, there is a close and often overlapping relationship between the members of the NSC and the potential project beneficiaries. Maintaining a neutral separation between the governance function of the NSC members and their personal and/or political relationships with the potential beneficiaries at the community level and ensuring that there is no bias and conflict of interest in the selection of the subprojects could prove challenging. This risk will be mitigated by the Conflict of Interest Guidelines and Policy that were approved by the NSC and will be formally integrated to the POM. These guidelines and policy define criteria for abstaining from a decision, as well as clear eligibility criteria for the selection of the subprojects and beneficiaries. The integration and constant support to regional subcommittees will ensure constant representation of IPLC organization from selected states. In terms of gender mainstreaming issues and inclusion of vulnerable populations, the NSC and regional subcommittees have been integrating more female members to its ranks. As part of the POM, the *Reglamento Interno* will define a number of female

alternate members who will replace current representatives. Likewise, the project design includes targeted beneficiaries such as women and *avecindados* (persons who live in the *ejido* but officially do not possess land).

44. **Critical features embedded in the DGM guidelines and project design are expected to contribute to overcome or, at least, minimize such risks.** They are (a) its broadly participatory and empowering approach that ensures representation and participation of key stakeholders in the different stages of project; (b) a transparent, and broadly representative governance mechanism—the NSC—open to dialogue with other participatory bodies; and (c) selection of an NEA through a competitive process, which shall (i) be familiar with World Bank Group procedures (fiduciary, procurement, and safeguards); (ii) hold the capacity to provide technical assistance and training in all areas needed by the key stakeholder; and (iii) have experience in working with indigenous communities and *ejidos*.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

45. The project will contribute to support demand-driven schemes and practices for sustainable integrated forest landscape management while strengthening communities' participation in decision-making and planning processes related to REDD+. The DGM will support IPLC to transition from the current mix of unsustainable production systems across the landscapes into sustainable ones. In the absence of the project, DGM beneficiaries would likely remain without access to financing and other support to transition to sustainable low-carbon land uses: agricultural areas would continue to be non-sustainable and lead to further pressure on the agricultural frontier, conventional extensive cattle grazing would continue to have low tree cover and be limited carbon sinks, sustainable forest operations would continue to be economically unviable, and forests would still be subject to illegal activities and land use conversion. Under these conditions, the identified economic benefits generated by the DGM are incremental.

46. The results in the economic analysis show that the set of eligible projects of the DGM will have positive private returns that exceed those of the existing unsustainable land uses in the intervention areas. While the composition of the portfolio of subprojects is unknown, a sensitivity analysis of the DGM portfolio of subprojects shows that the likely benefits per hectare could vary from US\$543.1 per ha to US\$657.8 per ha in the case of temperate forests. For the tropical ones, the values are between US\$670.3 per ha and US\$900.5 per ha (see annex 6 for details). Moreover, the social value of the subprojects supported by the DGM is likely to be higher since the economic analysis did not include in the calculations other non-economic local benefits such as the value from reduced pressure on forest land or the resulting improvement in food accessibility as well as ecosystem services.

B. Technical

47. Technical approach focus on the capacity of IPLC to participate in REDD+ related processes defined as activities that aim at reducing emissions from deforestation and forest degradation under an integrated land management approach in forest landscapes and therefore, explicitly include forest management as well as sustainable agriculture land management. These processes and projects include, among others, SFM, protection of environmental services, enhancement of carbon stocks in forest landscapes, agroforestry, sustainable use of non-timber products, and promotion of alternative low-carbon sustainable community-based activities. REDD+ processes and projects can translate to actual on-the-ground community-led investments or be directed toward establishing and strengthening the political and governance enabling framework for such investments. Thus, community participation, local governance

structures for REDD+, and benefit-sharing models are specifically included. In addition, the community-driven focus allows for rural community territorial development.

C. Financial Management

48. **The NSC selected Rainforest Alliance México-Alianza para Bosques A.C. (Rainforest Alliance) as the NEA for the Mexico DGM.** A competitive and inclusive process was carried out in October and November 2016. Furthermore, the World Bank completed an FM assessment of Rainforest Alliance and recommendations were incorporated into the project design. Specialized training on the World Bank's FM and procurement policies, procedures, reporting requirements, and safeguards have been included in the ISP (annex 4) and the FM assessment (annex 7). Rainforest Alliance will be directly responsible for FM tasks that include (a) budget formulation and monitoring, (b) cash flow management (including processing payments and submitting grant withdrawal applications), (c) accounting records (including maintenance of an inventory of project assets), (d) preparation of in-year and year-end financial reports as required, (e) administration of underlying information systems, and (f) arranging for external audits.

49. **Implementation of some subprojects will be in remote locations and involve numerous and relatively small transactions which makes FM and implementation more challenging.** To manage this risk, the team incorporated best practices from community-driven development (CDD) projects into the project design and allocated resources to ensure proper monitoring and supervision activities by the communities themselves and the NEA. The NEA will work with the project implementers or subprojects to ensure that the budget is appropriate, provide a monetary advance so that the project implementers or subprojects can undertake early implementation activities, and the policies and procedures used during implementation are simple and flexible. The NEA will have primary responsibility for ensuring that the World Bank policies and procedures regarding anti-corruption are followed at all implementation levels. Provision has also been made for a higher level of implementation support by the World Bank Group during the first 12 months of project execution to help ensure a high level of fiduciary responsibility from the start.

D. Procurement

50. **Procurement arrangements.** Procurement will be conducted according to the World Bank's 'Procurement Regulations for IPF Borrowers', issued in July 2016, for the supply of goods, works, and non-consulting and consulting services.

51. **Procurement capacity assessment.** Procurement activities for Subcomponent 1.2, Component 2, and Component 3 will be undertaken by Rainforest Alliance for Subcomponent 1.1. and procurement will be conducted by eligible IPLC following a CDD approach. The capacity assessment concluded that Rainforest Alliance has adequate experience and capacity to implement procurement activities. However, the incorporation of an additional Procurement Specialist will be required. Considering the proposed use of CDD, the POM shall include clear supervision arrangements as well as appropriate simplified templates for the Procurement Plan, contracts, Request of Quotations, and others (see annex 3 for further details).

E. Social (including Safeguards)

52. The Mexico DGM is conceived as a pilot project and its design has been led by IPLC. The project is expected to have positive social impacts on the lives of IPLC as part of Mexico's REDD+ program. In that regard, Mexico's overall REDD+ program provides an open, participatory, inclusive, culturally appropriate, and analytical consultation process. Particularly, under the FCPF readiness grant, a full

national consultancy on the ENAREDD+ was carried out that included four modalities—indigenous peoples, sectoral workshops, working groups for vulnerable groups, and online—and more than 5,000 consultees. In addition, and informed and free consultation started in 2014 with 16 consultation workshops have been held, including two regional meetings with indigenous representatives in the Yucatán Peninsula, Oaxaca, and Jalisco. In addition, six consultation meetings were conducted with each one of the regional subcommittees and general assemblies of the NSC in Guadalajara, Jalisco, Chetumal, Quintana Roo, and Oaxaca.

53. **The NEA (Rain Forest Alliance)—with support of the World Bank team—prepared a specific Environment and Social Management Framework (ESMF)** through social and environmental assessments of projects related to conservation and management of forest landscapes in Mexico and areas of intervention of the Mexico DGM, including OG of the Global DGM. The ESMF provides basic guidance on specific country-level features; operational procedures that will deal with specific country-level features; and operational procedures to screen, assess, mitigate, and monitor environmental impacts, thereby ensuring compliance with World Bank operational policies during project implementation. The ESMF includes selection criteria and environmental and social requirements to meet evaluation procedures, defining roles and responsibilities of different actors, and it establishes processes and culturally appropriate means of dissemination, a participatory consultation process in project implementation, community monitoring, and complaint mechanisms, among other actions, to ensure compliance with World Bank operational policies and national legislation. The ESMF was disclosed on RA’s national web site on March 10, 2017¹⁴ and June 6, 2017 on the Bank’s external website¹⁵. The ESMF is considered a living document, and as such it will be updated as needed. The updated versions will always be available on the NEA’s website and the Bank website.

54. **The World Bank’s OP 4.10 (Indigenous Peoples) is triggered for this project.** As IP are the project’s direct and main beneficiaries, this project is considered to be an IP project. For this reason, an Indigenous Peoples Plan (IPP) was not prepared. The project was jointly prepared with the NSC and in full consultation with indigenous leaders from the project area. A robust consultation process was conducted with members of the NSC and key governmental institutions such as CONAFOR and CDI to review the proposed project design. Project documents including the POM and the ESMF were jointly reviewed, inputs incorporated, and continuously consulted and reviewed with the beneficiaries and the NSC, and the inclusion of non-land-tenure holders, specifically youth, women, and *avecindados*.

55. **From a safeguards point of view, no involuntary resettlement of population will result from any activities financed by the project.** However, activities in national protected areas (NPA) are eligible under the project—in line with the NPA plans and close supervision—and there may be cases where use and access to resources may be restricted due to changes in forest management and resource management plans. Hence, OP/BP 4.12 (Involuntary Resettlement) is triggered. Thus, a Process Framework (PF) has been developed as a precautionary measure to ensure compliance with OP 4.12 in the unlikely event of restriction of access to natural resources originated by project activities within and outside of protected areas. This PF is annex to the ESMF.

F. Environment (including Safeguards)

56. **Environmental Assessment (OP/BP 4.01).** This project is classified as Category B. The project is designed to generate positive environmental impacts through increased incentives to protect the forests

¹⁴ <http://www.rainforest-alliance.org/lang/sites/default/files/uploads/4/proyecto-mde-mexico-mgas.pdf>.

¹⁵ <http://documents.worldbank.org/curated/en/750681496344477546/Marco-de-gestión-ambiental-y-social-especifico>.

and stronger capacity at the local level for forest and natural resource management. Potential negative impacts will be of limited scope and not be significant or irreversible. The ESMF outlines the process to prepare Environmental Management Plans (EMPs) for those activities that require such a plan, especially those that may be in the proximity of environmentally sensitive areas, and provides specific guidelines to avoid or minimize risks and manage potential environmental impacts. Any subproject or activity considered to be Category A will not be eligible for funding by the project. During preparation, efforts were made to ensure consistency with other relevant national processes such as the FCPF/REDD+ processes in Mexico—including the FCPF-Emission Reduction program, the FIP projects under the FCC Project, and the Sustainable Productive Systems and Biodiversity Project. The NEA is expected to elaborate site-specific EMPs.

57. **The Natural Habitats (OP/BP 4.04) policy is triggered because some of the community-based agroforestry subprojects may have impacts on natural habitats.** The ESMF includes a description of the process to engage the different stakeholders during the implementation of the project to avoid any conversion or degradation that may result from human activity associated with project activities and a negative list of ineligible activities (restricts the activities in reserves and in protected areas). Project activities will also promote sound practices in forest management, which may include innovative ideas to protect environmentally sensitive habitats. Subprojects that require degradation or conversion of natural habitats will not be eligible for financing.

58. **The Forests (OP/BP 4.36) policy is triggered as the proposed project will be implemented in natural forest areas and support non-timber agroforestry and timber subprojects.** The ESMF includes a framework for the development of sustainable management plans or the assessment of existing plans for the timber subprojects and best practice guidelines for managing any project-related impacts.

59. **The Pest Management (OP 4.09) policy is triggered as the project will finance agroforestry and non-timber forest products subprojects.** The project will not directly finance the use of pesticides but will promote integrated management pest programs and eventually the use of certain non-restricted pesticide to minimize risks to human health and the environment. In the FIP, a project-specific Pest Management Plan (PMP) to ensure that the project does not increase the environmental impacts of pesticide use, and where possible,. This PMP is an annex of the ESMF. It is also noted that the key environmental and social issues and risks associated with chemical applications in subprojects are part of the analysis undertaken as part of the EMP that will be prepared by the NEA.

60. **The Physical Cultural Resources (OP/BP 4.11) policy is triggered as project-related activities may have an impact on the use of and access to areas with potential cultural significance such as sacred sites.** The principles of this policy are fully integrated into the screening and mitigation planning processes described in the ESMF.

Climate Change co-benefits

61. Mexico is highly vulnerable to climate change, which is anticipated to exacerbate the country's development challenges. World Bank studies estimated that climate change could slow down the pace of poverty reduction by 2.4 percentage points by 2030, meaning an extra 2.9 million people would remain in poverty. The consequences of climate change will vary across social groups and throughout the country's territory, depending on factors such as exposure to hazards and climatic variability, sensitivity, and adaptive capacity. Poor and indigenous groups who depend on climate-sensitive sources of income could suffer the most significant impacts. Sustainable management of natural resources in forest landscapes can play a major role for climate change mitigation through REDD+. Based on the project's design, it is estimated that 100% of the project could count for mitigation co-benefits. There are significant adaptation co-benefits as further described in Annex 8.

Citizen Engagement and World Bank and DGM GRM

62. **Citizen engagement.** The project explicitly seeks to support engagement of stakeholders and beneficiaries through the use of transparency of information, consultative processes, and feedback mechanisms to strengthen the DGM design, build ownership, and thus contribute to sustainability and better project outcomes. Feedback mechanisms have been developed in the project design to ensure transparency and a continuous dialogue with stakeholders and beneficiaries. Particular attention will be given during implementation to the capacity of the NEA to close the feedback loop and report on action taken in this regard. The specific elements of the framework for citizen engagement include (a) access to information and exchange platforms; (b) information campaigns on the project and call for proposals targeting IPLC, civil society organizations (CSOs), academia, local governments, and media; (c) community participation as a core feature of the project investments; (d) a feedback mechanism will be designed (GRM) to process complaints, concerns, and questions from stakeholders; and (e) specific third-party monitoring of program activities supported annually to ensure transparency and feedback on these activities. The protocol and mechanisms for elements of this citizen engagement framework are detailed in the POM.

63. In accordance with the DGM OG, a GRM will be established and coordinated by the NEA and the NSC. The GRM will ensure that all complaints received from IPLC and other interested stakeholders related to a grant award decision, representation in the NSC or the GSC, or the governance of the program will (a) have a properly written record, (b) receive timely resolution of issues, and (c) be publicly reported. Regardless of the nature of the grievance, the DGM will ensure that a transparent timely and fair process is adopted to address each complaint. The initial point of contact for all grievances will be with a dedicated staff member within the NEA. The NEA will record all complaints received in a publicly accessible online system that will allow complaints to be tracked and monitored. This GRM is without prejudice to any additional mechanism established by the World Bank to address related issues of damages and/or jurisdiction of any other national authorities as the case may be.

G. World Bank Grievance Redress

64. Communities and individuals who believe that they are adversely affected by a WB supported project may submit complaints to existing project-level GRM or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project-affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

PDO: To strengthen capacity of forest-dependent people from selected states to participate in local, national, and international REDD+ related processes.

PDO Level Indicators	Core	Unit of Measure	Baseline	YR 1	YR 2	YR 3	YR 4	YR 5	Frequency	Data Sources and Methodology	Responsibility for Data Collection
PDO Indicator 1: Targeted beneficiaries receiving sub-grants and matching grants through the project (Disaggregated by type of beneficiary: (i) single <i>ejidatario</i> , <i>comunero</i> , or <i>avecinado</i> ; (ii) <i>ejido</i> or community; (iii) associations or organizations of producers; and (iv) community enterprises and by window: (v) social inclusion and (vi) market-oriented and financial inclusion)		Number	0	0	50	50	50	50	Annual	Review of signed subproject agreements and Financial Agreements and bank accounts	NEA
			(i) 0 (ii) 0 (iii) 0 (iv) 0 (v) 0 (vi) 0	(i) 0 (ii) 0 (iii) 0 (iv) 0 (v) 0 (vi) 0	(i) 5 (ii) 15 (iii) 20 (iv) 10 (v) 25 (vi) 25	(i) 5 (ii) 15 (iii) 20 (iv) 10 (v) 25 (vi) 25	(i) 5 (ii) 15 (iii) 20 (iv) 10 (v) 25 (vi) 25	(i) 5 (ii) 15 (iii) 20 (iv) 10 (v) 25 (vi) 25			
PDO Indicator 2: Share of targeted <i>Promotores Comunitarios</i>		%	0	20	30	50	80	80	Annual	Survey as part of the PM&E	NEA
			(i) 0	(i) 20	(i) 30	(i) 50	(i) 80	(i) 80			

PDO Level Indicators	Core	Unit of Measure	Baseline	YR 1	YR 2	YR 3	YR 4	YR 5	Frequency	Data Sources and Methodology	Responsibility for Data Collection
<i>Locales with improved capacity supported by the project</i> (Disaggregated by gender, (i) women)											
PDO Indicator 3: People in targeted forest and adjacent communities with increased monetary or non-monetary benefits from forests (Disaggregated by (i) indigenous and by gender(ii) women)	X	Number	0 (i) 0 (ii) 0	0 (i) 0 (ii) 0	0 (i) 0 (ii) 0	2,000 (i) 1,200 (ii) 400	2,000 (i) 1,200 (ii) 400	2,500 (i) 1,500 (ii) 500	Biennial (Year 3 and Year 5)	Socioeconomic survey as part of the PM&E	NEA
PDO Indicator 4: Percentage of participants in the capacity development activities with increased role in the FIP and other REDD+ processes at local, national, or global levels		%	0	25	50	75	75	75	Annual	Socioeconomic survey as part of PM&E	NEA

PDO Level Indicators	Core	Unit of Measure	Baseline	YR 1	YR 2	YR 3	YR 4	YR 5	Frequency	Data Sources and Methodology	Responsibility for Data Collection
Intermediate Results											
Component 1: Financing Mechanisms for Community Forestry Management											
IR Indicator 1.1: Sub-grants and matching grants provided to targeted beneficiaries under the project (Disaggregated by type of beneficiary: (i) single <i>ejidatario</i> , <i>comunero</i> , or <i>avecinado</i> ; (ii) <i>ejido</i> or community; (iii) associations or organizations of producers; and (iv) community enterprises and by window: (v) social inclusion and (vi) market-oriented and financial inclusion)		Number	0	0	50	50	60	60	Annual	Project and activity records	NEA
			(i) 0	(i) 0	(i) 5	(i) 5	(i) 7	(i) 7			
			(ii) 0	(ii) 0	(ii) 15	(ii) 15	(ii) 18	(ii) 18			
			(iii) 0	(iii) 0	(iii) 20	(iii) 20	(iii) 23	(iii) 23			
			(iv) 0	(iv) 0	(iv) 10	(iv) 10	(iv) 12	(iv) 12			
			(v) 0	(v) 0	(v) 25	(v) 25	(v) 30	(v) 30			
			(vi) 0	(vi) 0	(vi) 25	(vi) 25	(vi) 30	(vi) 30			
IR Indicator 1.2: Percentage of subprojects successfully completed and achieving their objectives		%	0	0	0	15	15	75	Biennial (baseline, Year 3, and Year 5)	Socioeconomic survey as part of the PM&E	NEA

PDO Level Indicators	Core	Unit of Measure	Baseline	YR 1	YR 2	YR 3	YR 4	YR 5	Frequency	Data Sources and Methodology	Responsibility for Data Collection
Component 2: Capacity Building, Communication, and Advocacy											
IR Indicator 2.1: <i>Promotores Comunitarios Locales</i> supported with training under the project		Number	0	20	20	20	20	20	Annual	Review of training providers' report	NEA
IR Indicator 2.2: Targeted beneficiaries who participated in REDD+ and ILM-related knowledge exchanges under the project		Number	0	25	50	50	50	50	Annual	Review of knowledge exchange facilitators' report Project and activity records	NEA
Component 3: Management, Monitoring, and Evaluation											
IR Indicator 3.1: Percentage of grievances registered related to delivery of project benefits that are actually addressed		%	0	100	100	100	100	100	Annual	Review of GRM registry records	NEA

RF Definitions		
PDO: To strengthen the capacity of forest-dependent people from selected states to participate in local, national, and international REDD+ related processes		
PDO Level Indicators	Definitions	Data Sources
PDO Indicator 1: Targeted beneficiaries receiving sub-grants and matching grants through the project (disaggregated by type of beneficiary and by window: (i) social inclusion (ii) market-oriented and financial inclusion)	The indicator is related to the access to finance aspects of the increased capacity to participate in REDD+ related process. It measures the number of targeted <i>ejidatarios, comuneros, ejidos</i> , communities, associations, or organizations of producers, and community enterprises as described in section III, project beneficiaries that receive financial support with a signed financial agreement and with funds transferred to a bank account held by them. Targeted beneficiaries are potential beneficiaries, that is, targeted <i>ejidatarios, comuneros, avecindados, ejidos</i> , communities, associations, or organizations of producers, and community enterprises in the agreed geographical areas with the targeted beneficiary profile, as described in the POM. Financial support is grants for subproject (sub-grants) and matching grants under the social inclusion and market-oriented and financial inclusion windows. Disaggregation is by type of beneficiary institution: (a) single <i>ejidatario, comunero, or avecinado</i> ; (b) <i>ejido</i> or community; (c) associations or organizations of producers; and (d) community enterprises and by window: (a) social inclusion and (b) market-oriented and financial inclusion). Cumulative target.	Project and activity records
PDO Indicator 2: Share of targeted <i>Promotores Comunitarios Locales</i> with improved capacity supported by the project (disaggregated by gender)	The indicator is related to the process facilitation and capacity to participate in REDD+ related process. The indicator measures the share of potential <i>promotores comunitarios locales</i> (local community promoter) who have participated in capacity building and other activities (Subcomponents 1.1 and 2.1) supported by the project that show improved capacity. ‘ <i>Promotores comunitarios locales</i> ’ are agents within communities who can identify opportunities for REDD+ projects and can also complement the merely forest sector vision of technical agents, enabling the introduction of knowledge on financial and entrepreneurial management and facilitating REDD+ processes. ‘Targeted’ are the potential <i>promotores</i> in the geographical area, with the targeted profile, as described in the POM. ‘Improved capacity’ is the improvement on facilitation, PM&E, organizational, managerial and/or technical skills or others, as perceived by the beneficiaries and detailed in the POM. Disaggregation is by gender. Cumulative target.	Measured using a survey as part of the PM&E, relevant to the type of training (module)
PDO Indicator 3: People in targeted forest and adjacent communities with increased monetary or nonmonetary benefits from forests (disaggregated by	This is a core DGM indicator and a Forest Action Plan indicator and measures one of the outcomes of access to finance and capacity of community leaders. It measures the number of people who perceive that they have increased benefits from forests as a result of project interventions. For this project and due to the Mexican context, the benefits of targeted and adjacent communities will only be measured for the people	Measured using a socioeconomic survey as part of the PM&E, using self-assessed before-and-after indicators in a participatory workshop, capturing the response

<p>indigenous and non-indigenous and by gender)</p>	<p>that physically inhabit the targeted communities and <i>ejidos (núcleo agrario)</i>, both with full rights (<i>ejidatarios and comuneros</i>), and with partial rights (<i>avecindados</i>). ‘Number of people’ are all the people in the <i>comunidades</i> and <i>ejidos</i> where the subprojects are implemented that perceive they have increased benefits from forests. Monetary benefits include increase in income and number of jobs and others identified in the POM. Nonmonetary benefits include perception of better access to forest and forests products and perception of better management of forest resources and others identified in the POM. Disaggregated by indigenous and non-indigenous (self-identified) and gender. Cumulative target.</p>	<p>(‘yes’ or ‘no’), along with supporting qualitative evidence.</p>
<p>PDO Indicator 4: Percentage of participants in the capacity development activities with increased role in the FIP and other REDD+ processes at local, national, or global levels</p>	<p>This is a DGM indicator and measures aspect of the participation in REDD+ processes besides the DGM. The denominator of this indicator is all participants who directly participate in capacity development activities from Subcomponents 1.2 and 2.1. The numerator is the number of participants who respond to the tracking survey on whether their role and influence in REDD+ related processes increased because of participation in capacity building. Capacity-building activities include all the activities that are supported under Subcomponents 1.2 and 2.1 and aim to improve organizational, managerial, and/or technical skills. REDD+ processes at local, national, or global levels include local and national CTC meetings, REDD+ national and international official forums, participation in FIP, and other demand-driven REDD+ initiatives besides the DGM. Cumulative target.</p>	<p>Measured using a socioeconomic survey as part of the PM&E, using tracking survey indicators in a participatory workshop, capturing the response (yes or no), along with supporting qualitative evidences.</p>

Intermediate Results		
Component 1: Financing Mechanisms for Community Forestry Management		
IR Indicator 1.1: Sub-grants and matching grants provided to targeted beneficiaries under the project (disaggregated by grant windows and by type of beneficiary)	This indicator measures the cumulative number of sub-grants and matching grants under the social inclusion and market-oriented and financial inclusion windows provided under the project. It includes both grants and matching grants under the project, regardless of whether there is more than one grant for the same beneficiary. Targeted beneficiaries are the <i>ejidatarios, comuneros, vecindados, ejidos</i> , communities, associations or organizations of producers, and community enterprises as described in section III, project beneficiaries that receive financial support with a signed financial agreement and with funds transferred to a bank account held by them. A given beneficiary institution can receive one or more grants. Disaggregation is by type of beneficiary (a) single <i>ejidatario, comunero</i> or <i>vecinado</i> ; (b) <i>ejido</i> or community; (c) associations or organizations of producers; and (d) community enterprises and by window: (a) social inclusion and (b) Market-oriented and Financial Inclusion). Cumulative target.	Measured using data records, including financial agreements and bank accounts
IR Indicator 1.2: Percentage of subprojects successfully completed and achieved their objectives	This is a core DGM indicator and measures completion of sub-grants (subprojects). From the total participating subprojects from Subcomponent 1.1, the indicator measures the percentage of sub-projects that achieve their objectives. Achievement of objectives is based on three characteristics: (a) activity is completed: activities to which the beneficiary applied is completed on time, (b) funding is disbursed: funding was disbursed and already received on time, and (c) desired and agreed results are achieved: all the agreed objectives in the project proposal are achieved. Cumulative target.	Measured using a socioeconomic survey, as part of the PM&E using self-assessed before-and-after indicators in a participatory workshop, with subproject relevant indicators agreed in subproject proposal
Component 2: Capacity Building, Communication and Advocacy		
IR Indicator 2.1: <i>Promotores Comunitarios Locales</i> supported with training under the project	The indicator measures the number of <i>promotores comunitarios locales</i> trained under Subcomponent 1.1. <i>Promotores comunitarios locales</i> are agents within communities that can identify opportunities for REDD+ projects and facilitate REDD+ processes. Reference is made to definition under PDO 2. Cumulative target.	Review of training providers' report
IR Indicator 2.2: Targeted beneficiaries who participated in REDD+ and integrated landscape management-related knowledge exchanges under the project	This indicator measures the number of targeted <i>ejidatarios, comuneros, vecindados, ejidos</i> , communities, associations or organizations of producers, and community enterprises as described in section III, project beneficiaries who participated in knowledge exchanges. Knowledge exchanges include (a) <i>comunidades instructoras</i> trained by the NEA under Subcomponent 2.1 and (b) knowledge exchanges between <i>comunidades instructoras</i> and other beneficiaries. <i>Comunidades instructoras</i> (teaching communities) are <i>ejidos</i> or communities with a system in place. The objective of the system is to exchange knowledge and experience between those <i>ejidos</i> and communities more advanced and with this <i>ejidos</i> and communities those that are just getting started in terms of REDD+ and	Review of knowledge exchange facilitators' report and project and activity records

	<p>related activities. Knowledge exchange will be on integrating sustainable productive activities in forest landscapes, successful access to markets and financial services, key lessons learned, culturally appropriate approaches and build synergies among communities, associations of producers, financial intermediaries, and government institutions for sustainable production in forest landscapes. Disaggregation is by type of beneficiary institution and if it was trained by the NEA or by knowledge exchange between <i>comunidades instructoras</i> networks.</p> <p>Cumulative target.</p>	
Component 3: Management, Monitoring, and Evaluation		
<p>IR Indicator 3.1: Percentage of grievances registered related to delivery of project benefits that are actually addressed</p>	<p>‘Grievance registered’ includes all the grievances registered in the project’s GRM. ‘Actually addressed’ are those grievances that are addressed on time and manner (according to guidelines to be determined in the POM).</p> <p>Cumulative target.</p>	<p>Review of GRM registry records</p>

Annex 2: Detailed Project Description

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

1. The proposed project is part of a global program, the DGM for IPLC (Global DGM). The DGM was created and developed as a special window under the FIP.

FIP

2. The FIP is a targeted program of the SCF, which is one of two funds under the CIF. The SCF is a Multi-Donor Trust Fund established in 2009 to provide fast-track climate financing aimed at reducing deforestation and forest degradation in tropical countries, promoting more SFM, reducing emissions, and enhancing the conservation of forest carbon stocks. The FIP was created as one of the targeted initiatives under the SCF and is intended to catalyze policies and mobilize funds to address deforestation and forest degradation, with a view toward promoting more SFM, thus leading to reduced emissions and enhanced conservation of forest carbon stocks (REDD+).

3. The FIP was designed to achieve four specific objectives: (a) initiate and facilitate steps toward transformational change in developing countries' forest-related policies and practices; (b) pilot replicable models to generate understanding and learning about the links between the implementation of forest-related investments, policies, and measures and long-term emission reductions from REDD+; (c) facilitate the leveraging of additional financial resources for REDD+, including through a possible UNFCCC forest mechanism; and (d) provide valuable experience and feedback in the context of the UNFCCC deliberations on REDD+.

4. In its efforts to achieve these objectives, the FIP will support and promote investments in the following areas: (a) institutional capacity, forest governance, and information; (b) investments in forest mitigation measures, including forest ecosystem services; and (c) investments outside the forest sector that are needed to reduce the pressure on forests.

DGM

5. The principle objective for the Global DGM Project is to strengthen the role of IPLC in the FIP and other REDD+ programs at local, national, and global levels by supporting capacity building and demand-driven initiatives of the IPLC. The Board approved the Global DGM Program Framework (P128748) in March 2015. The Global DGM is governed by a GSC that includes representatives from each of the DGM NSCs. Conservation International was selected by the GSC to be the GEA and is responsible for implementing the capacity building and knowledge-sharing component.

6. The DGM is governed by an NSC and implemented by an NEA. Country-level DGM activities are expected to complement FIP investments and to take advantage of synergies where possible. The overall program criteria state that the country-level DGMs must (a) be aligned with the objectives of the DGM and the FIP; (b) be aligned with one or more thematic areas of the DGM (capacity development, promotion of rural livelihoods, or investments in sustainable management of forest landscapes); (c) complement the country's FIP investment plan and

projects supported under it; (d) be designed and implemented under the initiative of IPLC and directly benefit them; (e) be based on inclusive and accountable processes; and (f) compliant with the relevant operational and safeguard policies of the corresponding MDB.

7. The Mexico DGM has been prepared jointly with the NSC that includes three regional subcommittees from Jalisco, Oaxaca, and the Yucatán Peninsula that integrates three states: Campeche, Yucatán, and Quintana Roo.

8. The Mexico DGM incorporates lessons learned from other previous projects, including FIP projects 3 and 4. There are two main innovations: (a) the broader and inclusive definition of beneficiaries and (b) the intervention model that allows direct involvement with the IPLC. The first advantage of the DGM Project, and the very reason both funding windows were requested by IPLC, is the broader definition of beneficiaries which will allow to actively include those groups that are not or not yet established legally. This is of particular importance for community-driven forest enterprises, producer groups, and any other group of IPLC that choose to combine efforts under a cooperative contribution scheme in benefit of their *ejido(s)/comunidad(es)*, regardless of their legal recognition. The DGM also builds on a unique intervention model that allows direct engagement and community direct finance and capacity building.

Context

9. **Financial inclusion for productive activities is a key driver to alleviate poverty and enhance conservation.** Sustainable productive activities in forest landscapes require planning, organization, and investment. Thus, the management of natural resources in forest landscapes depends on technical knowledge, integration, and meeting financial needs. Funding allows communities to impulse sustainable productive activities, such as timber and non-timber production, and agriculture—coffee and honey, for example—in forest landscapes, management of *acahuales*,¹⁶ or ecotourism. However, forest communities face several barriers to access finance under typical market conditions. Under typical forest-related funds, many non-forest activities in forest landscapes are excluded and operational rules do not reflect an integrated landscape approach. In addition, there is a lack of integrated information about different sources of funding and a complicated set of requirements and rules for eligibility and reporting which represent a high transactional cost for communities. Likewise, financial intermediaries tend to be risk adverse, targeting those with already adequate collateral and stronger financial resources, excluding those with limited technical capacity and finance. While there have been considerable efforts to overcome the financial exclusion in geographical and social terms, inclusion numbers are still very low. The 2005 Financial Inclusion Survey by the National Institute of Statistics and Geography (*Instituto Nacional de Estadística*, INEGI) shows that from the total rural population, only 11 percent request formal credits, and 28.5 percent rely on informal sources of credit. Out of those seeking formal credit, 39 percent did not complete the process due to inability to meet the requirements, mainly lack of guarantees, stable sources of income, and so on. In addition, only 16 percent of IPLC are able to access some kind of financial instrument for productive

¹⁶ Formally deforested land that through natural recovery has forest coverage again. Ecosystem typically found in the Yucatán Peninsula.

management, mostly for agriculture activities. The most recent analysis shows¹⁷ that only 5 percent of *ejidos* and communities engaging in SFM have accessed financial services.

10. Community forestry still faces challenges to access finance and better management practices. Although 65 percent of the community forests have commercial potential, less than a quarter of them have developed forest management plans and less than 9 percent have evolved into community forest enterprises (CFEs).¹⁸ In addition, the sector represents only 0.01 percent of total loans by the banking sector. Only 16 percent of the *ejidos* and communities have been able to apply for loans—the vast majority of which are for agriculture and herding activities. This represents a challenge, as well as an important opportunity to develop tailor-made financial inclusion schemes in the forestry sector of Mexico under an integrated landscape approach that allows for productive integration. Indeed, *ejidos* and communities have recently pointed out two main difficulties in emerging toward community forest businesses: (a) lack of finance and (b) lack of technical capacity to manage investments.¹⁹ Some of the community forest management (CFM) challenges include the following: (a) CFEs are seen as a source of jobs and benefit sharing rather than enterprises that must be managed on sound business and entrepreneurial principles; (b) *ejidatarios* and *comuneros* have a precarious understanding of the technical, regulatory, financial, and management issues involved in CFEs, which force local forest users to engage in market exchange under rules with which they are often unfamiliar or lack the capacity to influence or take advantage of; (c) control of the *ejido* and community assemblies by the most senior members leads to the marginalization of young people and women; (d) direct community management of forests is subject to legal requirements whereby community representatives have a three-year term limit on their governance post; and (e) community organizations become overly reliant on governmental as well as nongovernmental programs and projects over which they have poor ownership and, consequently, fail to continue after external support ends.²⁰

PDO

11. The PDO is to strengthen the capacity of forest-dependent people from selected states to participate in local, national, and international REDD+ related processes.

12. REDD+ processes include additional REDD+ processes in general and FIP processes in particular, including local, national, and global processes. It includes beneficiaries' participation

¹⁷ Financiera Nacional 2016.

¹⁸ Depending on their level of vertical integration, CFEs are classified into four types: (a) forest owners with potential to benefit from its resources but lack the management plans authorized to do it, (b) forest owners who rent their land and resources to a contractor to exploit the area without the owners' participation, (c) forest owners with authorization to benefit from the forest's economic activities and participate in it, and (d) raw materials producer with infrastructure for transformation and commercialization. PROFOR (Program on Forests). 2013. *Competitividad y Acceso a Mercados de Empresas Forestales Comunitarias en México*.

¹⁹ CONAFOR (Comisión Nacional Forestal). *Estrategia Nacional de Manejo Forestal Sustentable para el Incremento de la Producción y Productividad (Enaipros) 2013–2018*.

²⁰ CONAFOR (Comisión Nacional Forestal [National Forest Commission], *Estrategia Nacional de Manejo Forestal Sustentable para el Incremento de la Producción y Productividad (Enaipros) 2013–2018*; de Jong, et al., *Opportunities and Challenges for Community Forestry*. In Mery, G. et al., *Forests and Society: Responding to Global Drivers of Change*, available at <http://www.iufro.org/science/special/wfse/forests-society-global-drivers/>.

at, among others, local and national CTC meetings, REDD+ national and international official forums, the FIP, and other demand-driven REDD+ initiatives besides the DGM.

13. REDD+ projects refer to activities that aim at reducing emissions from deforestation and forest degradation under an integrated land management approach in forest landscapes and therefore explicitly include forest management as well as sustainable agriculture land management. These projects include, among others, SFM, protection of environmental services, enhancement of carbon stocks in forest landscapes, agroforestry, sustainable use of non-timber products, and promotion of alternative low-carbon sustainable community-based activities.

14. REDD+ processes and projects can translate to actual on-the-ground community-led investments or be directed toward establishing and strengthening the political and governance enabling framework for such investments. Thus, community participation, and local governance structures for REDD+ are crucial. Given Mexico's unique land tenure situation, REDD+ necessarily leads to a community-driven approach. This very approach must target local and indigenous communities and community organizations, as well as community (forest and nonforest) enterprises.

15. The main beneficiaries of the project are IPLC. For the purpose of this project, IPLC includes individuals and communities such as *ejidatarios*, *comuneros* and *avecindados*, organizations of community producers and community forest and non-forest enterprises. In addition to having a geographical targeting, the project will also include a set list of eligible activities under a forest and landscape management approach and integration between communities and associations of producers and markets.

Project Design and Components

16. To achieve its objectives, the Mexico DGM will finance three components over a period of five years. There will be a midterm review at the end of Year 3 to assess progress with implementation and to make any necessary adjustments. This is consistent with CDD guidelines and best practice. A key design feature of that implementation of the project will be done in targeted regions. In fact, the Mexico DGM has two types of focalization: (a) geographical focalization: regions from Mexico's FIP and REDD+ early action areas targeted states: Jalisco, Oaxaca, and the Yucatán Peninsula (Campeche, Yucatán, and Quintana Roo) and (b) thematic and technical areas for eligibility, mainly conservation and integration of sustainable productive activities in forest landscapes management related to (i) avoided deforestation and forest degradation through SFM, (ii) protection of environmental services, (iii) enhancement of carbon stocks in forest landscape, (iv) agroforestry and sustainable use of timber and non-timber products, (v) low-carbon production systems in agriculture, and (vi) strengthening of community forest and non-forest enterprises.

17. The Mexico DGM will enhance local capacity and sustainable funding to address the direct and underlying drivers of deforestation and forest degradation in the selected areas, based on a community-driven forest landscape management approach, which will particularly focus on a stronger inclusion of vulnerable groups, such as IP, women, and youth.

18. Subprojects to be selected will necessarily need to demonstrate, among others, (a) improving local population livelihoods, (b) strengthening participation of indigenous and local communities in the overall forest landscape management, (c) targeting low-carbon emission and sustainable forest landscape products and value chains, and (d) addressing climate change mitigation and adaptation, and (e) the ability to offer additional environmental co-benefits such as biodiversity and hydrological services. That said, eligible subprojects/activities might consist of activities related to the following:

- **SFM**

- Reducing emission from deforestation and forest degradation using SFM 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, activities will contribute to enhance emission reductions. Furthermore, the use of low emission silvicultural operations aimed at increasing biomass productivity will enhance uptake of CO₂ making forest management more attractive than land conversion. All of these, 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.
- Reducing 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, collecting sustainable firewood and logging debris in production forests, improving the efficiency of firewood use, and promoting formalization and registration of commercial firewood collectors and traders.
- **CFM.** Activities and projects to support communities and/or *ejidos* to help them combine SFM with socioeconomic development, enhance the contribution of forests to climate change mitigation and adaptation, and generate additional income opportunities for communities and/or *ejidos*, making sustainable management more economically attractive, through the carrying out of activities (a) to promote, strengthen, and consolidate community institutions and local development processes for the collective and sustainable management of forest resources; (b) to support forest communities and/or *ejidos* and strengthen their capacities to manage productive forests sustainably; and (c) to promote and strengthen forest value chains established by CFEs and producer groups to add value to their timber and non-timber products in forest landscapes, expand access to markets, and improve competitiveness.

- **Eco-agriculture in forest landscapes**

- Forest landscape restoration and stabilization of the agriculture and livestock frontier supporting the introduction of forest cover in productive landscapes. The tool kit of sustainable rural production systems includes silvopastoral techniques, grazing rotation, conservation tillage (zero tillage), agroecology 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. Given the specific socioeconomic and environmental circumstances in the intervention zones, the agriculture investments may include coffee plantations (*café de sombra*), *milpa*, and *acuahual*.²¹

- In addition, low-intensive cattle ranching in forest landscapes will be supported to sustain livelihoods of forest-dependent people and consolidate forest coverage under silvopastoral schemes.
 - Reducing 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 states of Chiapas, Oaxaca, and those of the Yucatán Peninsula.
- **Ecotourism**
 - **Community-based ecotourism as a means to forest conservation and sustainable socioeconomic development.** Support nature-based forms of tourism in which the main motivation of the tourists is the observation and appreciation of nature as well as the traditional cultures in forest landscapes with the following characteristics: (a) it contains educational and interpretation features, (b) it is community driven, (c) it minimizes negative impacts upon the natural and sociocultural environment, and (d) it supports the conservation of forest landscapes by (i) generating economic benefits for host communities and providing alternative employment and income opportunities for local communities and (ii) increasing awareness toward the conservation of natural and cultural assets, both among locals and tourists.
 - **Enhancing local governance, inclusion, and advocacy**
 - **Collaborative, community-driven processes for dialogue, planning, negotiating, implementation, and monitoring.** Community governance of forest resources has proved to be a key element for forest conservation and vital local forest economies. It sustains collective action needed for the sustainable management of common goods. Thus, activities will be supported that aim at

²¹ Acahual is a rotational system that combines high-value timber species with the natural colonizing species of secondary succession. The objective of its management (acahual management) is to produce forest goods outside the forest and avoid pressure on the forest, in addition to producing food in the growing phase. The establishment of the improved acahual, however, meets basic sustainability assumptions, such as increasing the value of land and labor, being managed under the control of communities and attractive as renewable forest resources, must consider the expectations of producers, economic and social conditions, and the global context.

building social organization within communities and supporting community governance models under an integrated landscape approach.

- **Financial inclusion activities.** Activities that aim at developing and strengthening community capacities for developing viable financial and technical proposals, and developing basic business administration and entrepreneurial skills for sound producer groups and community-based enterprises to implement low-carbon productive activities in forest landscapes and to meet REDD+ targets. In addition, specific activities that support the access to financial services and training will be supported.

19. The project will have three components:

- Component 1: Financing Mechanisms for Community Forestry Management
- Component 2: Capacity Building, Communication, and Advocacy
- Component 3: Management, Monitoring, and Evaluation

Component 1: Financing Mechanisms for Community Forestry Management (US\$ 3.7 million)

20. This component will support IPLC subprojects for conservation and integration of sustainable productive activities in forest landscapes management activities related to (a) avoided deforestation and forest degradation through SFM, (b) protection of environmental services, (c) enhancement of carbon stocks in forest landscape, (d) agroforestry and sustainable use of timber and non-timber products, (e) low-carbon production systems in agriculture, and (f) strengthening of community forest and non-forest enterprises, as described in this annex.

Subcomponent 1.1. Demand-Driven Community Projects (US\$3.1 million)

21. This subcomponent will finance the provision of sub-grants and matching grants to IPLC from eligible selected states and thematic areas and activities. All sub-grants and matching grants proposals will be assessed by the NSC and the NEA using the following criteria: (a) alignment with the core objectives of the DGM Project; (b) innovation; (c) socioeconomic feasibility and sustainability; (d) number of potential beneficiaries, with relevance given to proposals with greater participation of women, youth and *avecindados*; and (e) evidence of broad community support. The targeting of women and youth in community initiatives will be an advantage that will be reflected during the selection process. All proposals submitted for Subcomponent 1.1 will be also screened to ensure compliance with the World Bank's Operational Policies on environmental and social safeguards as well as with the Mexican legislation on the environment and IP, in accordance with criteria to be established in the country-specific ESMF and POM.

22. Considering the current scenarios faced by IPLC from the different target states, proposals will be eligible for funding under two sub-grant windows:

- **Social inclusion subprojects window.** Small and innovative sub-grant proposals that can be fully funded coming from but not limited to social priority and vulnerable groups including indigenous women, youth, and *avecindados*.
- **Market-oriented and financial inclusion subprojects window.** These will be proposals from the community (forest and non-forest) enterprises that will be funded with the goal of matching and leveraging resources to strengthen community organization, integration between communities and association of producers, access to markets, and usage and quality of financial services. In addition, market assessment and product placement for community-driven forest products will be a key target for projects to be selected under that window.

23. A total share of 50 percent of the funds allocated for this component will be targeted to the social inclusion window and a total share of 50 percent to the market-oriented window. The maximum ceiling value per proposal is US\$100,000. Total subproject values might be superior to the amount requested under the DGM. In fact, for the market-oriented window matching funds or leveraged resources are a selection criteria and thus mandatorily required.

Table 2.1. Sub-Component 1.1. Demand-Driven Community Projects

Window	Description
(a) Social inclusion subprojects window 50% of funds equivalent to US\$1,550,000 in sub-grants	<ul style="list-style-type: none"> • Small and innovative sub-grants proposals from any of the four eligible subprojects/activities that can be fully funded coming from but not limited to social priority and vulnerable groups including indigenous women, youth, and <i>avecindados</i>. • This window will provide funding for IPLC to undertake a full subproject cycle of community-led assessment, planning, and implementation. Thus, subprojects are intended to enhance local IPLC capacity and social and environmental outcomes.
(b) Market-oriented and financial inclusion subprojects window 50% of funds equivalent to US\$ 1,550,000 in sub-grants	<ul style="list-style-type: none"> • This window will fund proposals from IPLC (forest and non-forest) enterprises that have proven organizational capacity in handling external funds and need support to increase investment for conservation and productive activities and particularly access to financial services and markets. It is expected that these IPLC will have experience and robust proposals with potential to leverage funds with other financial institutions and donors.

24. Based on core selection criteria, proposals for both windows will be assessed according to their economic viability and potential income generation impacts. In addition, particularly for the social inclusion window, the project recognizes the enhanced need for technical assistance regarding (a) project identification, (b) project proposal preparation, and (c) during implementation. To that regard specific technical assistance resources have been set aside.

25. Women’s participation in forest community management programs in Mexico is very low. On average, less than 25 percent of direct beneficiaries are women, due in part to a legally established collective land tenure system known as *ejidos* and communities that tend to benefit men both for land tenure and governance structures of this communal land. As a result, some of the main barriers to women’s active participation in CFM are legal and institutional in nature

because eligibility criteria for subsidy programs are conditioned to the proof of land tenure, and women hardly participate in communities' governance body. These are in addition to other barriers such as gender norms, access to information and resources, and psychological agency. These constraints have been well analyzed in the country under different gender studies. Considering the already existing strong evidence, overcoming gender exclusion highly depends on proactively supporting forestry activities that are not necessarily linked to land tenure. For these reasons, a key design feature of the Mexico DGM is a dedicated sub-grant window for women, youth, and other non-land-tenure holders (social inclusion window 50 percent of total sub-grant funding) that will target these key vulnerable populations as direct beneficiaries for funding. The objective of this component is to help remove barriers to control over natural resource management and assure direct finance access for these activities. In addition, the project aims at enhancing women's voice and agency through both funding activities and governance structure. This social inclusion window is directly measured through the RF indicators having two direct indicators to measure outcomes besides having key indicators disaggregated by sex. In addition, the project includes PM&E tools to ensure women's participation in measuring their own outcomes.

Subcomponent 1.2. Training and Sustainability Assistance (US\$0.6 million)

26. This subcomponent will finance technical assistance and operational costs of conducting critical project management activities for preselected and selected sub-grants. This activity will focus on enhancing the organizational, technical, and managerial capacities of beneficiary organizations from preselected and selected proposals under a financial inclusion scheme to ensure sustainability and extend access to markets and financial services existing in Mexico. This activity will also support workshops by region to help develop preselected innovative ideas into full proposals eligible for funding for any of the windows. These workshops will be also used as a channel to leverage ideas and projects funded by other organizations such as NGOs, government, or donors that the DGM can also support based on their potential for scaling them up. For example, the Global Environment Facility (GEF) has funded initiatives in Mexico through its Small Grants Program. These activities will be executed by the NEA before launching the first official call for proposals and directly after an initial assessment of all selected proposals to identify technical gaps that need to address long-term sustainability and to define tailor-made workshops and a specific technical assistance package.

27. To assure sustainability of the investments, specific considerations have been included in the project design and its governance structure. The structure of the DGM is to address IPLC's capacity to play a greater role in FIP and REDD+ at the country as well as international levels by strengthening capacities at two levels: (a) core institutional capacities of IPLC organizations through management of grant-financed initiatives of their choice and (b) IPLC voice and participation in regional and global forums by the global platform for learning and knowledge exchange through cross-regional learning events and strengthening of IPLC networks and alliances. The social inclusion window was designed to give voices to the most vulnerable, particularly women and those without land. A non-land-tenure requirement ensures that they will be able to participate in the project and apply for funding. In addition, grant-financed initiatives will in most cases lead to a range of other benefits related to livelihoods, income, sustainable management of forests, wood energy, and so on. The NSC will develop an

integration strategy for projects to evolve from the social inclusion window to the market-oriented window to foster sustainability.

28. The following activities will be ineligible for funding by the DGM:

- Purchase of land
- Activities carried out in relation to adjudication of lands under dispute
- Activities carried out in lands under dispute
- Activities that may promote involuntary physical and economic displacement
- Activities adversely affecting IPLC or where communities have not provided their broad support (evidence of such broad community support may be explained in the project proposal or presented in the form of a letter with the proposal)
- Removal or alteration of any physical cultural property (includes sites having archeological, paleontological, historical, religious, or unique natural values)
- Conversion, deforestation or degradation or any other alteration of natural forests or natural habitats including, among others, conversion to agriculture or tree plantations
- Activities related to illegal timber and non-timber products for commercialization
- Purchase and use of formulated products that fall in World Health Organization classes IA and IB or formulations of products in Class II, if they are likely to be used by, or be accessible to, lay personnel, farmers, or others without training, equipment, and facilities to handle, store, and apply these products properly
- Financing of elections or election campaigning
- Construction and/or restoration of religious buildings
- Activities and crops implemented and/or cultivated with the overall purpose to produce and/or market alcohol
- Purchase of tobacco, alcoholic beverages, and other drugs
- Purchase of arms or ammunition

29. **Sub-grant project circle.** The process of preparing, approving, and granting IPLC demand-driven subprojects and initiatives will be refined in the POM. The NEA will issue calls for proposals for each grant window. These calls for proposals will state the priority thematic areas, the eligibility and selection criteria, and the number of proposals to be funded. The NEA will assess their proposals according to the eligibility criteria and the NSC will rank and select the winning proposals. The NEA will then provide technical support for the selected

representative community organization to develop the technical design of community projects and the training and technical assistance packages. During this stage, the NEA will also screen the community proposals to assess compliance with safeguard policies and collect baseline information, with the aim of monitoring and evaluating the activities. Subproject agreements will be signed by the NEA and the IPLC winning community-based organizations and/or representative organizations. These organizations will implement the technical projects. The NEA will monitor implementation and evaluate results under the supervision of the World Bank and the NSC.

Component 2: Capacity Building, Communication, and Advocacy (US\$1.4 million)

30. This component will support technical assistance and financing of operational cost for (a) training to local community promoters (*promotores comunitarios locales*); (b) conduct knowledge-sharing and know-how workshop and exchanges among IPLC, associations of producers, and CFEs through community schools (*comunidades instructoras or ejido-escuelas*); (c) develop and adapt training modules on financial inclusion to complement and fill the gaps in already existing training materials; and (d) develop a culturally appropriate communication and advocacy strategy for the DGM activities and REDD+ processes.

31. **Capacity-building approach.** To manage forests sustainably, conserve forest landscapes, and establish local forest economies, capacity building at the community level must be strengthened to allow for collective action needed for the sustainable management of common natural resources. Capacity building must enable communities for collaborative territorial planning under an integrated landscape approach, the establishment of producer organizations and community enterprises and sound management practices, as well as know-how to develop viable technical proposals for access financial services and products. Thus, training is a key element of REDD+ implementation on the ground.

32. Under a widely accepted methodology developed under the PROCYMAF (*Programa de Desarrollo Forestal Comunitario*) project supported by the World Bank, communities and *ejidos* are categorized according to their capacity and vertical integration as (a) forest owners with the potential to benefit from its resources but lack their management plans authorized to do it, (b) forest owners who rent their land and resources to a contractor to exploit the area without the owners participation, (c) forest owners with the authorization to benefit from the forest's economic activities and participate in it; and (d) raw material producers with infrastructure for transformation and commercialization. Comunidades and *ejidos* that own forests but do not manage it for income are categorized as Type i. It is estimated that there are 992 potential forest enterprises in the country, most of which do not manage to evolve to Type iii or iv and thus are not enabled to autonomously manage their resources.

33. Thus, the Mexico DGM will aim at building community capacities for integrated landscape management, horizontal integration for sustainable production purposes, and developing basic project management and entrepreneurial skills for sound community-based enterprises. These capacities will enable communities to not only implement REDD+ activities but to access finance and promote productive sustainable forest landscapes. The few existing financing options available for productive projects in forest landscapes have not been fully taken advantage of by the target beneficiaries (that is, *ejidos* and indigenous communities) due to their

own limited capacity to present adequate loan applications, to absorb and manage financial and technical responsibilities associated with these funds coupled with the high risk associated with these projects and their lack of knowledge of funding availability. Thus, the project will support (a) strengthening the technical, administrative, institutional and financial capacity of *ejidos* and communities to engage in sustainable low-carbon productive activities in forest landscapes; (b) strengthening horizontal integration through producer organizations and community enterprises; and (c) building capacities for financial inclusion, specifically knowledge on accessing finance for REDD+ projects.

34. To tackle capacity-building activities among IPLC, there are a number of different intervention models on the ground, both from the public and private sectors. The Government of Mexico through CONAFOR established a sophisticated technical assistance program that combines technical collaboration through individual agents (*asesores técnicos*), local agents for forest governance and knowledge, and community-based learning programs such as *promotores comunitarios* and learning exchanges through *comunidades instructoras* or *ejidos-schools* for this project. In that regard, over the past couple of years, budget assigned to community-driven programs has declined steadily due to budget cuts. NGOs and other private agencies have established specific programs aiming at increasing forest management capacities and entrepreneurial knowledge that complement the public sector engagement.

35. The Mexico DGM will build from these proven capacity-building structures (*promotores comunitarios* and the *comunidades instructoras* or *ejidos-schools*) to operationalize and deliver its capacity-building efforts. Given the community-driven character of the DGM, training must be delivered on the ground, culturally appropriate, and tailor-made to IPLC needs and demands. The existing capacity-building models through *promotores comunitarios* and *comunidades instructoras* tackle these needs. They allow for a community-driven learning and exchange of experiences. Tacking stock of existing intervention models will also allow for an agile and efficient use of resources within the project's intervention areas. Strengthening community-driven capacity building through local agents will enhance cultural appropriate knowledge-sharing and capacity building within IPLC, regional integration, and ownership of self-identified productive projects. Guidance to these *promotores comunitarios* and exchange among them will directly support regional integration and community-driven capacity building.

Subcomponent 2.1. Capacity Building. (US\$1,100,000)

36. This subcomponent will support technical assistance and financing of operational cost for capacity building and knowledge-sharing and exchange activities through two delivery mechanisms:

- (a) **Select and train a roster of 20 qualified young professionals to become local community promoters (*promotores comunitarios locales*).** The 20 local community promoters will train on financial inclusion topics and REDD+ processes using training modules and materials developed or adapted under part c. The local community promoters identified and proposed by *ejidos* and communities from each of the targeted regions will also help in the promotion for the selection of subprojects and support IPLC from their own regions in financial inclusion and PM&E issues. For the selection of these local community promoters, a special

consideration will be given to attract young female community leaders who are fully supported by their own communities to participate in this program.

- (b) **Conduct 50 knowledge-sharing and know-how workshop and exchanges through *comunidades instructoras* or *ejidos-schools (ejidos-escuel)*.**²² This capacity-building activity will be carried out following an *ejido-to-ejido* and community-to-community approach to improve the capacity of incipient *ejidos* and communities to conduct integration of sustainable productive activities in forest landscapes, successful access to markets and financial services, key lessons learned, culturally appropriate approaches and build synergies among communities, associations of producers, financial intermediaries, and government institutions for sustainable production in forest landscapes. These workshops will be given by already successful *ejidos* and CFEs pre-identified for this purpose from within targeted regions or beyond, if needed, to conduct the exchanges. Subsequently, 50 exchanges will be carried out through the lifetime of the project which will allow strengthening of knowledge among IPLC.
- (c) **Develop and adapt training modules on financial inclusion to complement and fill the gaps in already existing training materials.** One of the main barriers faced by IPLC with regard to accessing funding for their activities is the lack of knowledge and information on key requirements to access different financial resources available in the country and also technical expertise to prepare proposals. The goal of this activity is to tackle those issues by developing training modules on key financial inclusion topics to complement some already available modules and also adapt some others to conduct tailor-made training for the local community promoters and to be used as part of the overall knowledge-sharing and exchanges in the *ejidos-schools*.

37. ***Promotores comunitarios.*** They are agents within communities that can identify opportunities for REDD+ projects and at the same time impulse new visions and opportunities. These agents are independent from *ejido* and community government cycles, which mostly cover only 3 years, and can therefore introduce a long-term vision. *Promotores comunitarios* can also complement the merely forest sector vision of technical agents that work with mostly all communities. Their technical scope can go beyond forest management and thus enable the introduction of knowledge on financial and entrepreneurial management. According to CONAFOR, these agents are also crucial for the productive inclusion of people who do not have land tenure, such as *avecindados*, youth, and women. As of today, CONAFOR is supporting 580 *promotores comunitarios*; this number has been decreasing over the past couple of years as a result of constant budget cuts. While there are 31 *promotores* in Oaxaca, in the 4 REDD+ early action states, Yucatán, Campeche, Quintana Roo, and Jalisco, there are only 34 *promotores* in total.

²² *Ejidos-escuela* or *comunidades instructoras* is a concept designed by CONAFOR that builds on the very assumption that learning is most efficient through cultural appropriate communication among rural communities and showcasing success stories by peers. The project will build on this existing structure, which beside technical registration elements requires infrastructure to carry out exchange programs to bring together rural communities from the project's interventions zones.

38. The project will aim at closing knowledge gaps in regions that are currently not or not sufficiently attended. A review of current public sector capacity building programs show that most *promotores comunitarios* and *comunidades instructoras* are located in Oaxaca, while Jalisco and the three states of the Peninsula seem to be underrepresented. It is expected that the NEA will conduct further analysis to identify strategically important areas or communities with a high regional integration potential to identify and select more *promotores comunitarios* from those regions. The project would aim at supporting regional distribution among DGM target areas as follows: the Yucatán Peninsula: 15; Jalisco: 2; and Oaxaca: 3 *promotores comunitarios*.

39. ***Comunidades instructoras - ejidos-schools.*** Under PROCYMAF II, a World Bank-financed program to establish community forest management, a key part of sustainable community-based forest management was identified: knowledge exchange among communities, specifically showcasing those *ejidos* that managed a high social organization and engagement in productive processes. As a result, the community school - *comunidades instructoras* program was established and since then, has enabled IPLC throughout the country to exchange knowledge and experiences, specifically between those more advanced and those that are just getting started on productive activities. In addition, the *comunidades instructoras* program enables the establishment of collaboration arrangements for long-term engagements among IPLC. The programs allow for culturally appropriate learning activities that go beyond knowledge transaction and rather focus on showcasing experiences and models that have proved to work for IPLC. The direct learning experience from IPLC to IPLC enhances the credibility and ownership of the transmitted information. To date, CONAFOR has identified 50 of these *comunidades instructoras*, which beside technical and managerial best practices also need to show infrastructure to be able to carry out exchanges and specifically receive groups from other *ejidos* and communities. Thirteen of these communities are in Oaxaca. However, in the other intervention states there are one (Campeche, Yucatán) or two (Jalisco, Quintana Roo) communities registered as *comunidades instructora*.

40. To improve the capacity of incipient *ejidos* and communities to conduct integration of sustainable productive activities in forest landscapes, successful access to markets and financial services, the 50 knowledge-sharing activities will focus mainly in the following areas: (a) project management and developing technical and financial proposals; (b) low-carbon productive activities in forest landscapes and REDD+ and integration between communities, producers, and community enterprises; (c) financial inclusion strategies to access funding and financial services and products; (d) PM&E.

41. These 50 knowledge-sharing workshops will be conducted by already successful *ejidos* and community forest and non-forest enterprises preidentified for this purpose from within targeted regions or beyond, if needed. CONAFOR has a detailed list of *comunidades instructoras*, which presents a description of each community/*ejidos* technical expertise. The NEA will assess the information available to select those *comunidades instructoras* from CONAFOR's list and beyond to deliver the different types of workshops and topics. The ANE will enter into collaboration arrangements to organize, facilitate, and deliver those workshops and will support the overall organization and participation of IPLC beneficiaries. Depending on the infrastructure available, it is expected that around 30 people will participate in each workshop. These workshops will also use the training materials that will be developed under activity c of this subcomponent.

42. With regard to gender inclusion, the particular gender focus of the Mexico DGM is necessary as most women are excluded from decision-making processes within *ejidos* and *comunidades* and to some extent from benefit-sharing models, as they usually do not hold land tenure. The DGM seeks to tackle that issue through (a) the introduction of the *community promotores* model, which has proven to be an effective tool in the inclusion of non-land-tenure holders to productive activities and (b) actively enabling women to become knowledge leaders within their communities and regions and thereby showcasing their essential role to progress and productivity.

Subcomponent 2.2. Communication and Advocacy (US\$0.3 million)

43. This subcomponent will support technical assistance and financing of operational cost to conduct communication and advocacy activities by

- (a) Developing a culturally appropriate communication and advocacy strategy for the DGM activities. Particularly, this strategy will facilitate the successful implementation of project activities, including the design and administration of the Mexico DGM Internet website, support effective and culturally appropriate calls for proposals for subprojects, identify and disseminate lessons learned and good practices, and showcase successful sub-projects to both internal and external audiences and interested parties such as CONAFOR, CDI, SAGARPA, FIRA, *Financiera Nacional*, and so on and the international community. With this activity, the NEA will ensure that targeted beneficiaries, organizations, and communities in the selected areas within the geographical intervention of the DGM know about the project, the funding windows, call for proposals for subprojects, and overall activities; and
- (b) Supporting the participation of DGM beneficiaries, the NSC, and regional subcommittees members in key DGM and REDD+ processes and events at the local, national, and international levels.

44. Therefore, Component 2 necessarily provides the base for Component 1, as targeted groups and beneficiaries are different: beneficiaries under Component 2 are (a) single *ejidatario*, *comunero*, or *avecinado*; (b) *ejido* or community; (c) associations or organizations of producers; and (d) community enterprises within targeted areas in general, whereas beneficiaries under Component 1 are (a) single *ejidatario*, *comunero*, or *avecinado*; (b) *ejido* or community; (c) associations or organizations of producers; and (d) community enterprises that were selected or at least preselected as sub-projects. Thus, Component 2 focuses on targeted beneficiaries who participate in REDD+ and integrated landscape management related knowledge exchanges under the project and bringing them toward being able to present feasible project proposals. Component 1 focuses on providing tailor-made training to preselected and already selected subprojects.

45. Training to enhance the technical and managerial capacities of potential beneficiaries (Subcomponent 2.1) and beneficiaries (Component 1) as well as IPLC (Subcomponent 2.1) and community-driven knowledge (Subcomponent 2.1) might be delivered directly by the NEA to the relevant audience. This in-house knowledge and learning will be explicitly eligible.

Component 3: Management, Monitoring, and Evaluation (US\$ 900,000)

46. This component will support two main areas. First, it will support activities that increase the capacity of IPLC to oversee and assess their forest resources and to monitor and evaluate project activities using a participatory approach. Second, it will cover the incremental management costs of the NEA to implement the subprojects and facilitate capacity building. That said, the component and its cost are part of an integrated approach to cover project management, monitoring under a participatory approach, and supervision.

Subcomponent 3.1. Participatory Monitoring and Evaluation (PM&E) (US\$0.1 million)

47. This subcomponent will support technical assistance and financing of operating cost for (a) design and implementation of a pilot PM&E system to test the concept within the context of the project and areas of intervention; (b) implementation of the PME system in all subproject areas, with the key feature to focus on participation, not only to oversee the results of the project but also to serve as a tool to empower forest-dependent communities to improve the management of their own resources and to promote collaborative learning; (c) implementation of a subproject-level survey to compare with national existing metrics provided by CONAFOR's annual National Beneficiaries Survey (*Encuesta Nacional de Beneficiarios*); and (d) dissemination and exchange of lessons learned of the use of the PME system (under the Global DGM component).

48. This subcomponent is built on lessons learned from previous World Bank and government projects in Mexico and elsewhere related to participatory management and M&E. Monitoring of project activities will include reporting of outputs and outcomes based on the indicators specified in the RF in annex 1 and will be collected using a participatory approach. The activities supported under this subcomponent include participatory workshops, surveys and dissemination of results.

49. There are four main areas that this subcomponent will support. First, it will support the implementation of a pilot PM&E system to test the approach within the context of the project and areas of intervention. The NEA will facilitate the implementation of the pilot. The pilot system, including the tools and methodologies, will be detailed in the POM, and the NEA will customize and implement it. During implementation, the NEA will analyze the lessons learned from this pilot and will inform and adapt the design of the final PM&E system that will be implemented in all subproject areas.

50. Second, this subcomponent will support the implementation of the PM&E system in all subproject areas based on the lessons from the pilot. The PM&E system should be an efficient and simple tool to gather information for the RF including the baseline and will be focused on building capacity at the community level. The implementation of the PM&E will be facilitated by the NEA, with the support from the *promotores comunitarios locales* trained under Subcomponent 2.1. The PM&E process will also include the beneficiaries from IPLC in all the steps of the M&E process, including (a) establishing the M&E framework; (b) collecting data; (c) analyzing data; (d) documenting, reporting, and sharing information; and (e) developing action plans based on the data and information collected, analyzed, and shared. The PM&E system will promote project ownership, serve as an accountability mechanism, be flexible and adaptable, and complement existing systems. To facilitate the adaptation to local conditions and

provide a standardized and rigorous methodology, the system will be based on modules by topic and themes. The IPLC, with the support of the NEA, will be able to select the specific modules that are relevant to their culture, project, and objectives. Some examples of modules could be (a) governance and organization, (b) access to finance, (c) benefit sharing and inclusion, and (d) socioeconomic development. The NEA will design and use a simply shared platform to oversee and analyze the implementation of all the subprojects. The NEA will have an internal annual workshop with the *promotores comunitarios locales* to analyze the PM&E results and propose modifications to the next PM&E process. The detailed description of the PM&E system will be included in the POM, including the proposed modules, tools, methodology, and analytical approach. Some of the methodological tools that will be implemented include participatory rural appraisal and participatory learning action techniques.

51. Third, this subcomponent will support the NEA to undertake and analyze an annual survey in each of the subproject areas, following the same procedures as the Government's National Beneficiaries Survey (*Encuesta Nacional de Beneficiarios*, ENB) from CONAFOR. The ENB is a national level survey that has been implemented four times since 2011, to a representative national sample that benefits from national forest programs. The ENB survey is supported under the World Bank's FCC project and has advanced the efforts in measuring economic and capacity-building benefits from the FCC project. This activity will allow to compare the characteristics of the communities participating in the DGM with the communities at the national level. The PM&E supported under this project, complemented with the survey, will serve to test an innovative and complementary monitoring approach that considers traditional surveys with bottom-up PM&E. This will serve as a learning exercise that could be adopted by other government and nongovernment institutions.

52. Fourth, this subcomponent will support the NEA's dissemination and exchange of lessons learned from the use of the PM&E system. This activity is aligned with the Global DGM component, which aims to organize and facilitate knowledge exchange, learning, and capacity building on REDD+ and climate change issues at regional and global levels. The activities supported by this subcomponent will include dissemination of results both internal—with the participating communities—but also external—with other countries participating in the DGM and with government and nongovernment initiatives in Mexico. This will facilitate replication and institutionalization after the project is completed. The exchange of experiences among subprojects will be supported under Subcomponent 2.1 *Ejidos-School - Comunidad-to-Comunidad* capacity-building approach. The activities supported include workshops and dissemination of reports, flyers, and other printed and online materials.

Subcomponent 3.2. Management (US\$0.8 million)

53. This subcomponent will finance the incremental operational and managerial costs of the NEA to carry out its task and responsibilities. The total operational cost of the NEA is 12 percent of the total donated amount, equivalent to US\$720,000. These responsibilities include (a) serving as Secretariat to the NSC, including technical and financial support for the organization of the annual NSC and regional subcommittee meetings and the provision of technical assistance to support the NSC's approval process; (b) providing the technical coordination and M&E; (c) reporting to the World Bank, NSC, and the GSC; (d) providing the project's FM, procurement, and social and environmental safeguard; (e) designing and implementing the project's GRM; (f)

supervising the implementation of community initiatives and results assessments; and (g) developing a robust POM. Additional US\$80,000 will cover the cost of contracting the annual project audits for the life of the project. Further information on the NEA's role and responsibilities is presented in annex 3. This component will finance studies, training, travel, and limited procurement of software and hardware.

54. This component will also finance the establishment and operation of a culturally appropriate, project-related GRM. The DGM OG require that each country-level DGM has a culturally appropriate and accessible GRM. During the participatory process to develop the governance structure of the DGM in Mexico, written and verbal complaints were received by a network group citing lack of representation during the consultation process. These complaints were documented and resolved following World Bank guidelines. While the DGM will not be exempt from these type of complaints, serious conflicts are unlikely due to the highly participatory and transparent nature of the process; however, the NEA will be responsible for establishing a mechanism that will be used during project implementation to address and resolve any project-related grievances. To support the NEA in this task, the World Bank will provide information and good practices on how to develop such a mechanism, taking into consideration similar mechanisms already developed in the country, for example, by CONAFOR. These mechanisms are relatively robust and the NEA will be able to use them to better connect the communities to a project-specific GRM. The expectation is that the NEA will develop the GRM during the first six months of the project's implementation.

55. The Mexico DGM will also benefit from the global component on knowledge sharing and networking in REDD+. The DGM PDO is to strengthen the capacity of IPLC to participate in the FIP and other REDD+ programs at local, national, and global levels, which will be implemented through the Global Learning and Knowledge Exchange Project, which aims to organize and facilitate knowledge exchange, learning, and capacity building for IPLC at regional and global levels and to strengthen the networks and alliances of IPLC organizations within and across regions with a view to enhancing their representation and voice in regional and global policy forums.

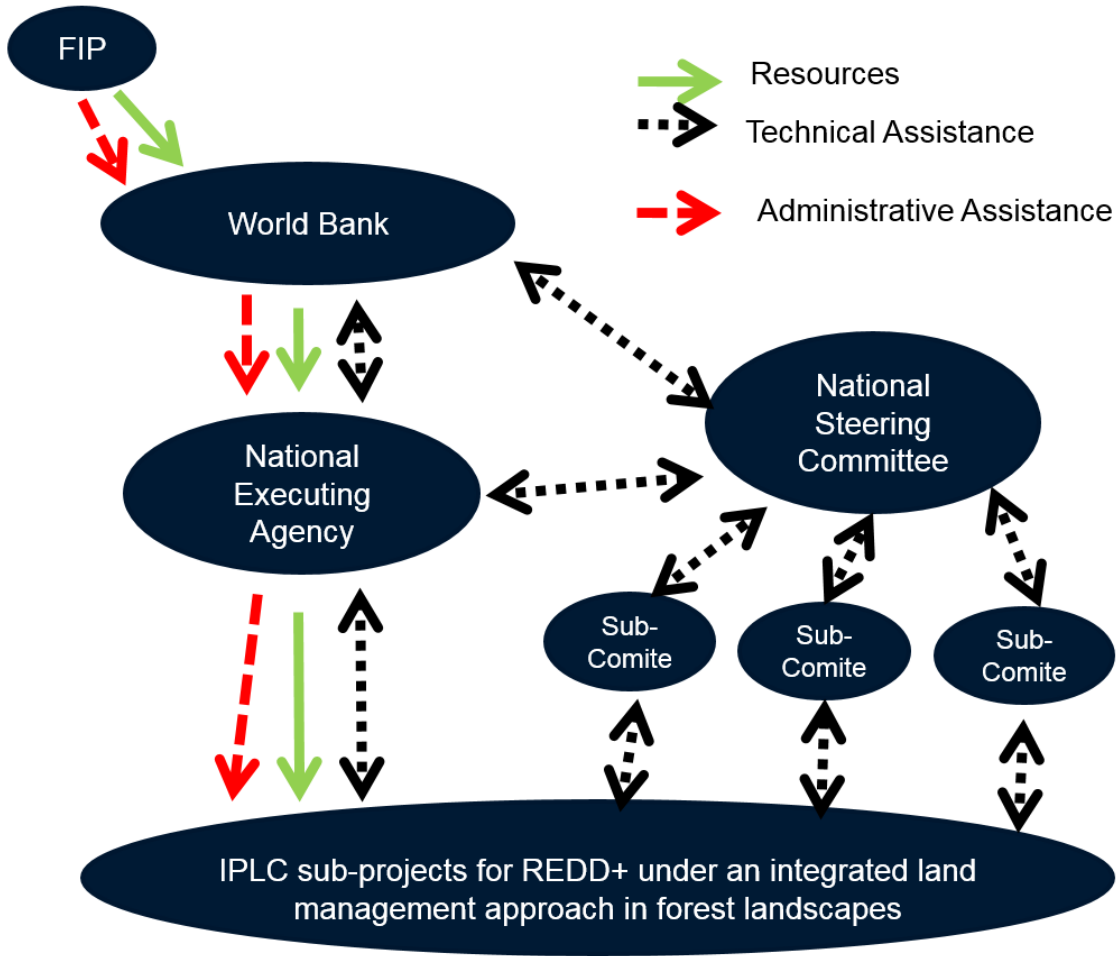
56. No withdrawal shall be made for payments made before the date of the Grant Agreement, except that withdrawals up to an aggregate amount not to exceed US\$65,000 may be made for payments made before this date but on or after the date 12 months before the date of the Grant Agreement, for Eligible Expenditures under Disbursement Category (2) covering Subcomponent 1.2 and Components 2 and 3.

Annex 3: Implementation Arrangements

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

Project Institutional and Implementation Arrangements

Figure 3.1. Implementation Arrangement



1. The governance structure of the Mexico DGM was built taking into account lessons learned in other projects and in collaboration with IPLC that led to the organization of the NSC. The implementation arrangements for the project reflect a strong commitment to a community-driven and highly focused approach that builds the capacity of the beneficiary communities to identify their own priorities and improves governance at the local level by directly participating in the implementation of the subprojects financed by the DGM. These implementation arrangements will greatly contribute to building capacity for better and more SFM, eco-agriculture in forest landscapes, ecotourism, and social inclusion. In addition to the details provided here, the roles and responsibilities of the NSC, NEA, IPLC, and the World Bank are outlined in the POM. Capacity building in key aspects of project implementation such as FM and

procurement have been prioritized for the NEA, NSC, and IPLC during the first six months of project implementation and are included in the ISP (annex 4).

2. The NSC will continue to provide overall governance for the Mexico DGM. The NSC was established and integrated by three regional subcommittees from each of the three targeted regions. There are 15 permanent seats with representation from each of the subcommittees. The NSC, along with the NEA, will review and approve the proposals submitted by IPLC. The proposals will be reviewed for overall quality, economic feasibility, consistency with the FIP Investment Plan and FIP objectives, and potential for meeting the project's indicators. The roles and responsibilities of the NSC are outlined in the *Reglamento Interno* that was shared with the World Bank in August 2016 and that will be formally integrated into the POM. These include principles of transparency, conflict of interest, and accountability. The regulations are consistent with the DGM Framework OG and they will be reviewed and updated during implementation to ensure consistency with the Grant Agreement and the POM. The NEA representative will support the NSC meetings. In fact, the NSC invited CONAFOR and CDI to appoint a representative from their organizations to be part of the NSC as observers and also as members of the Selection Committee to hire the NEA in November 2016.

3. Some of the NSC responsibilities are to

- Decide on the annual working plans and the eligibility criteria for funding in accordance with the criteria established by the Global DGM Framework Guidelines for operations;
- Review and make funding decisions on eligible community proposals to award the sub-grants envisaged under Component 1;
- Provide oversight of project implementation and keep the NEA's operations under review;
- Report to the GSC on national activities, on a semiannual basis;
- Review the progress of subprojects as compared with RFs and discuss the lessons learned to apply them to future subproject design and implementation; and
- Mediate and resolve DGM Project-related conflicts and complaints, among others.

4. In addition, the NSC is also expected to (a) participate in meetings of other national REDD+ committees and FIP institutions to ensure that DGM lessons are shared with other ongoing national processes; (b) seek regular feedback from indigenous beneficiaries regarding DGM implementation, identify needs, collect and send ideas to the GSC for possible support under the Global DGM component; and (c) raise additional funds through other programs and mechanisms.

NEA

5. The NEA will be the Secretariat to the NSC. Selection of the NEA was carried out through a competitive process supported by the World Bank. The NEA is a nonprofit NGO that

meets the World Bank's program-related fiduciary and safeguard requirements. The NEA will facilitate the NSC's work and provide the World Bank with operational and financial reports, including progress toward achievement of the PDO. The NEA's principal responsibilities include

- Serving as Secretariat to the NSC and organizing its meetings and those of the regional subcommittees;
- Ensuring timely implementation of all project activities and monitoring such activities and the project's related indicators (including preparation of the draft proposal for the annual plan of activities, issuance of calls for proposals, signing of the subproject agreements with the selected IPLC representative organizations, and disbursement of funds to projects selected by the NSC);
- Preparing TORs for the selection of consultants and technical specifications for the procurement of goods, works, and services for specific activities (under Components 1, 2, and 3); processing their selection and procurement; and overseeing contracts execution to ensure satisfactory implementation;
- Ensuring appropriate use of DGM funds, reporting to the World Bank on the allocation and use of funds, and ensuring that procurement is carried out in accordance with World Bank rules and procedures, including the preparation of procurement plans when applicable;
- Ensuring that each community activity has an appropriate RF and collecting, updating, aggregating, and evaluating data based on these RFs;
- Maintaining documentation on the DGM Projects and preparing progress, results, and financial reports (and other project-related documents as necessary), as agreed in the Grant Agreement;
- Ensuring that the World Bank's safeguard policies triggered under the project and related ESMF are observed and complied with;
- Hosting and facilitating the World Bank's supervision missions and working with the World Bank to optimize the operation's results and impact;
- Maintaining communications and technical dialogue with stakeholders and providing information and assistance to grantees;
- Managing grievance and complaints redress processes; and
- Responding to queries; coordinating and providing information for the GEA.

6. The NEA was selected through a competitive process during the months of October and November 2016. This process was supported by the World Bank and carried out by the NSC with the participation of CONAFOR and CDI, two key institutions from the Government of Mexico. The NEA will begin operations following the approval of project effectiveness. A Grant

Agreement will be signed by the NEA and the World Bank to administer the grant scheme. Subsequent subproject agreements will be signed by the NEA and the individual grantees. This operational arrangement is being proposed to reflect the need for a decentralized approach and to ensure that IPLC will have easy access to the NEA during implementation.

7. As with all grant recipients, the NEA will assume full and primary responsibility for the administration of grant resources, compliance with the World Bank's fiduciary and safeguard policies and procedures, and all project-related monitoring and reporting. During project implementation, the NEA will enter into subproject agreements with grant recipients for the implementation of the proposals and subprojects and will provide technical support as part of technical assistance under Component 1. They will also be responsible for procurement of goods that are common to all subprojects including equipment, fuel, transportation, emergency vehicles, if necessary.

8. Once proposals are approved by the NSC, the NEA will enter into a subproject agreement with the grant recipients. The executing agreement will clearly set out the responsibilities and obligations of both parties, confirm the final budget for the referenced activities, define procurement arrangements, disbursement arrangements, eligible expenditures, and reporting requirements. Any additional training—administrative or technical—needed for the grant recipients to successfully implement the subprojects will be identified in the subproject agreement and will be provided by the NEA as part of technical activities described in Component 1. The signing of these subproject agreements will be a prerequisite for the grant recipients to receive a reasonable monetary advance so that they can undertake important pre-implementation activities such as community meetings or purchasing equipment. Subsequently, funds will be transferred in tranches from the NEA to the grant recipients to execute proposal according to the schedule established in the implementation plan and the executing agreement. The subprojects will be implemented with the full participation of the beneficiary community or group of communities and will require evidence of broad community support.

9. The World Bank will provide guidance on the technical soundness and feasibility of the proposals as well as their compliance with fiduciary, procurement, and safeguard policies. However, the World Bank will not participate in the NSC's decision-making processes. Government representatives and civil society observers may also be invited to the NSC. Appropriate principles of transparency and accountability will be built into the NSC's decision-making processes. Its functions and membership will be further detailed in the POM. The World Bank's administrative costs for project preparation and supervision will be financed from the reserve fund under the FIP and in accordance with CIF benchmarks for project preparation and supervision.

Grievance Redress Mechanism

10. In accordance with the DGM Framework OG, a GRM will be established and further detailed in the POM. These mechanisms and procedures will ensure that all complaints received from IPLC and other interested stakeholders related to a grant award decision, representation in the NSC or the GSC, or the governance of the program will (a) have a properly written record, (b) receive timely resolution of issues, and (c) be publicly reported (with regard to complaints received and actions taken on each complaint). Regardless of the nature of the grievance, the

DGM will ensure that a transparent, timely, and fair process is adopted to address each complaint.

11. The DGM will ensure culturally appropriate, easy access to information on the program, grant-funded projects, status of project proposals under review, and contact points. This information will be provided on the NEA websites and any other website available from participating organizations, in information-sharing meetings organized for this purpose, and through other culturally appropriate means of communication. The NEA and the NSC will maintain open lines of communication and actively reach out to stakeholders. The NEA and the NSC will regularly review feedback received, respond to questions and comments on the websites, and report to the NSC on actions taken.

12. The initial point of contact for all grievances will be with a dedicated staff member within the NEA. The NEA will assign a staff member to receive and acknowledge complaints and feedback. The name and contact information of the staff member will be on the website and in all printed program brochures. Complaints will be acknowledged within 10 business days with a written response to the complainant, detailing the next steps to be taken, including escalation to the NSC or the next level when appropriate.

13. The NEA will record all complaints received in a publicly accessible online system that will allow complaints to be tracked and monitored. All feedback and complaints received will be displayed on the DGM website with complaint numbers to help the complainant in tracking progress. This information will be available in a more culturally appropriate manner, depending on local circumstances.

14. It is expected that the majority of grievances filed can and should be resolved on the spot by the NEA. When the NEA cannot resolve the issue, the grievance will be escalated to the NSC. If the NSC cannot resolve the issue, it will escalate it to the GSC. If the complaint is related to decisions on grant applications by the NSC, the complaint will be referred to the NSC. If it relates to MDB policies, an MDB staff member from the respective country office of the MDB may be invited by the NSC to its meeting to interpret the relevant policy. If the complaint does not fall under the mandate of DGM operations at the country level, but relates to (a) the policies of the DGM as a whole, (b) the governance of the DGM in the country, or (c) complaints that could not be resolved at lower levels, the matter will be taken to the GSC's Grievance Subcommittee, which will be formed to handle the escalated grievances upon request.

Financial Management, Disbursements, and Procurement

15. One of the lessons learned from similar projects and other DGMs is that FM and procurement need to be simple and flexible to avoid adding a disproportionate burden on the regional indigenous federations and organizations that will be responsible for implementation. The team has relied on the CDD best practice guidance to design these systems while ensuring a high level of accountability and efficiency.

Financial Management

16. A requirement for the competitive selection of the NEA was experience with the FM requirements of the World Bank and other multilateral agencies. Nevertheless, the World Bank

team will continue to provide further FM training to the NEA. Supervision missions will review the project's FM system, including but not limited to accounting, reporting, and internal controls. For more details on FM and disbursement, see annex 7.

Procurement

17. **Procurement** will be conducted according to the World Bank's 'Procurement Regulations for IPF Borrowers', issued in July 2016, for the supply of civil works, goods, consultants, and non-consultants services. Procurement activities under Subcomponent 1.2, Component 2, and Component 3 will be undertaken directly by Rainforest Alliance, and IPLC, following a CDD approach, will conduct activities under Subcomponent 1.1. The World Bank's standard procurement documents will govern the procurement of World Bank-financed Open International Competitive Procurement.

18. **A procurement capacity assessment** was carried out for Rainforest Alliance and the analysis concluded that the Rainforest Alliance has experience in dealing with procurement activities. However, considering the particularity of such activities and the large number of subprojects, a dedicated and experienced Procurement Specialist should be hired to support the project's implementation. The POM shall include clear procedures comprising a capacity assessment methodology for the beneficiaries (which will be conducted by the Rainforest Alliance); eligible expenditures under standard procurement (SP); procurement methods that will apply under SP; templates for SP (Procurement Plan, Request for Quotations, contracts, and so on); and supervision and audit arrangements.

19. **Procurement arrangements.** A Project Procurement Strategy for Development (PPSD) was carried out and identified the appropriate selection methods, market approach, and type of review by the World Bank, as follows:

- **Civil Works, Goods, and Non-consulting services** will be procured following Request for Bids, Request for Quotations, and Direct Selection methods. Under the Open International Competitive Procurement approach, the World Bank's standard procurement documents will apply.
- **Consulting services** will be procured following Quality- and Cost-Based Selection, Fixed-budget Based Selection, Least-Cost Selection, Quality-Based Selection, Consultant's Qualifications-Based Selection, Direct Selection, and Individual Consultants methods. Under the international market approach, the World Bank's Request for Proposals standard document will apply.
- **Procurement under subprojects** will be conducted by eligible IPLC. The eligible expenditures will exclusively comprise eligible expenditures following the CDD approach, which will include Request for Quotations and local competitive bidding. Rainforest Alliance will be responsible for monitoring and supervising the procurement activities conducted by the beneficiaries.

Risk Mitigation Plan

Table 3.1. Procurement Improvement Action Plan

Risks - Areas for improvement	Mitigation Actions	Responsible	When
Market knowledge and planning	A comprehensive PPSD and a detailed Procurement Plan has been prepared. For Standard Bidding, both instruments will have a programmatic approach with market approaches to each procurement category.	Rainforest Alliance with the support of the World Bank	Before Negotiations
Responsibilities related to the procurement activities	<p>The POM must contain a clear definition of the processes, roles, and responsibilities of the staff related to the implementation of the procurement activities.</p> <p>With respect to SP, the POM shall include the following:</p> <ul style="list-style-type: none"> • Capacity assessment methodology for the beneficiaries, which will be conducted by the Rainforest Alliance • Eligible expenditures • Procurement methods that will apply under templates (Procurement Plan, Request for Quotations, contracts, and so on) • Supervision arrangements • Audit arrangements 	Rainforest Alliance	Before Negotiations
Staff with expertise in procurement	A Procurement Specialist with TOR acceptable to the World Bank shall be incorporated to the Rainforest Alliance.	Rainforest Alliance	As agreed in the Procurement Plan
Most of the procurement activities would be implemented through beneficiaries of subprojects	<p>The subproject agreements signed between the Rainforest Alliance and the IPLC shall include a statement in which the beneficiaries agree that the procurement of civil works, goods, and services would be carried out in accordance with the procedures set forth in the POM.</p> <p>The Rainforest Alliance will conduct training to the beneficiaries.</p>	Rainforest Alliance	During project implementation

Environmental and Social (including safeguards)

20. One of the criteria for the competitive selection of the NEA was familiarity with the environmental and social safeguard policies of the World Bank and other multilateral agencies. The NEA will be responsible for ensuring compliance with all policies and procedures including in the ESMF approved by the World Bank. The NEA will develop site-specific Environmental and Social Management Plan for each intervention area and will provide standards, procedures, and institutional arrangements to ensure environmental and social sustainability and fulfillment of the rights of IPLC during project implementation. The institutional arrangement will be proposed by the NEA and approved by the World Bank.

21. The Mexico DGM is conceived as a pilot project and its design has been led by IPLC. The project aims at contributing to the implementation of the national REDD+ program—including the World Bank’s FIP, FCPF and FCC projects with the Government of Mexico—and

particularly adds to the ongoing efforts to implement its operational pillars, the ENAREDD+, and the emission reduction program under the FCPF. In that regard, Mexico's overall REDD+ program provides an open, participatory, inclusive, culturally appropriate, and analytical consultation process. Particularly, under the FCPF readiness grant, a full national consultancy on the ENAREDD+ was carried out that included four modalities—indigenous peoples, sectoral workshops, working groups for vulnerable groups, and online—and more than 5,000 consultees. The DGM is designed and implemented as part of Mexico's REDD+ program and therefore, builds on this strong record. The project is expected to have a positive social impact on the lives of IPLC. There is an ongoing broad process of informed and free consultation that started in 2014 and a total of 16 consultation workshops have been held with key stakeholders, including two regional meetings with indigenous representatives in the Yucatán Peninsula, Oaxaca, and Jalisco. In addition, six consultation meetings were conducted with each one of the regional subcommittees and general assemblies of the NSC in Guadalajara, Jalisco, Chetumal, Quintana Roo, and Oaxaca. A basic information package was put together by the NSC to consistently inform different IPLC organizations at all subcommittee meetings and general assembly meetings.

22. **The main outcomes of this participatory process, so far, have been** (a) the designation of the World Bank as the MDB responsible for the project in Mexico, (b) the agreement on the criteria for selecting representatives of the regional subcommittees and the NSC, (c) the selection of the Consorcio Chiclero as the chair of the NSC, (d) the inauguration of the NSC in January 2015 with a composition proportional to the number of participant states, and (e) the Rules and Procedures Document (*Reglamento Interno*) which will be reflected as part of the POM. As part of public consultation process, the call for proposals to hire the NEA was widely publicized and included in [governmental websites](#), [private sector websites](#), [NGO websites](#), and the World Bank Group website.

23. Likewise, the NSC and the World Bank have been actively advocating for more representation of women in the Mexico DGM. Among 15 members in the NSC, 1 female member was integrated during the preparation phase of this project and an overarching mentoring program, to be piloted in Oaxaca, has been agreed. This mentoring program will allow for each representative to name one substitute that mandatorily will be a woman and will assist to all meetings. That will allow for the governance structures of the DGM to enable women, train them, and step by step integrate them fully into the project and the processes. In addition, in alliance with Conservation International, a women community representative from Oaxaca was able to attend the International Union for Conservation of Nature meeting in Hawaii.

24. A comprehensive analysis of different social and environmental assessments of several projects in the forestry and natural resources sector with significant IP components was carried out to inform the design of the project and also an ESMF was developed. The analysis included an extensive desk review, field visits to several of the potential beneficiary regions in the targeted states, and interviews and meetings with a wide range of stakeholders. One of the most important issues found in the review of the social assessments is the need for the social inclusion of IP and communities in the projects. In addition, the assessment identified the need for culturally and socially appropriate means of communication, with culturally appropriate training and materials, as well as the importance of taking into account their traditional knowledge and traditions during the implementation of the project activities.

25. As a result, the World Bank's OP/BP 4.10 (Indigenous Peoples) is triggered for this project. As IP are the project's direct and main beneficiaries, this project is considered to be an IP project. For this reason, an IPP was not prepared. The project was jointly prepared with the NSC and in full consultation with indigenous leaders from the project area. A robust consultation process was conducted with members of the NSC and key governmental institutions such as CONAFOR and CDI to review the proposed project design. Project documents including the POM and the ESMF were jointly reviewed, inputs incorporated, and continuously consulted and reviewed with the beneficiaries and the NSC, and the inclusion of non-land-tenure holders, specifically youth, women, and *avecindados*. The project will not only address these findings for project design but also mainstream these elements to the project's governance structure; consultation processes for project dissemination and subproject identification; and during the call for proposals, among others, through (a) the establishment of a permanent mentoring program within the regional subcommittees for women, (b) culturally appropriate calls for proposals for subprojects, and (c) capacity-building and inclusion efforts to enable indigenous groups and nontenure holders to develop and present project ideas.

26. **Environmental Assessment (OP/BP 4.01).** This project is classified as Category B. The project is designed to generate positive environmental impacts through increased incentives to protect the forests and stronger capacity at the local level for forest and natural resource management. In that regard, the project will support activities in the forest sector and outside the forest sector within forest landscapes and that contribute to strengthening and reestablishing forest landscapes. Potential negative impacts will be of limited scope and not be significant or irreversible.

27. In addition, the proposed project has fully integrated into both its design and governance structure an integrative approach for vulnerable groups and specifically for women. Women's participation in CFM in Mexico and targeted demand-driven community forestry programs for that matter is very low. Approximately, less than 25 percent of direct beneficiaries under Government-run subsidy and technical assistance programs are women. Most of Mexico's forests are governed under a legally established collective ownership system—*ejidos* and communities. One of the main barriers of women's participation is legal, given that most land tenure holders in communities and *ejidos* are men and participation in subsidy programs is conditioned to the proof of land tenure. That said, inclusion of women highly depends on overcoming the exclusion based on land tenure rights and proactively supporting activities that do not link to land tenure. This is one of the key focuses of the Mexico DGM and includes productive activities to increase economic outcomes in forest-landscapes as ecotourism, commercialization of non-timber products like honey and mushrooms, and arts and crafts. In addition, women who live in forests face other complex gender barriers that limit their participation in the management and conservation of forest resources. Barriers could include gender norms, access to information and resources, and psychological agency. According to the World Development Report 2015, incorporating behavioral insights into public policy can address the causes of social inclusions. The project will aim at including additional analytical work to identify and potentially tackle these barriers. Lastly, the very governance structure of the DGM has been reshaped to allow for a 100 percent male membership of the NSC to evolve toward a gender-inclusive governance scheme. As a first step, Oaxaca Subcommittee has included women secondees for each representative in the regional committee. This allows for an adequate capacity-building and guided inclusion to the DGM Project. As local representatives

are selected to the NSC, the inclusive secondee structure is brought to the NSC itself. The approach will be replicated in the remaining two regional committees, thereby ensuring full application at the national level as well.

28. The program-level Gender Report, throughout the analysis, has identified and will further analyze the following barriers women face when participating in forest management and associated beneficiary schemes:

(a) **Traditional barriers**

- *Legal/Institutional*

- **Infrastructure:** As for the general barriers that exist for women—and to some extent also for men—to access beneficiary schemes, the marginalization and isolation of communities plays an important role, as the distance to the state capital, the next Secretary’s delegation, or the Municipal Presidency may involve several hours of transfer. This causes difficulties in delivering documents to the state delegation offering the benefits, difficulty in the logistics to organize the transfers, constraints to leave the home instead of taking care of the kitchen or children, and financial difficulties due to the high price of the transfer or for providing copies of an identification document called ‘CURP’ which some women in the communities do not even have.
- **Lack of land tenure:** To apply for beneficiary schemes and participate in decision making and assemblies, one has to hold a land title. However, only 19.8 percent of the women in Mexico have land tenure, and the majority are around 60–70 years old as they have inherited the land from their husbands, which means that they are now too old to participate in assemblies and work the land. At the same time, men who migrate rarely sign over their land to women, thus not providing their wives with the necessary legal empowerment to work the lands and apply for governmental support.
- **Lack of gender policy mainstreaming:** A further effort to fully mainstream gender across governmental secretaries and governance levels should be undertaken. Many officials do not use a ‘gender lens’ when designing programs or working with the communities. Most data are not disaggregated by gender and forestry promoters who work together with the communities when applying and implementing the programs are to a majority male, which might impede some women to create the trust needed to apply for programs.
- **Policy incoherence:** Subsidy programs at the state level and from different secretaries are sometimes opposing. For example, a person receives MXN 1,500 (around US\$80) per hectare for a program paying for environmental services,²³ while the Rural Food Security Project (managed by the Agricultural

²³ CONAFOR 2016c.

Ministry) grants MXN 3,000 (around US\$160) per hectare for the conversion of land into pastures and rangelands.²⁴

- **Economic**

- **Poverty trap:** Female-headed households are poorer and face high risks of falling into the poverty trap. A study of the *Oportunidades* Program has shown that it is more common for children and adolescents living in female-headed households not to attend school, especially as girls and young women stop studying to help their mothers at home. This, however, at the same time implies that these families cannot comply with the education requirements of the *Oportunidades* Program and thus cannot profit from it²⁵ or potentially other beneficiary schemes, such as REDD+.
- **Double roles in economy:** Complementary to a remunerated job (in the formal or informal economy), women have a second job, the household chores. Rural women spend 71 percent of their week working in remunerated and non-remunerated activities, contrary to 66 percent of men. This might hold them up from taking up another task, such as a REDD+ program participation.
- **Educational disadvantages:** Girls tend to get fewer educational years than boys for cultural and economic reasons (mother needs them at home) and as adult women are often less exposed than men to the world outside of their communities, which makes them less proficient in Spanish (for example, they only speak Mayan).

(b) **Behavioral**

- **Cultural:** Women are still caught in the traditional roles that they were assigned a century ago, such as housekeeping, childcare, and food preparation. This changes very slowly and mostly through education: educated and young people seem to have already changed traditional roles; the majority of the community population (for example, adults and elderlies), however, continues to have the same mindset that women should work at home and that men should take care of the forest and livestock and are the decision makers. Therefore, it is highly recommended to invite more young people to the assemblies to induce a community change from within.
- **Social:** It is not always viewed favorably that the woman is absent for two days to go to the Municipal Presidency to carry out the required process. Subordination to the man in the household still exists and power relationships in the communities are still unequal.

²⁴ SAGARPA 2016.

²⁵ De la Paz, María y Salles, Vania (2006).

- **Cultural/psychological:** In certain communities, forestry promoters (who are responsible for promoting the beneficiary schemes) cannot get in touch with women (for example, Los Altos in Chiapas where women still do not take part in assemblies and are expected to stay away from strangers), which makes it impossible for women to get to know the potential programs. At the same time, in some areas, women's participation in Government programs or decision making is frowned upon by men and carries a social stigma.
- Women are excluded from ejidal and communal assemblies and governing bodies, important decision spaces where information about subsidy programs is disseminated, and where the community and *ejidos* vote and decide to apply to subsidies to manage their natural resources. Only 12.5 percent of the 350,000 representatives, incumbents, and alternates in management positions are women. On the rare occasions when women participate in assemblies, they might be intimidated by the way decisions are taken (often through loud discussions) and might self-censure themselves.
- Forestry work is traditionally seen as a male-dominated work field as it requires strength for logging and so on. Though nontraditional approaches have been designed (for example, REDD+ and beekeeping or resin harvesting), women do not feel empowered to take them on.

Monitoring and Evaluation

29. PM&E is undertaken to ensure accountability for the use of funds and progress toward the objective of the project and the Global DGM objectives. Central to this is the capacity of forest-dependent communities to participate in REDD+ related processes which includes the capacity for M&E related to their forest resources and of outputs and outcomes under the project. M&E is also undertaken for project management purposes and provision of timely data and information to allow for timely self-evaluation and to take corrective measures, if needed. Furthermore, PM&E is vital to learning and transparency and provides a platform of evidence to inform policy in general and to the Global DGM learning objectives in particular. Annual validation of the progress toward objectives will be undertaken jointly with the local communities, the NEA, CONAFOR, and the World Bank. In addition to the IPLC, main users of the PM&E data and information will be the NEA and decision makers and policy makers in CONAFOR and stakeholders in community forestry outside of the government sector as well as the Global DGM initiative.

30. To measure progress toward the PDO and to follow a certain direction in the project activities, the project is made up of a skeleton of four PDO indicators—see the project RF in annex 1. These cover various aspects of the strengthened capacity of forest-dependent communities. PDO Indicator 1 covers access to finance which is a key constraint to further development of the forest community approach while PDO Indicator 2 captures the capacity building of forest-dependent communities in general. PDO Indicator 3 and PDO Indicator 4 are DGM indicators that cover increased benefits (monetary and nonmonetary) and the core of the PDO statement, that is, capacity to participate in REDD+ related activities, respectively. In addition, sets of intermediate indicators for each component have been selected. PDO and

intermediate indicators were selected to balance the number of results areas that are considered critical to measure progress and to maintain a streamlined design of the project, that is, practicality and manageability.

31. The RF includes the indicators, their unit of measurement, baselines, annual targets, data sources, and methodology for calculation of annual progress against the indicators as well as frequency of data collection. Responsibility for data collection and reporting is also laid out, that is, the NEA based on mainly participatory PM&E. Annual and end-of-program targets are set based on (a) the present situation, that is, the baseline level, as well as the political aspirations and absorption capacity; (b) evaluation of past performance of World Bank programs projects and those of other development partners in Mexico; (c) international comparisons and success and failures of these types of projects in comparable settings; (d) scope and funding of the project; (e) institutional capacity for implementation of a community forestry approach with focus on access to finance and process facilitation. All indicators will be measured and reported annually. This is also the case for indicators that have achieved their targets as well as for indicators for which the target only has to be achieved at the end of the program. Indicators are interlinked and continued measurement contributes to ensuring that the first year's indicators indeed contribute to achieve end-of-program indicators. Furthermore, the end-of-program indicators need to be measured from Year 1 to ensure both the validity of the data source(s) and methodology and as a test of attribution.

32. The project will not use a dedicated/stand-alone PM&E system. The PM&E function will be assumed by the NEA, which has the overall responsibility and coordinating role in M&E for the project. The NEA will ensure monitoring and facilitate data collection, analysis, and presentation of project results and communicate these to the task team. To this effect, a dedicated and qualified M&E officer is in place. During the first semester of the project effectiveness, the World Bank and the NEA will have a workshop to agree on M&E details.

33. The key feature of the PM&E system is the focus on participation, that is, participatory monitoring and evaluation (PM&E). PM&E is about radically changing who initiates and undertakes the process of M&E, as well as who learns or benefits from the findings.²⁶ This concept expands the notion of accountability to answer both organizations and communities. On one hand, it reveals whether an organization's performance against preset indicators is adequate against the objectives. On the other hand, it discloses information about how responsive an intervention is against the needs and goals of a specific community.²⁷

34. The participatory nature of PM&E will be a key part of the DGM, not only to oversee the results of the project but also to serve as a tool to empower forest-dependent communities to improve the management of their own resources and to promote collaborative learning. The PM&E activities are built on the lessons learned from previous World Bank and Government projects in Mexico and elsewhere related to participatory management, monitoring, and evaluation systems. Previous experiences show that the use of PM&E in natural resources

²⁶ Guijt, I., M. Arevalo, and K. Saladores. 1998. "Participatory Monitoring and Evaluation." *PLA Notes* 31: 28.

²⁷ The Hunger Project. 2015. *Data by the People, for the People: Participatory Monitoring and Evaluation at the Hunger Project*. NYC.

management can be a useful tool to increase community organization and ownership and improve decision about how the community can make independent choices for its own development. Most of the M&E activities will use simple and cost-effective participatory tools, including participatory workshops and group interviews. The detailed methodologies will be described in the POM and will include a pilot phase to test the scheme within the context of the project and areas of intervention.

35. Facilitation of the PM&E process will be a key responsibility of the NEA who will guide the targeted forest-dependent communities in all the steps of the M&E process, including (a) establishing the M&E framework; (b) collecting data; (c) analyzing data; (d) documenting, reporting, and sharing information; and (e) acting based on results. The NEA will be responsible for strengthening the PM&E capacity of forest-dependent communities, consolidating and validating data of ongoing progress of all subprojects, and identifying areas where project adjustments may be necessary. The NEA will also be responsible for disseminating the results internally and externally, as explained in Subcomponent 3.1.

36. To facilitate the adaptation to local conditions and provide a standardized and rigorous methodology, the system will be based on modules by topic and themes. The forest-dependent communities, with the support of the NEA, will be able to select the specific modules that are relevant to their culture, project, and objectives. Some examples of modules are (a) governance and organization, (b) access to finance, (c) benefit sharing and inclusion, and (d) socioeconomic development.

Annex 4: Implementation Support Plan

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

Strategy and Approach for Implementation Support

1. The proposed strategy for implementation support was developed based on the project's design and measures required during implementation. The proposed strategy remains a flexible tool that may be amended during project supervision in response to the NEA's changing needs.
2. The implementation support strategy envisages (a) taking advantage of the NEA's existing knowledge and experience and (b) supporting further strengthening of the NEA's abilities during the course of the project. Familiarity with fiduciary, procurement, and safeguard policies of the World Bank and other multilateral agencies is the major criteria for the competitive selection of the NEA.
3. Project management will be centralized within the NEA. For the proposed project, the NEA will be Rainforest Alliance, a nonprofit NGO that was competitively selected by the NSC and staffed with adequate procurement, FM, and safeguards experts.
4. The NEA staff will be encouraged to participate in further training during implementation, both through on-the-job training during the World Bank's semiannual supervision missions and through participation in specific training courses on procurement, FM, and safeguards occasionally organized by the World Bank in Mexico.
5. This project ISP describes how the World Bank will address the risk mitigation measures and provides the technical advice necessary to facilitate achieving the PDO and the results/outcomes identified in the RF. This plan also identifies the minimum requirements to meet the World Bank's fiduciary obligations and reflects lessons learned from similarly situated projects.
6. Based on known national and international best practices, experts in IPLC livelihoods, forest and environmental management, financial inclusion, capacity building, climate change, and communication strategies may be required to (a) advise on the design of envisaged activities, including the preparation of the Calls for Proposals in both grant windows and the assessment of the training and technical assistance work plans (Component 1), as well as in the preparation of the TORs for the capacity-building activities envisaged under Components 2 and 3 and the communication and outreach strategies envisaged under Component 2; (b) participate in project implementation support and field visits to review progress; and (c) engage with the NEA and the NSC to enable knowledge transfer and guidance.
7. The strategy for implementation will include formal supervision visits, including field visits to *ejidos* and communities implementing community subprojects supported by Components 1 and 2, providing implementation support to the NEA, and participating as observers of the NSC meetings.
8. This is the first project that the World Bank is preparing directly and jointly with *ejidos* and communities represented in the NSC. There has been a significant learning curve on both

sides during preparation, but there is limited experience with this kind of innovative approach among the institutions that will be involved in the implementation of the project.

9. The NSC has high capacity for governance but will need to be supported by the NEA in terms of reporting and monitoring project indicators and building capacity to function as an effective governing body. After project approval, the World Bank's formal, legal relationship will be with the selected NEA (Rainforest Alliance).

10. The selected NEA (Rainforest Alliance) has good administrative capacity but has limited experience with financial inclusion working directly with the World Bank as a grant recipient. The World Bank will provide guidance and technical support and will ensure that each entity receives the support necessary to fulfil their obligations and responsibilities. Special attention will be given early to support the strengthening of the NEA in fiduciary management, screening processes for application of safeguard policies, and M&E.

11. It is likely that the World Bank will have to provide more implementation support than ordinarily expected when working with governmental agencies.

Implementation Support Plan (ISP)

12. Considering the project's design, the level of technical support needed for implementation is considered high on the technical side, high on the fiduciary side, and moderate on the environmental and social sides. The World Bank team will conduct semiannual supervision missions, desk reviews, and field visits to follow up on project implementation, supported by FM, procurement, social, and environmental specialists, as well as technical experts. The proposed World Bank support includes the following:

- **Technical.** As may be required for providing adequate technical assistance to the NEA, carrying out proper assessments of project activities and results, and possibly engaging experts in the areas of forest and climate-change adaptation; CDD and CFEs; financial inclusion; communication, outreach, knowledge-sharing strategies, and PM&E.
- **Fiduciary requirements and inputs.** The FM ISP will include review of the project's FM system, including, but not limited to, accounting, reporting, and internal controls; beneficiary institutions; quarterly statement of expenditures (SOEs); and annual audited financial statements, as well as timely follow-up of issues arising from the audit. The World Bank's FM team will participate in project implementation support missions, as appropriate. For procurement, general procurement by the NEA will follow World Bank policies and procedures. The NEA will undertake any bulk procurement of goods that are common to all and which will be more cost-effective to procure together. Review and monitoring of procurement activities, as guided by the Procurement Plan, will be undertaken to ensure compliance with the World Bank procurement policies and procedures. The World Bank's procurement team will participate in implementation support missions. An annual audit of project financial statements will be conducted by an independent

auditing firm in accordance with TOR acceptable to the World Bank. The annual audits will be paid by the NEA according to the terms of the Grant Agreement.

- **Environmental and social safeguards.** Implementation support will include supervision of social and environmental safeguards compliance, including the implementation of the ESMF and PF, as well as provision of training and guidance to the selected NEA, the NSC, and the project’s beneficiary groups. As part of regular implementation support missions, reviews will be undertaken to assess how the project manages social and environmental issues, including through adequate staffing and monitoring. This will also involve engagement with stakeholders and continuous assessment of the project’s GRM.

13. The main focus of implementation support is summarized in table 4.1.

Table 4.1. Implementation Support Plan

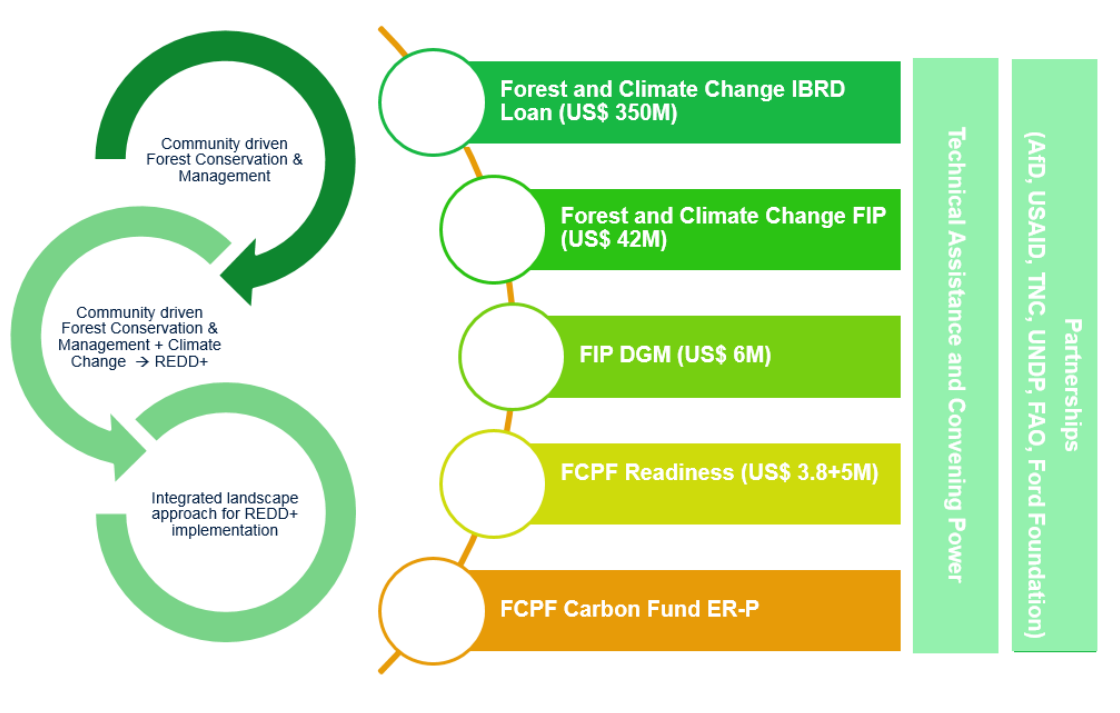
Time	Focus	Skills Needed	Resource Estimate (Staff Week/year)
1–12 months	Procurement implementation support, training, and process reviews	Procurement Specialist	2
	FM implementation support, training, field reviews, and audit review	FM Specialist	2
	Safeguard implementation support and compliance	Environmental Specialist Social Specialist	2 2
	Technical experts on demand support	Diverse qualifications	8
	Project management, implementation support, supervision	Task Team Leader Operations Analyst	8 12
13–60 months	Procurement and process reviews	Procurement Specialist	2
	FM field reviews and audit review	FM Specialist	2
	Safeguard implementation support and compliance	Environmental Specialist Social Specialist	2 2
	Technical experts on demand support	Diverse qualifications	6
	Project management, implementation support, supervision	Task Team Leader Operations Analyst	8 12

Annex 5: The World Bank’s Forest and Climate Change Engagement and the DGM

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

1. Regarding the linkages to the overall forest program and the FCPF and FIP in particular, the DGM complements the said program. In particular, the project aims at contributing to the implementation of the national REDD+ program—including the FIP and the FCPF as well as the FCC project—and particularly adds to the ongoing efforts to implement its operational pillars, the ENAREDD+, and the emission reduction program under the FCPF (ER-P).

Figure 5.1. Mexico: Forest and Climate Change Program



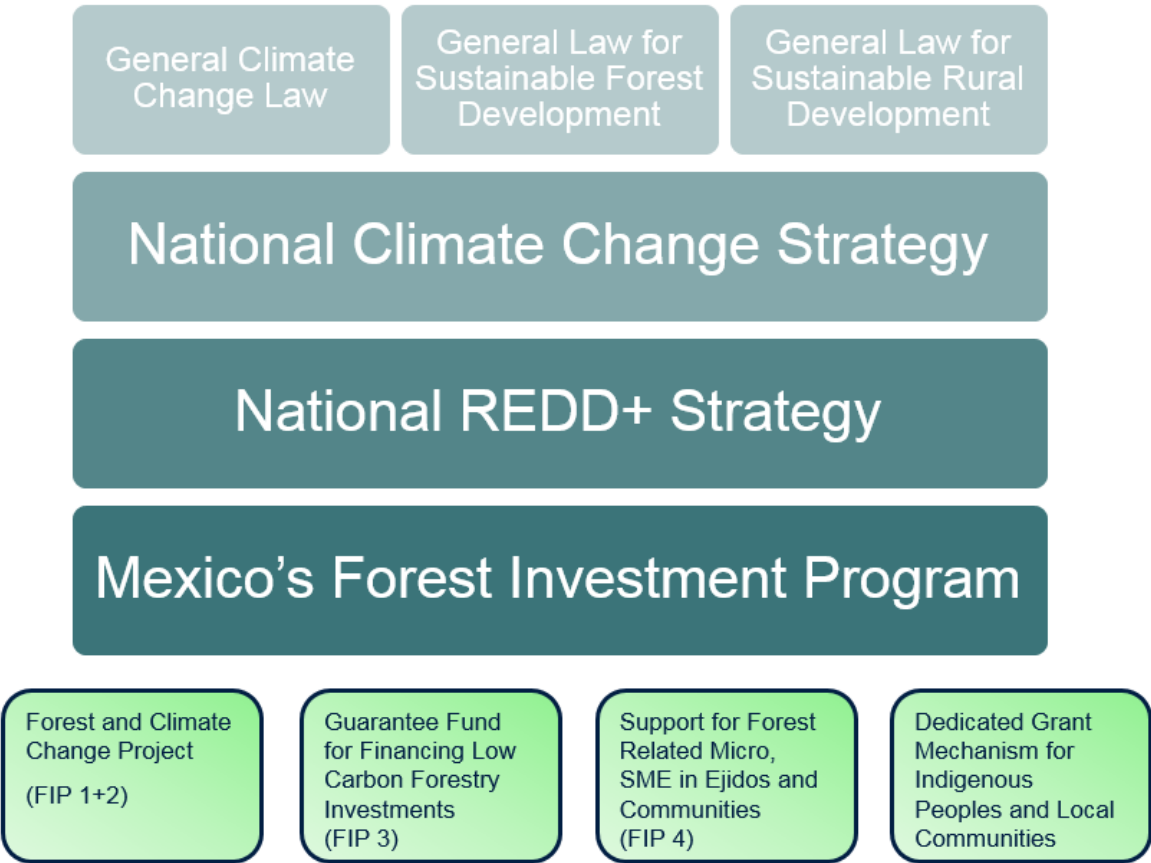
2. Some concrete examples of linkages are as follows:

- **Bottom-up integrated landscape management.** REDD+ by nature seeks to overcome sectoral planning. It is however a Government-driven approach that mainly focuses on local public policy consolidation platforms. The Mexico DGM will complement and innovate the approach promoted under the FIP and FCPF and the ENAREDD+ by fostering a community-driven integrated landscape approach. This will enable a bottom-up landscape management that is designed and implemented by the very owners of the land and the natural resources—the local communities.
- **Mexico’s overall REDD+ program** provides an open, participatory, inclusive, cultural appropriate, and analytical consultation process. Particularly, under the FCPF readiness grant, a full national consultancy on the ENAREDD+ was carried out that included four modalities—indigenous peoples, sectoral workshops, working groups for vulnerable groups, and online—and more than 5,000 consultees. The

DGM is designed and implemented as part of Mexico’s REDD+ program and therefore build on this strong record.

3. Mexico’s DGM fit to the overall REDD+ policy framework and the FIP Investment Plan is described in figure 5.2.

Figure 5.2. FIP Investment Plan



Annex 6: Economic Analysis

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

Summary

1. The DGM is designed to address key barriers to allow IPLC to engage in profitable and sustainable productive activities in forest landscapes. It seeks to enhance financial inclusion; strengthen the organizational and technical capacities at the community level; and enable IPLC to generate increased monetary and nonmonetary benefits, thereby empowering them to participate more actively in REDD+ activities. By design, the DGM aims to maximize the sustainability and efficiency of such subprojects.
2. The DGM will support IPLC to transition from the current mix of unsustainable production systems across the landscapes into sustainable ones. In the absence of the project, DGM beneficiaries would likely remain without access to financing and other support to transition to sustainable low-carbon land uses, agricultural areas would continue to be unsustainable and lead to further pressure on the agricultural frontier, conventional extensive cattle grazing would continue to have low tree cover and be limited carbon sinks, sustainable forest operations would continue to be economically unviable, and forests would still be subject to illegal activities and land use conversion. Under these conditions, the identified economic benefits generated by the DGM are incremental.
3. The economic analysis showed that the transition to sustainable subprojects, as proposed in the DGM, has positive social and private returns:
 - (a) The transition from unmanaged forests to SFM, both in temperate and tropical forests, results in a positive social and private return. In the case of temperate forests (pine production), the net present value (NPV) at 10 percent would be MXN 4,230 per ha while in tropical forests it would be MXN 18,380 per ha, compared to a loss of at the present value (at 10 percent) of MXN 1,000 per ha (tropical) and MXN 793 per ha (temperate) of unmanaged forests.
 - (b) In the case of ecotourism, evidence suggests that ecotourism projects can reach a mean financial return of approximately 22 percent.
 - (c) The transition from unsustainable to improved agricultural practices results in clear improvements, net social cost benefit increasing from MXN 2,800 per ha at 10 percent discount rate to MXN 18,000 per ha. However, even under private costs and benefits, the transition results in a doubling of the NPV, from MXN 9,000 per ha to MXN 18,000 per ha.
 - (d) In the case of transition from traditional grazing practices to silvopastoral systems, the analysis shows that traditional grazing practices have a social NPV at 10 percent of MXN 24,000 per ha, whereas the private social NPV is MXN 26,200. In contrast, the silvopastoral systems have a higher NPV, with a social NPV of MXN 42,000 and a private one of MXN 43,800. In both cases, the difference between the social

and private returns result from the greenhouse gas (GHG) emissions from cattle.

4. The results in the economic analysis show that the set of eligible projects of the DGM will have positive private returns that exceed those of the existing unsustainable land uses in the intervention areas. While the composition of the portfolio of subprojects is not known, a sensitivity analysis of the DGM portfolio of subprojects shows that the likely benefits per hectare could vary from MXN 10,862 per ha to MXN 13,156 per ha in the case of temperate forests. For the tropical ones, the values are between MXN 13,406 per ha and MXN 18,010 per ha.

5. Moreover, the social value of the subprojects supported by the DGM is likely to be higher since the economic analysis did not include in the calculations other noneconomic local benefits such as the value from reduced pressure on forest land or the resulting improvement in food accessibility as well as ecosystem services.

Introduction

6. In line with the World Bank current guidance, this section includes an economic analysis for the DGM to assess its contribution to improve welfare in an efficient way, particularly by assessing the project's potential economic and environmental impacts compared to its costs. The Mexico DGM Project seeks to strengthen the role of IPLC by supporting capacity-building and demand-driven initiatives of the IPLC. The project will operate in the same region as the FIP in part of the states of Jalisco, Oaxaca, and the Yucatán Peninsula—Campeche, Yucatán, and Quintana Roo. These represent areas with some of the most important forest loss, and carbon emission rates in the country and also some of the areas with the highest poverty rate.

7. The predominant forest type in the areas of Oaxaca and the Yucatan Peninsula that are FIP regions is rainforest, particularly evergreen forest. In the case of the coastal wetlands of Jalisco, the main type is deciduous forest. The agricultural lands are mostly devoted to rain-fed agriculture in Jalisco and Oaxaca and grasslands in the peninsula. For each 100 ha of forest or rainforest in these regions, on average, there are 19 ha of agricultural lands (39 in Jalisco, 10 in Oaxaca, and 17 in the peninsula).

Statement of the Problem

8. Deforestation rates during 2005–2010 in Mexico are estimated at 0.24 percent for all types of forests, equivalently to 155,000 ha per year.²⁸ These rates are significantly higher in tropical dry forests and tropical rainforests of the targeted states. The drivers of deforestation and forest degradation show significant variation across the country and include direct and underlying factors. The direct causes of deforestation and degradation include economic, social and institutional factors such as the profitability of alternative land uses; land use change, particularly related to agriculture and livestock production; weak management; weak governance and leadership capacity by *ejidos* and communities to conducting forest operations; and pressure created by other rural and landless populations on *ejidos* and communities forest resources.²⁹ Even in areas with forest production potential, other activities may be preferred since the

²⁸ FAO (Food and Agriculture Organization of the United Nations). 2010. *Mexico: Forest Resource Assessment*.

²⁹ Emission reduction initiative submitted by Mexico to the FCPF in October 2016.

competitiveness of sustainable forest operations is currently low.

9. Natural forests are central to livelihoods of millions of IPLC³⁰ in Mexico. However, forest-dependent people tend to be poor, with limited entrepreneurial and economic activities and dividends. Over a quarter of the forest population lives in extreme poverty (FIP - Mexico: 2011).³¹ In 2008, 57 percent of the poorest quintile of rural households obtained almost one-quarter of their income from natural resource extraction, most of which was forest related. While forests contribute a modest 1 percent of GDP, they represent an essential source of employment, income, and livelihood for people living in and around forests that can be further strengthened by proper SFM and other productive activities in forest landscapes, beyond timber and nontimber products.

10. In the FIP, people in the intervention areas live under poverty conditions. As many as 19 percent of the population in the project areas in Oaxaca, 14 percent in Yucatán, and 7 percent in Jalisco both live under extreme poverty and experience limited access to food (see table 6.1). These proportions are higher if only rural areas are considered, which are precisely the target population of the DGM. Within the intervention areas, the project identifies as beneficiaries of the project the *ejidos* and *communities*, *avecindados*, associations or organizations of producers, and community enterprises within some areas of Jalisco, Oaxaca, and the Yucatán Peninsula. As such, it will not only target collectivities or enterprises, but it will also support people without land (*avecindados*); this is important because despite not having land, they also rely and exert pressure on the natural resource base.

Table 6.1. Poverty Rates in the Project Intervention Areas

	Yucatán Peninsula	Oaxaca	Jalisco
Population	986,000	636,000	944,000
Percentage under extreme poverty	20	40	7
Percentage with limited access to food	29	30	24
Percentage both under extreme poverty and limited access to food	14	19	7

Source: CONEVAL, Poverty at Municipal Level 2010.

11. Evidence shows that communally managed forests in Mexico have experienced less

³⁰ IPLC for this project refers to *ejidos*, communities, and other groups such as *avecindados* and other nontenure holders living in rural communities.

³¹ The estimates on community-owned forests range from 60 percent to 80 percent. It is also estimated that IP hold up to 45 percent of Mexico's forest lands, whereas 15 percent are privately owned and just 5 percent are public lands. INEGI. Censo Agropecuario 2007, IX Censo ejidal.

deforestation than protected nature reserves and forests under logging bans,³² allowing IPLC to improve their livelihoods while preserving other environmental services. As such, conservation of forests through economically viable sustainable CFM is a no-regret investment. Unfortunately, the limited organization, capacity, and resources of the IPLC prevent them from fully making productive activities in forest landscapes economically viable to them.

12. This also applies to rural economic activities beyond forest management, such as agriculture and livestock production systems, which tend to have low productivity, resulting in additional demand for land to satisfy local needs. Strengthening the organizational, technical, financial, and entrepreneurial capacities of forest-dependent IPLC would enable them to transition to production systems more compatible with the sustainable management of their landscapes while enhancing their livelihoods. As mentioned earlier, there are valuable precedents of this in indigenous organizations and local communities in Mexico that are actively managing natural resources to both enhance conservation and generate income.

Project Approach

13. The DGM is designed to address key barriers to allow IPLC to engage in profitable sustainable productive activities in forest landscapes. It seeks to enhance financial inclusion; strengthen the organizational and technical capacities at the community level; and enable IPLC to generate increased monetary and nonmonetary benefits, thereby empowering them to participate more actively in REDD+ activities.

14. The DGM will do this directly by providing finance and technical assistance to implement and ensure the sustainability of demand-driven community projects (Component 1), and indirectly by supporting capacity-building, institutional strengthening, and knowledge transfer activities to increase IPLC skills and knowledge on technical and operational requirements for access to funding and financial services already existing in the country (Component 2). In addition, support for community monitoring and evaluation of activities and resources (Component 3) will further enhance the capacity of IPLC to assess and adapt the management of their landscapes in a sustainable way. These three components of the project are intrinsically interrelated, since the broad capacity-building and knowledge transfer activities and better knowledge of their resources can enhance the quality of the proposed community projects and those projects in turn can provide new recommendations and lessons learned for others.

15. The direct support to projects will be given under two distinct subproject windows: (a) a social inclusion window aimed at small and innovative subgrant proposals that can be fully funded coming from, but not limited to, social priority and vulnerable groups including indigenous women, youth, and *avecindados* and (b) a market-oriented and financial inclusion window that targets producer organizations and community (forest and non-forest) enterprises

³² Bray, D. B., and L. Merino. 2005. “*La experiencia de las comunidades forestal en México: veinticinco años de silvicultura y construcción de empresas forestales comunitarias*” (The experience of forest communities in Mexico: Twenty-five years of silviculture and building community forestry enterprises). Mexico: SEMARNAT-Fundación Ford. <http://www.inecc.gob.mx/descargas/publicaciones/461.pdf>; Porter-Bolland, L., et al. 2011. “Community Managed Forests and Forest Protected Areas: An Assessment of Their Conservation Effectiveness across the Tropics.” *Forest Ecology and Management*.

that will be funded with the goal of leveraging resources and strengthening regional organization between communities, organizations, and enterprises (horizontal integration), as well as access to markets (vertical integration) and usage and quality of financial services. The social inclusion window is a significant innovation in the existing support mechanisms for REDD+ activities in the region and targets segments of the population that tend to be underrepresented in the conventional support programs. As such, the project will also generate broader benefits by contributing to greater social inclusion.

16. In essence, the DGM will support IPLC to transition from the current mix of unsustainable production systems across the landscapes into sustainable ones. Eligible subprojects/activities might consist of activities related to SFM; eco-agriculture in forest landscapes; ecotourism; and enhancement of local governance, inclusion, and advocacy.

Table 6.2. Rationale for the Transition from Conventional Land Uses into Sustainable Low-Carbon Activities

Eligible Subprojects Activities	Rationale
SFM	To promote the competitiveness and efficiency of the extractive activities of wood in a sustainable way, that is, without diminishing the productive capacity of the ecosystems and resources existing in the same areas. This will generate income to communities as well as contribute to limiting the advance of the agricultural frontier, which in turn is one of the main threats to tropical and subtropical forests.
Eco-agriculture in forest landscapes	To produce crops using conservation agriculture (reduced or no tillage + permanent organic soil cover by retaining crop residues + crop rotation) to reduce soil erosion, increase soil nutrients, enhance moisture retention and water infiltration, and increase yields. These results encourage the use of the method and the care of forest areas. Avoid deforestation due to slash-and-burn agriculture, reducing the advance of the agricultural frontier, allowing the regeneration of the forest landscape through more intensive use of land. Activities will require less land for equivalent production and more productivity on currently used land. Maintaining livestock within a forest system, mixing varieties for management and forestry use with some type of forage used in the region, which allows the feeding of livestock. This avoids deforestation and degradation through a productive activity that allows higher income in the <i>ejidos</i> and/or communities, encouraging the care of the forest areas and the maintenance of the forest frontier.
Ecotourism	To offer tourism services in forest areas without disturbing them, to enjoy, appreciate, and study both their natural attractions and the related cultural manifestations. This activity seeks to provide a viable option for heritage conservation, while promoting the notion of sustainable economic development.
Enhancing local governance, inclusion, and advocacy	To facilitates the adequate implementation of the projects, increase their likelihood of success, and promote sustainable land uses beyond the time and scope of the DGM

17. In the absence of the project, DGM beneficiaries would likely remain without access to financing and other support to transition to sustainable low-carbon land uses, agricultural areas would continue to be unsustainable and lead to further pressure on the agricultural frontier, conventional extensive cattle grazing would continue to have low tree cover and be limited carbon sinks, sustainable forest operations would continue to be economically unviable, and forests would still be subject to illegal activities and land use conversion.

18. The assumption of additionality of the DGM is a realistic assumption, considering the

following criteria³³:

- (a) IPLC could not self-finance eligible sustainable productive activities in the short/mid-term. There is no evidence of a significant reconversion of conventional activities into sustainable productive land uses in spite of having a higher profitability in the long term.
- (b) IPLC do not have the knowledge or skills to implement the project activities on their own.
- (c) IPLC could not access similar support from a commercial provider.
- (d) The DGM does not duplicate other donor-funded support. While DGM areas are eligible for support through the FCC project, the FIP, and other Government support programs, there are still communities that have not been beneficiaries to such support. In particular, as mentioned earlier, the social inclusion window will enable a segment of the population more likely to be excluded from the conventional support mechanisms to participate.
- (e) The DGM has the potential to leverage funds from other parties. It is expected that under the market-oriented and financial inclusion subprojects window, the IPLC will present proposals robust enough to leverage funds with other financial institutions and donors.

19. By its nature, the type of activities that can be supported under each of these themes is still broad, since subprojects to be financed are demand driven. For example, SFM proposals can include activities such as improving forestry operations through promoting the use of low-carbon sustainable logging practices, using firewood from local woodlot plantations, cultivating energy efficient species, collecting sustainable firewood and logging debris in production forests, improving the efficiency of firewood use, promoting formalization and registration of commercial firewood collectors and traders, supporting forest communities and/or *ejidos* to strengthen their capacities to manage productive forests sustainably, and strengthening forest value chains established by CFEs and producer groups. Eco-agriculture, in turn, can involve activities such as silvopastoral techniques, grazing rotation, conservation tillage (zero tillage), agroecology, and other techniques; afforestation, reforestation, restoration, and forest certification; and investments in coffee plantations (shade coffee). Similarly, the other two thematic areas can cover quite a broad range of potential activities.

Appraisal

20. One limitation of the economic analysis for the DGM is that the explicit set of subprojects is not known. An open call for proposals will be issued and only then will the specific geographies, themes, and specific activities will be known. As stated earlier, the range of

³³ Heindrick, M. 2014. *Demonstrating Additionality in Private Sector Development Initiatives: A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms*. The Donor Committee for Enterprise Development.

potential projects is also significantly large. Subprojects could take place across the targeted regions, each with different characteristics. As a result, their social, financial, and environmental benefits cannot be directly quantified ex ante.

21. It can be argued, however, that the DGM, by design, aims to maximize the sustainability and efficiency of such subprojects, since all of them will be assessed for quality and will be screened using criteria that will result in the selection of feasible projects with the highest social and environmental benefits. The specific criteria include

- a. Improving local population livelihoods;
- b. Strengthening participation of indigenous and local communities in the overall forest landscape management;
- c. Targeting low carbon emission and sustainable forest landscape products and value chains;
- d. Addressing climate change mitigation and adaptation and the ability to offer additional environmental co-benefits such as biodiversity and hydrological services;
- e. Providing socioeconomic feasibility;
- f. Increasing the number of potential beneficiaries; and
- g. Evidence of broad community support.

22. To overcome the lack of a known portfolio of projects while assessing the potential costs and benefits of the proposed investments, a set of model projects was used to compare the situation with and without project for the key broad land use transitions that will be promoted with the DGM and for which some information is available. In essence, the subprojects or activities are designed to help the transformation of conventional land uses into ones that are more sustainable and low carbon. The main transitions that the DGM will support are listed below:

- Unmanaged forest subject to deforestation and degradation risk into SFM
- Conventional agricultural into improved agriculture
- Extensive grazing into silvopastoral systems

23. The additional thematic focus on enhancing local governance, inclusion, and advocacy is, in essence, a dedicated support window for activities that can eventually assist communities in designing, mobilizing finance, and implementing projects on sustainable low-carbon land use practices.

24. In the following section, the individual land uses and production systems are analyzed. With that information, the abovementioned transitions can then be assessed.

Economic Analysis of Individual Land Use Patterns

25. To overcome the lack of actual data on costs and benefits, the methodology applied in this economic analysis included the following:

- (a) Information on current land uses and types of forests in the target areas was identified.
- (b) A literature review on existing cost-benefit analyses (CBAs) was carried out. The review focused on conventional and sustainable land uses relevant to the target regions and the DGM eligible activities.
- (c) Data on costs and benefits were obtained from relevant CBAs. Data on conventional and sustainable agriculture, cattle grazing, and SFM in tropical forests were adapted from Lara, Guevara, and Alba (2014).³⁴ Data on SFM in temperate forests were obtained from INECC (forthcoming).³⁵ Estimates on unmanaged forests were calculated with data from CONAFOR. The profitability of ecotourism was approximated from an analysis of the second PROCYMAF.³⁶
- (d) New estimates of social NPV, CBA indexes (CBI), and internal rates of return (IRRs) were derived from the evaluation tool developed by Lara, Guevara, and Alba (2014).³⁷ The tool carries out a Monte Carlo analysis that runs multiple trials and defines all potential outcomes of investing in any given subproject. In other words, when information included optimistic and pessimistic scenarios on different cost and benefit parameters, a Monte Carlo simulation was undertaken to derive intervals (shown under the mean values between parentheses).

26. To allow an adequate comparison across land uses, new estimates were calculated under homogenizing parameters. The discount rate used in this analysis was 10 percent since it is the social discount rate used by the Government of Mexico on social projects. Sensitivity analysis applied discount rates of 4 percent and 20 percent. The lower rate of 4 percent is closer to the social discount rate for long-term investments, while the upper boundary of 20 percent is closer to the private rate of discount.

27. **SFM.** Forest management operations are feasible on both tropical and temperate forests. Not only are the financial rates of return on those operations different, but their environmental benefits are also distinct. As a result, the economic analysis is divided into two basic production systems: tropical and temperate forest management.

³⁴ Lara, J. A., A. Guevara, and R. Alba. 2014. *Costos y Beneficios de Diferentes Tipos de Uso de Suelo en México*. Agencia de los Estados Unidos para el Desarrollo Internacional (USAID), *Proyecto de Reducción de Emisiones por la Deforestación y la Degradación de Bosques de México (Alianza México-REDD+)*, México, Distrito Federal.

³⁵ INECC. Forthcoming. *Análisis de datos para determinar los costos y beneficios de la medida de manejo forestal sustentable*. Mexico: INECC.

³⁶ World Bank. 2010. *Project Performance Assessment Report Mexico*. First and Second Community Forestry Projects.

³⁷ Available at <http://financiamientosustentable.alianza-mredd.org/>. See: http://www.ecopoliticas.com/CB_latestTNC.xlsb for an Excel version of the tool.

28. **SFM model in tropical forests.** The CBA of the tropical SFM systems is based on data presented by Lara, Guevara, and Alba (2014). Data on costs and benefits of alternative land uses were obtained and verified from the field experience of expert governmental agencies and CSOs. The basic characteristics of the production system consists in 1,000 ha mahogany production units with 60-year rotations and with annual extraction. Timber is sold by the *ejidos* as standing trees. Costs include the development and implementation of the management plan, training, felling, restoration of areas, and equipment. Benefits in the analysis include the value of wood. The project takes place in Yucatán.

29. **SFM model in temperate forests.** The CBA of the SFM in temperate forest is based on data from INECC (forthcoming), which was obtained from the PROFOR study by Cubbage (2013)³⁸ and complemented with data gathered from focus groups in Oaxaca and Quintana Roo. Data characterizes a pinewood production unit per hectare with 50-year rotations and annual extractions. Activities include forest maintenance and conservation, harvesting. Timber is sold as roundwood in sawmills. Costs accounted for include site preparation, maintenance and forest conservation, technical support, payments for ecosystem services made to the communities, and forest harvesting. Benefits consider income from timber and non-timber products.

30. **Unsustainable forest use.** If left unmanaged, forests are exposed to the risk of being subject to overexploitation, illegal harvesting, degradation, and ultimately deforestation. As in Lara, Guevara, and Alba the expected deforestation in these areas is likely to be, on average, around 0.8 ha per 100 ha per year. This figure will of course vary across the landscapes as different forest types face different opportunity costs. However, for this analysis, a single value is used for all forests.

31. The values lost with deforestation are multiple, from habitat to wildlife impacts on soils, water infiltration, availability of forest products, and carbon emissions. For this calculation, the average carbon emissions that are generated vary across forest types; in temperate forests an emission factor of 100 tCO₂e per ha is estimated, whereas in tropical forests this factor is estimated as 128 tCO₂e per ha.³⁹

Table 6.3. Results of the Economic Analysis of Unsustainable Forest Use and SFM Systems

		Production Systems under Baseline Conditions	Production Systems Supported under the DGM	
	Discount rate (%)	Unmanaged forests	SFM in tropical forests	Sustainable forests management in temperate forests
Social NPV (Pesos, thousands)	4	-2,200 (tropical) -1,700 (temperate)	51,210 (45,130–57,290)	15,500
	10	-1,000 (tropical) -793 (temperate)	18,380 (14,480–22,270)	4,230
	20	-512 (tropical)	8,550	580

³⁸ Cubbage, F., et al. 2013. *Financial and Economic Evaluation Guidelines for Community Forestry Projects in Latin America*.

³⁹ Values corresponding to the average emission factors for primary conifer and oak forest in the case of temperate forests and primary evergreen and primary semideciduous for tropical forests.

		Production Systems under Baseline Conditions	Production Systems Supported under the DGM	
	Discount rate (%)	Unmanaged forests	SFM in tropical forests	Sustainable forests management in temperate forests
		-400 (temperate)	(7,000–10,090)	
Private NPV (Pesos, thousands)	10		18,380	
Area (ha)	—	1,000	1,000	1,000
Included social costs	—	Carbon emissions from land use conversion	n.a.	n.a.
Other externalities not quantified	—	Forest degradation Loss of environmental services	n.a.	n.a.
Source	—	Own calculations with data from CONAFOR	Adapted from Lara, Guevara, and Alba	INECC

32. **Transition from unmanaged forests to SFM or ecotourism.** While unmanaged forests represent a source of goods and services for the local population, resulting forest degradation creates negative impacts. Because of the lack of available data, the analysis did not assess the value of these benefits and costs of the degradation processes. Instead, the analysis only focused on the consequences of forest conversion, mainly on GHG emissions from the loss of aboveground forest biomass. Clearly, this underestimates the potential value of the environmental services that are also affected by both deforestation and forest degradation. Assuming that the average baseline risk of gross deforestation for both temperate and tropical forests is 0.8 ha per year, the 1,000 ha plots result in a loss of 8 ha per year. Using differential carbon contents for each type of forests, and using the value of US\$5 per tCO₂e, the assessment results in an annual cost of MXN 108,000 per hectare of tropical forests and MXN 80,000 in temperate forests. Over 60 years, this would result in a loss of at present value (at 10 percent) of MXN 1,000,000 (tropical) and MXN 793,000 (temperate).

33. The transition to sustainable management of forests would, in both temperate and tropical forests, result in a positive social and private return. In the case of temperate forests (pine production), the NPV at 10 percent will be of MXN 4,230,000 while in tropical forests it will be of MXN 18,380,000. In this case, however, there are significant investments that must be made for the transition.

34. Something that must be noted here is that these results are applicable to areas of forest with timber production potential. This means that the potential areas are restricted to high potential areas as defined by CONAFOR's forest zoning. Low tropical forests would likely need a different strategy.

35. **Ecotourism.** An additional possibility, for all types of forests, is to support ecotourism. The objective of ecotourism is to diversify forest-based incomes. Unfortunately, there is such a wide variety of ecotourism projects with regard to their financial potential but also with regard to the aspects of the habitat that specific metrics for financial potential and habitat conservation are

difficult to obtain and generalize. Evidence, however, suggests that the economic return is positive. An analysis of the second PROCYMAF⁴⁰ project, which also invested at the community level, estimated the financial return of a sample of timber and non-timber subprojects. They found that the seven non-timber subprojects sampled reached a mean financial return of 22 percent. It must be noted that most of the non-timber subprojects were ecotourism projects (66 percent).

36. **Eco-agriculture in forest landscapes.** A number of eco-agriculture systems help forest landscape restoration and stabilization of the agriculture and livestock frontier. Possible interventions include agroecological systems like conservation tillage, improved agriculture, silvopastoral techniques, grazing rotation, afforestation, and restoration. Two interventions were analyzed: improved agriculture and silvopastoral systems.

37. **Improved agriculture.** Improved agriculture is represented by an improved milpa system.⁴¹ The CBA of an improved milpa is based on data presented by Lara, Guevara, and Alba (2014). The objective of this intervention is to transit from a maize monoculture system to a rain-fed polyculture that includes maize and beans (50 percent of the area each) while increasing maize yields. Management practices prevent forest fires, deforestation, and slash-and-burn. Per hectare costs and benefits are estimated for a 40-year project.

38. **Conventional agriculture.** A significant proportion of agricultural land, particularly in Oaxaca and the Yucatán Peninsula, is under traditional agricultural practices. This technology is characterized by no use of machinery, doing all work by hand or with the help of animals. Productivity of this systems is low; the use of tillage and slash-and-burn practices promote soil erosion and reduce productivity. In addition, the use of fire creates additional risks of the fires spreading beyond the intended area.

39. Compared to conventional agriculture, improved agriculture has similar labor requirements for forest preparation, planting, pest control, fertilization, and harvesting. Improved agriculture has larger costs in seeds since it includes maize and beans. The main differences are 40 percent higher maize yields and the additional income from beans, the reduction in soil erosion, and a 40 percent reduction in the use of fertilizers under the improved milpa system.

40. **Transition from traditional agriculture to improved agriculture.** The transition to improved agricultural practices results in clear improvements, net social cost benefit increasing from MXN 2,800 at 10 percent discount rate to MXN 18,000. This estimate considers the soil degradation costs the traditional practices, and hence, the social value of improved agriculture is almost six times larger than conventional agriculture. However, even under private costs and benefits, the transition results in a doubling of the net present value, from MXN 9,000 to MXN 18,000. The social value of this type of project is likely higher, since the calculations of other elements such as the value from reduced pressure on forest land or the resulting improvement in food accessibility were not included here. While the ultimate decision to allocate more or less

⁴⁰ World Bank. 2010. *Project Performance Assessment Report. Mexico*. First and Second Community Forestry Projects (Loan numbers 4137 and 7207). Report No. 55416.

⁴¹ The traditional Mexican milpa system is the intercrop formed of maize, beans, and squash. Some milpas include only two of the three elements or only maize.

land under agricultural production is not only related to the value of production, it is significant that the save private production value can be obtained in about half the surface

Table 6.4. Results of the Economic Analysis of Conventional Agriculture and Improved Agriculture

		Production Systems under Baseline Conditions	Production Systems Supported under the DGM
	Discount rate (%)	Conventional agriculture	Improved agriculture
Social NPV (Pesos, thousands)	4	22 (-3.1-41)	66 (45-88)
	10	2.8 (-6.6-12.2)	18 (9-26)
	20	3.3 (-1.2-7.9)	9 (4-14)
Private NPV (Pesos, thousands)	10	9	18
Area (ha)	—	1	1
Included social cost	—	Soil erosion (MXN 600/ha/year)	—
Other externalities not quantified	—	—	Reduced pressure on agricultural frontier
Source	—	Adapted from Lara, Guevara, and Alba	Adapted from Lara, Guevara, and Alba.

41. **Silvopastoral systems (without milk production).** The objective of the evaluated intervention is to increase livestock productivity while preventing the expansion of the agricultural frontier. Activities include the establishment of a protein bank to feed cattle to triplicate the grazing rate. The project size is 5 ha and its duration is 40 years. It takes place in Yucatán. Costs include feeding and medicine. Benefits considered the value of cattle. It is assumed a range of 0.3 to 1 animal per hectare; in this case, a maximum of 5 animals is considered. However, assuming an increase in the grazing rate, the maximum animal stock per hectare is 15. Compared to conventional cattle grazing, silvopastoral systems can triplicate the maximum animal stock per hectare. This requires the extra cost of establishing and maintaining the protein bank that makes it possible.

42. **Extensive grazing practices.** This is a widespread practice that uses relatively large land area and low labor to maintain livestock. This system is quite common in Mexico due to its low capital costs. Unfortunately, it exerts significant pressure on forests due to its high demand for additional land area. The project size is 5 ha and its duration is 40 years. A range of 0.3 to 1 animal per hectare is assumed; in this case, a maximum of 5 animals is considered.

43. In all livestock production systems, an additional negative impact is associated with the methane emissions from the animals. These emissions can be quite significant and depending on the carbon price and the value of cattle they could even render the operation.

Table 6.5. Results of the Economic Analysis of Conventional Cattle Grazing and Silvopastoral Systems

		Production Systems under Baseline Conditions	Production Systems Supported under the DGM
	Discount rate (%)	Conventional cattle grazing	Silvopastoral systems

		without milk production	without milk production
Social NPV (Pesos, thousands)	4	250 (220–280)	510 (390–640)
	10	120 (110–130)	210 (160–260)
	20	60 (50–70)	123 (100–146)
Private NPV (Pesos, thousands)	10	131	219
Area (ha)	—	5	5
Included social costs	—	GHG emissions from cattle	GHG emissions from cattle
Other externalities not quantified	—	—	Reduced pressure on agricultural frontier
Source	—	Adapted from Lara, Guevara, and Alba et al.	Adapted from Lara, Guevara, and Alba et al.

44. **Transition from conventional grazing management to silvopastoral systems.** The analysis shows that traditional grazing practices have a social NPV at 10 percent of MXN 120,000, whereas the private social NPV is MXN 131,000. In contrast, the silvopastoral systems have a higher NPV, with a social NPV of MXN 210,000 and a private one of MXN 219,000. In both cases, the difference between the social and private returns result from the GHG emissions from cattle. Cost recovery is longer in the case of the silvopastoral systems, but in any case, it is less than a year. Finally, while the increase in carbon stocks is taken into account in the silvopastoral system, its contribution is relatively small in monetary terms. As in the case of agriculture, it is significant that to maintain the value of production of traditional grazing, the silvopastoral system requires about 60 percent of the land. The transition would thus open the possibility to maintain return and free land that could be used to other activities.

45. **Enhancing local governance, inclusion, and advocacy.** This component targets investments at two main levels: (a) community organization and sound local governance, which are essential elements for the successful formulation and implementation of projects involving forests and other collectively owned natural resources, and (b) financial inclusion. Despite the availability of financial products to support community investments, these instruments have still limited use. This component could generate benefits to the extent that it manages to mobilize investments in the target areas. Both activities create an option value for the community, since they open new economic opportunities (such as the other project types above).

46. In this context, other components of the project are means to encourage replication of the experiences by other beneficiaries, with either DGM funds or other sources. In addition, by enhancing the capacity of communities to manage their natural capital and implement projects, increase their productivity, improve their ability to mobilize financing for sustainable projects, and enhance their internal organizational, managerial, and technical capacities, the DGM will support IPLC to build resilience in the face of climate change. These same capacities can support them to cope with other shocks including food, fuel, and financial. Increased resilience, which is the ability to resist the potential negative impacts of risky events and the extent to which

households can recover from them, is the basis for sustainable development under multiple vulnerabilities.⁴²

47. **Comparative return with-without project.** The NPV of different land uses per hectare with the DGM is contrasted against a without-project counterfactual (10 percent discount rate). It is assumed that the DGM helps remove the barriers that currently make sustainable agricultural, forestry, and cattle grazing projects economically unviable to IPLC.

Table 6.6. Potential Project Impact Per Hectare

	Without-Project Scenario (Social NPV of Unsustainable Practices/ha) (MXN)	With DGM (Social NPV of Sustainable Practices/ha) (MXN)	Difference
Agricultural areas in forest landscapes	2,800	18,000	+ \$15,200
Cattle grazing areas in forest landscapes	24,000	42,200	+ \$18,200
Forests	-793 to -1,000 (temperate forest - tropical forest)	4,230 to 18,380 (temperate forest - tropical forest)	+5,023 (temperate) +19,380 (tropical)

48. These results show that while all transitions generate positive social benefits, there are some more significant than others. It must be taken into account that the quantitative analysis did not include a number of environmental services (including biodiversity habitat and hydrological services). As such, these figures underestimate the potential benefits from the DGM.

49. The relative return of DGM investments will vary according to the composition of the portfolio. To analyze the sensibility of the value generated by the DGM to changes in the composition of the portfolio, sensibility was analyzed as given in table 6.7. It was not possible to include ecotourism in this analysis due to lack of comparable data.

Table 6.7. Portfolio Sensitivity Analysis

Portfolio Composition	Weighted Sum (MXN)
Scenario 1: Most subprojects are SFM 50% SFM, 25% improved agriculture, and 25% silvopastoral systems	10,862 (temperate) 18,010 (tropical)
Scenario 2: Most subprojects are improved agriculture 50% improved agriculture, 25% SFM, and 25% silvopastoral systems	13,406
Scenario 3: Most subprojects are silvopastoral systems 50% silvopastoral systems, 25% improved	14,156

⁴² Heltbert, R., P. B. Siegel, and S. L. Jorgensen. 2009. "Addressing Human Vulnerability to Climate Change: Toward a 'No-Regrets' Approach." *Global Environmental Change* 19: 89–99.

Portfolio Composition	Weighted Sum (MXN)
agriculture, and 25% SFM	

50. The results show that the mix of activities is likely to result in an average net return of the portfolio of between MXN 10,862 per ha and MXN 13,156 per ha in the case of temperate forests. For the tropical ones, the values are between MXN 13,406 per ha and MXN 18,010 per ha.

Conclusions and Recommendations

51. The Mexico DGM is designed to address key barriers to allow IPLC to engage in profitable sustainable productive activities in forest landscapes. It seeks to enhance financial inclusion; strengthen the organizational and technical capacities at the community level; and enable IPLC to generate increased monetary and nonmonetary benefits, thereby empowering them to participate more actively in REDD+ activities. A core element of its approach is the provision of direct support to demand-driven community projects. As such, it is critical that these projects generate significant social value.

52. The economic analysis explored the available secondary information from projects similar to the ones that are eligible under the Mexico DGM. In particular, three sets of land use transitions were explored: traditional to improved agriculture, extensive grazing to silvopastoral systems, and unmanaged forests to SFM or ecotourism. The results here show that the set of eligible projects that the DGM will support have positive private returns that exceed those of the existing unsustainable land uses in the intervention areas. This is consistent with the existence of barriers and capacity gaps that inhibit these economically preferable options to be implemented. The environmental and social benefits that were identified, quantitatively and qualitatively, result in significantly higher social rates of return. As such, in the context of the DGM support, these represent no-regret investments, since they will be generating benefits at a negative cost.

53. Some of the most important, and hard-to-measure, benefits of the project include the targeting of social groups that tend to be excluded from other support facilities and programs. Strengthening the capacities of IPLC to formulate and access finance for other sustainable land uses beyond DGM support is also of significant value since some of the public funds available for this kind of projects tend to be underutilized due to this capacity gap. To the extent that these alternative funding sources are accessed by IPLC to complement DGM funding, the efficiency of the mechanism will be improved by not crowding out existing funds.

54. The net positive social return on the DGM Project, however, is a result that depends critically on the quality of the proposals that are actually submitted and funded. Both the criteria for project selection and the capacity support mechanisms under Subcomponent 1.2 and Component 2 are useful design mechanisms that can contribute to ensuring the overall quality of the funded proposals. In particular, it will be useful for Component 2 to be activated as soon as possible to help inform project formulation when the call for proposals is made.

Methodological Proposal for a CBA

55. To ensure the maximization of economic efficiency, an ex ante CBA of the DGM and its

subprojects is proposed.

56. The general steps to carry out a CBA are as follows:

- a) **Define subproject objectives and related activities.** The objectives of the proposals should be clearly outlined and be SMART (specific, measurable, attainable, relevant and timely).
- b) **For each activity, estimate public and private costs.** Obtain the monetary value of all discounted costs and the profile of costs over the lifetime of the program. Include capital costs, fixed costs, and variable costs from all funding sources, including DGM funding.
- c) **For each activity, estimate public and private benefits.** Obtain the monetary value of all discounted benefits (including residual values) and the profile of benefits over the lifetime of the program, including environmental and social benefits. Value benefits net of deadweight. Where market values are not available, use state preferences and revealed preferences techniques. The benefit transfer method can also be applied.⁴³ Where significant social and environmental costs and benefits exist but cannot be monetized, it should be indicated that other qualitative benefits and costs are available and that the CBI result does not provide a good measure of value for money.
- d) **Estimate demand for the proposal based on reliable evidence.** Demand-forecasting techniques include extrapolation, consultation with experts, and econometric analysis.
- e) **State the assumptions that underlie these costs and benefits.**
- f) **Identify risks associated with the project.** It is possible to assess the level of risk and the impact of risk on project performance with techniques such as sensitivity analysis, scenario analysis, expected values, and Monte Carlo analysis.
- g) **Devise a risk management strategy.**
- h) **Analyze the information.** Estimate the NPV, the CBI, and the IRR.
- i) **Make a decision.** If the cost-benefit ratio (CBI) is greater than 1, a project may be accepted since the project's benefits exceed the costs.

57. The NPV is the difference between the present value of benefits and the present value of costs. If social and economic costs and benefits are included, The NPV can be used by the NSC

⁴³ It refers to the use of estimates obtained in one context to estimate values in a different context. For example, an estimate of the carbon benefits obtained by avoiding deforestation in one target region might be used to estimate the benefit obtained from avoiding deforestation in a different target region. Benefit transfer can provide valid and reliable estimates if the commodity or service being valued is identical at the site where the estimates were made and the site where they are applied and if the populations affected have identical characteristics.

and the NEA as a way of comparing subprojects' relative profitability and ensure that the most profitable are selected. When deciding on preferred subprojects, other critical nonquantifiable or qualitative factors may be as important as a high NPV.

58. The IRR is the maximum rate of interest that a project can afford to pay for the resources used, which allows the project to cover the initial capital outlay and ongoing costs and still break even. It also can be described as the discount rate that equates the present value of benefits and costs. The IRR can be compared to different discount rates, including a lower social discount rate (4 percent), the discount rate used by the Government on social projects (10 percent), or a higher rate closer to the private rate of discount (20 percent).

59. As projects progress, more precise quantification of costs and benefits become possible. Midterm evaluations could serve to update the values of the components of each CBA. This would allow the NEA to track the progress and performance of each intervention, beyond the information provided by those indicators already established in the RF.

60. **Proposed instruments to gather data for an ex ante CBA** include IPLC's own experience, consultation with experts, subprojects proposals, and previous CBA studies. There will be several levels of project-related results monitoring and evaluation during the project execution. These represent opportunities to gather data for updating CBA. The subproject-level consultations to be applied within the PM&E can include questions regarding actual costs and outcomes as the project develops, beyond the indicators specified in the RF. The participatory nature of the M&E system under the DGM may help uncover unseen costs and benefits.

61. **Regarding the timing and frequency to gather data**, the proposals will include indicators to assess the potential costs and benefits of the proposed subprojects. This activity could be part of the training of the IPLC to enhance their abilities to develop strong proposals. Private costs and benefits data will be gathered and analyzed formally by the NEA (financed with supervision budget) in two periods: (a) baseline of the subprojects and (b) final evaluation. Additionally, data may also be collected and analyzed during reviewing progress and the midterm review, as mentioned in the POM. Given the duration of the project of only five years, it is likely that other social and environmental benefits could not be observable not even during the final evaluation.

62. The analytical tool used for this economic analysis developed by Lara, Guevara, and Alba (2014) can be used to carry out CBA. The tool can be downloaded at <http://financiamientosustentable.alianza-mredd.org/>.

Annex 7: Financial Management Assessment

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

1. An FM assessment of the proposed project's FM arrangements has been performed in accordance with OP/BP 10.00 and in line with specific World Bank guidelines.⁴⁴

2. **Summary.** The residual FM risk, that is, the inherent risk as mitigated by existing controls, is Substantial. From the operational perspective, the project poses some implementation challenges due to the participation of multiple stakeholders, IP, and *ejidatarios* with low fiduciary capacity. This is consistent with the CDD type of operation as well. However, the National Executing Agency (the Agency) selected was the international organization Rainforest Alliance, which is also based in Mexico. This Agency is already familiar with World Bank procedures (fiduciary, procurement, and safeguards); has the capacity to provide technical assistance and training in all areas needed by key stakeholders; and has experience in working with indigenous communities, *ejidos*, and social and producer organizations.

Implementing Agency

3. Rainforest Alliance is an NGO working to conserve biodiversity and ensure sustainable livelihoods by transforming land use practices, business practices, and consumer behavior. Based in New York City, with offices throughout North and South America, Asia, Africa, and Europe, it operates in more than 70 countries.

4. Rainforest Alliance aims to harness market forces to arrest the major drivers of deforestation and environmental destruction: timber extraction, agricultural expansion, cattle ranching, and tourism. The organization trains farmers, foresters, and tourism operators in sustainable practices that conserve land and waterways, improve livelihoods, and protect workers and communities. It also helps them access the financing necessary to implement sustainability changes. Farms and forestry enterprises are audited against rigorous standards maintained by the Sustainable Agriculture Network and the Forest Stewardship Council—international NGOs that Rainforest Alliance helped found. Those farms and forestry enterprises that pass both annual and surprise audits are certified by the organization and earn the right to use the Rainforest Alliance Certified seal. Tourism businesses that adopt established best management practices can use the Rainforest Alliance Certified mark as well. The seal helps consumers support responsible farmers, foresters, and tourism businesses by identifying products sourcing ingredients from these farms and services that have implemented best practices.

- **Flow of funds.** The project's funds are first allocated as part of the budget that is approved annually by the Agency; World Bank funds will be integrated with the Agency's own financial resources.
- **Flow of information.** The Agency has a dedicated and experienced unit in charge of consolidating the financial information after conducting a number of checks and

⁴⁴ Financial Management Manual for World Bank-Financed Investment Operations, document issued by the Operations Policy and Country Services Financial Management Unit on March 1, 2010.

balances procedures. An experienced staff with many years of experience at CONAFOR, as a former public servant in relevant FM and fiduciary positions, will be in charge of the FM arrangements.

5. The FM risk is mitigated through various measures divided into three main layers of control:

- **Entity-level FM arrangements.** Overall, strong entity FM arrangements operate under a comprehensive and well-established institutional framework. The World Bank will advance funds for eligible expenditures recorded under earmarked budgetary lines.
- **Entity-level mitigating measures.** The Agency through an Administrative Coordination Unit (*Coordinación General de Administración*)⁴⁵ has experience working with donors. Although the Administrative Coordination Unit is well staffed with an adequate segregation of functions, it has identified and will hire a very experienced fiduciary staff for managing the incremental work load arising from the project.⁴⁶ Apart from this, the unit conducts a number of periodic reconciliatory procedures to reasonably ensure the accuracy of financial information.
- **Project-level mitigating factors.** There are well-defined operating rules governing the project, which include strict eligibility criteria for selecting beneficiaries and clear rules for transferring the money, documenting the project's expenditures, and overseeing the project.

6. Main mitigating measures include the development of a POM, which will be prepared in form and content satisfactory to the World Bank and will adopt relevant policies and procedures already in place at the Agency's own operational manuals. Procedures will include specific controls for ensuring that the project's funds are managed under sound FM practices. In addition, the annual project audit will provide assurance that the funds will be used for the intended purposes, in an efficient and effective manner.

7. Beneficiaries' eligibility will be based on the Agency's assessing willingness and capacity to execute subprojects and comply with defined eligible activities as well as other fiduciary and safeguards considerations.

8. **The mitigating control factors described in this annex include the following:**

- (a) Strong entity FM arrangements will be established.

⁴⁵ This department exists within the Agency's organizational structure and is in charge of all institutional finance and accounting activities.

⁴⁶ Alma Guadalupe Godoy Ramos has worked since 1998 at SEMARNAT and since 2001 at CONAFOR, in relevant FM positions in charge of projects financed by IBRD and IADB. She is very experienced and knowledgeable of World Bank FM procedures and arrangements.

- (b) The project's budget will be embedded in the standard budgetary procedures of the Agency, including formulation, monitoring, and control.
- (c) Budget will be controlled and monitored through an Annual Operations Plan (POA, by its Spanish acronym).
- (d) Grant withdrawals and project account activity will be included in the agency's central accounting systems and incorporated in project financial statements and audits, although segregated from other projects.
- (e) The internal audit function is carried out by the Agency's internal auditor who reports to an independent Audit Committee at the corporate level.
- (f) The internal auditor is also responsible for following up on all findings identified by external auditors.
- (g) The Agency will be responsible for transferring the funds for the subgrants and keeping files of all the supporting documentation of the project's expenditures, including evidence to transfer to project beneficiaries.
- (h) A number of operational controls have been established in the Agency's operating rules of the project, at various levels of the project's operation, including the planning in the use of the resources and the authorization of payments related to beneficiaries.
- (i) Project financial statements will be subject to external audits on an annual basis, performed by auditors acceptable to the World Bank.
- (j) The Agency will prepare and submit to the World Bank calendar semester (biannual) unaudited interim financial reports (IFRs).

Budgeting

9. **The Agency has its own financial resources, which confirm the Agency's funds; these resources support the operation and expenses of the organization.** Additionally, the Agency receives contributions from different donors and other sources that contribute to the organization's equity, to meet the operation of the programs it supports.

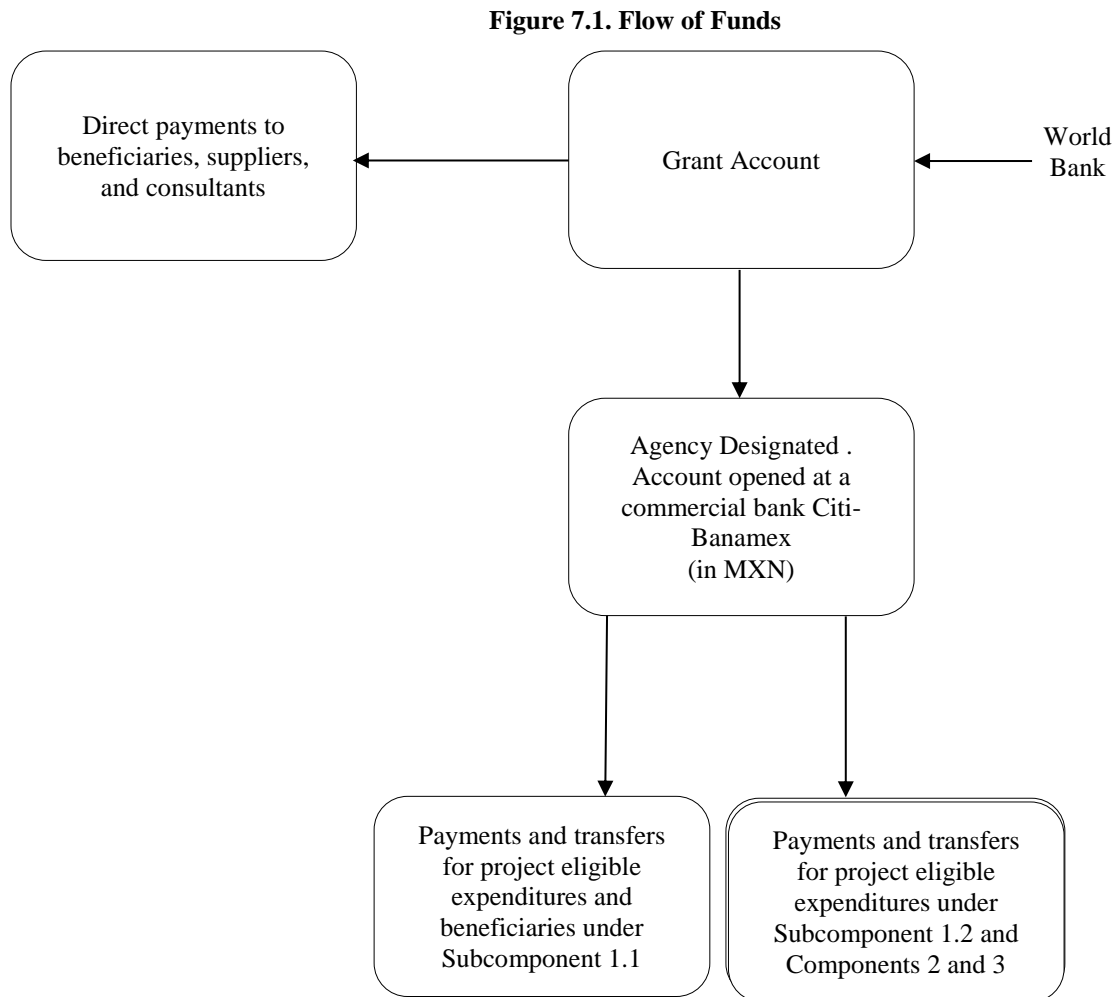
Accounting

10. **The Agency's accounting is governed by Financial Reporting Standards issued by the Mexican Institute of Public Accountants.** There is a chart of accounts that will be customized to maintain the accounting records of the project. The Agency will use its Integrated Financial Information System (*Sistema Integral de Información Financiera, SIIF*), which is an integrated information technology system used for budget, accounting, payments, and all other operational purposes. The system is quite robust as all the abovementioned processes are automatically interphase and is capable of managing the accounting records prepared on cash basis.

Internal Control and Internal Auditing

11. The internal audit practice reports to the Agency’s Independent Audit Committee at the corporate level and will have oversight functions over the World Bank-financed operations as well. The committee also approves the internal audit annual work programs, oversees its operation, and receives its audit reports. Good systems are in place for timely follow-up of internal audit observations and the implementation of recommendations.

12. **Flow of funds.** The general flow of funds arrangements is described in figure 7.1 and explained in the following paragraphs.



13. Expenditures will have the original support documentation for eligible expenditures filed at Rainforest Alliance Mexico and SOEs submitted to the World Bank will detail actual expenditures incurred by eligible beneficiaries.

14. **There will be a dedicated bank account (Designated Account [DA]) to receive funds from the World Bank.** The choice of the bank was based on the known quality of service and experience with various institutions in Mexico; the Agency currently has banking agreements

with the financial institution Citi-Banamex, which is an acceptable commercial bank to open the project DA in Mexican pesos. A due diligence for acceptability of the commercial bank to receive funds financed by the World Bank has been confirmed.

15. **Funds from the DA account will be used to pay for all of project activities.** Main disbursement mechanism for this project will be the advance of funds through a DA. There might be reimbursement of funds as well for some purchases performed during the previous 12 months up to the grant signing date.

16. **Disbursement arrangements.** The loan disbursement arrangements⁴⁷ are summarized in table 7.1.

Table 7.1. Disbursements Arrangements

Disbursement method	The following disbursement methods may be used under the loan: <ul style="list-style-type: none"> • Reimbursement • Advances • Direct payments
Advance method	In case the Advance method is used, the following will apply: <ul style="list-style-type: none"> • The currency requested for the DA is Mexican pesos and all the expenses of this project are expected to be made in Mexican pesos. • The World Bank will disburse against an application of funds, in which the Agency will request the grant resources according to the project's cash flow needs for the following two quarters.
Supporting documentation	SOEs, invoices and receipts, including copies of agreements between the Agency and beneficiaries, with evidence of transfers to the same beneficiaries. Unused advances will be reconciled against the outstanding balance of the DA. The DA bank account statement will be included as well. <ul style="list-style-type: none"> • A projection of the resources needed for the following two quarters • The exchange rate used for conversion purposes
Limits	Different aspects such as the minimum value of applications for direct payments, ceiling of the DA, and thresholds to deliver application of funds versus records will be determined and agreed with the Agency and confirmed with the World Bank.
Type of DA	Segregated
Currency of the DA	Mexican pesos
Retroactive expenditures	Eligible payments must meet the following conditions: <ul style="list-style-type: none"> • Made by the recipient one year before the date of the Grant Agreement • Do not exceed 20 percent of the grant amount • Subject to the same systems, controls, and eligibility as expenditures made during the grant period

Note: a. All SOE supporting documentation will be available for review by the external auditors and World Bank staff at all times during project implementation, until at least the later of (a) one year after the World Bank has received the audited financial statements covering the period during which the last withdrawal from the Loan Account was made and (b) two years after the closing date. The borrower shall allow the World Bank's representatives to examine such records.

Eligible Expenditures

17. The amount of the grant will be US\$6.00 million. Eligible activities are described in detail in the main section of the PAD.

⁴⁷ For details, please see the Disbursement Handbook for World Bank Clients.

Financial Reporting

18. **The Agency uses a commercial system for preparing the project’s accounting records.** This is a commercial software with adequate capabilities to recognize different levels of accounts and issue financial reports. The Agency will use its accounting system to prepare calendar semester unaudited IFRs and the annual audited project financial statements. These will be prepared on a cash basis using the standard Agency formats agreed with the World Bank.

19. Current systems currently in use by the Agency are as follows:

- Dynamics: Accounting and financial system
- Contpaq: Accounting system for tax purposes
- Webapps: To record personnel time for salary control purposes
- Salesforce: To register contracts and agreements
- SharePoint: A portal to store and share information at the Agency level

Table 7.2. Report and Due Date

Report	Due Date
Semester unaudited project IFRs	Within 45 days after the end of each calendar semester reported
Annual audit report on project financial statements and eligibility of expenditures	Within 6 months after the end of each calendar year of grant disbursements (or other period agreed with the World Bank)

External Audit

20. Annual audits on project financial statements and eligibility of expenditures will be performed in accordance with World Bank policy, as reflected in the specific audit terms of reference agreed between the World Bank and the Agency. An independent audit firm selected by the Agency and acceptable to the World Bank will conduct the project audits. The TOR for the annual financial audit will require independent auditors to report on the actual use of funds, ensuring that grant proceeds have been used for the intended purposes in an efficient and effective manner.

21. As part of the assessment, an audit report for 2015 was reviewed by the FM specialist for a similar project handled by the Agency in the past, for a grant of US\$4.5 million financed by IADB and FOMIN.

22. The audit opinion reviewed was issued by RSM Bogarín S.C. and the audit opinion was unqualified. The audit firm is currently acceptable to audit other World Bank-financed projects, such as the Mexico Forests and Climate Change Project (P123760) executed at CONAFOR. The Agency had acceptable internal control systems with no audit observation identified in the report.

23. At the corporate level, Withum Smith and Brown, a member of HLB International, a worldwide network of professional independent accounting firm and business advisors, audits

Rainforest Alliance global network. The auditors issued an unqualified audit opinion on its 2015 audit report.

Written Procedures

24. **Project operation is governed primarily by its own exiting Agency's operational rules, to which a number of procedures and guidelines are linked.** Given available documentation, only those FM procedures that are specific to the World Bank will be compiled or referenced to a project FM Manual. An advanced version of a POM will be prepared in form and content satisfactory to the World Bank, which may adopt relevant policies and procedures already in place at the Agency's operational manuals or exiting procedures. Procedures will include specific controls for ensuring that the project's funds are managed under sound FM practices.

25. **Risk assessment.** On the basis of the World Bank's project FM assessment, the overall FM residual risk at entry is considered Substantial, as explained in table 7.2.

Table 7.3. FM Risk Table

Risk Type^a	Risk Rating	Comments/Risk Mitigating Measures Incorporated into Project Design	Residual Risk Rating
Inherent risk	M		M
Country level	M	Use of corporate systems	M
Entity	M	The project implementation will be carried out by the selected NEA (Rainforest Alliance), which has strong institutional structures and capacities. Moreover, most FM activities will be carried out based on the existing FM arrangements, which were agreed for the ongoing operations.	M
Project	M	The fiduciary arrangements for the project will be implemented at the Agency level, making use of most of the FM systems, including accounting, budgeting, treasury, internal control, and auditing. There will be centralized and some decentralized procurement and payments to the project's consultants, providers, and beneficiaries and minor payments performed by beneficiaries, which will submit the support documentation to the Agency.	M
Control risk	M		M
Budgeting	M	Project funds will be part of the Agency's budget under budgetary lines earmarked for the project.	M
Accounting	M	All project expenditures will be recorded in the institutional SIIF, which includes modules for budgeting, accounting, and treasury, among others.	M
Internal control	M	The internal auditing function is carried out by the Agency's Internal Control Unit at the corporate level, which is responsible for follow-up on a regular basis on all internal control and project external audit findings.	M
Funds flow	S	The main disbursement mechanism will advance to a DA to fund for eligible expenditures from the Agency's annual budget. The Agency might use reimbursement of funds for retroactive expenditures incurred within the previous twelve months of the signing date for the Grant Agreement.	S
Financial reporting	M	The Agency will prepare and submit to the World Bank semiannual IFRs for the project not later than 45 days after the end of each calendar semester.	M
Auditing	S	The project financial statements will be annually audited by an acceptable audit firm and in accordance with the specific TOR prepared for this operation and acceptable for the World Bank. The project implementation and external auditor's findings will be also subject to follow-up provided by the Agency's Internal Control Unit.	S
Overall risk	S		S

Note: a. The FM inherent risk is the one that arises from the environment in which the project is situated. The FM control risk is the risk that the project's FM system is inadequate to ensure that project funds are used economically and efficiently and for the purpose intended. The overall FM risk is the combination of the inherent and control risks as mitigated by the client control frameworks. The residual FM risk is the overall FM risk as mitigated by additional controls and by the World Bank supervision effort.

Annex 8: Climate Change Co-benefits

Mexico: Dedicated Grant Mechanism for IP and LC (P151604)

Background

1. **Mexico's forests play a key role in climate change globally as well as locally.** Natural resource capital—forests, protected areas, agricultural lands, energy, and minerals—is an important contributor to Mexico's wealth. Natural resources support economic activities representing at least 11 percent of Mexico's GDP. They are an important source of jobs and support the livelihoods of millions of people, including rural populations. Environmental degradation and depletion of natural resources in Mexico have an economic cost equivalent to roughly 6.3 percent of GDP. Environmental degradation includes air and water pollution, soil degradation, and solid waste. In most cases, these costs are primarily borne by vulnerable groups, including young children, the elderly, and the rural poor. As Mexico grows and industrializes, demands on common property natural resources such as water and forests are also expected to rise.
2. Mexico is highly vulnerable to climate change, which is anticipated to exacerbate the country's development challenges. World Bank studies estimated that climate change could slow down the pace of poverty reduction by 2.4 percentage points by 2030, meaning an extra 2.9 million people would remain in poverty. The consequences of climate change will vary across social groups and throughout the country's territory, depending on factors such as exposure to hazards and climatic variability, sensitivity, and adaptive capacity. Poor and indigenous groups who depend on climate-sensitive sources of income could suffer the most significant impacts.
3. Mexico ranks 12th in the world and is one of the largest contributors of CO₂ emissions in Latin America.
4. Despite their strategic social and environmental contribution to Mexico's economy, forests continue to be under pressure, with a national annual average deforestation rate of 440,000 ha during 1990–2010. Deforestation is mostly driven by the conversion of forests to more profitable land uses, such as agriculture and livestock. Other important regional drivers include tourism, mining, and urban expansion. The degradation of primary forests also represents a significant source of GHG emissions and is largely due to the high rate of timber and fuelwood extraction, as well as forest fires and agricultural encroachment (particularly related to livestock). While the rate of forest loss at the national level has decreased over the last decade (FAO 2015), these trends could be reverted if the necessary measures are not taken.
5. In its recently submitted NDC, Mexico reaffirmed the important role of forestry and land use for its mitigation and adaptation targets, committing to reach a rate of 0 percent deforestation by 2030.
6. Mexico recognizes that deforestation and degradation factors are frequently outside of the forest sector and that the most effective way to face these factors is through a territorial, cross-sectoral, and sustainable rural development approach. Significant investment is required to achieve climate and rural development targets in forest landscapes.

7. **Forests and forest management contribute directly to adaptation to the effects of climate change.** Forests contribute to (a) providing sources of income that are less susceptible to short-term droughts or flooding; (b) reducing the risk of floods that inflict loss of life and significant damage; (c) helping control forest fires that, other things being equal, will tend to increase in Mexico with climate change; (d) providing ecosystem services that enhance people's livelihoods, including the provision of food and fuel and the regulation of water flows and temperature; and (e) helping increase communities' social capital, which enhances adaptation and social resilience. The potential of forests and forest management to contribute to the adaptation to the effects of climate change is particularly relevant for poor rural communities, as they tend to be more dependent on forests and their ecosystem services. In addition, forest restoration of degraded lands implies a huge potential on the local level as well as toward the Bonn Challenge and LAC 20x20.

Project Activities for REDD+

8. The PDO is to strengthen the capacity of forest-dependent people from selected states to participate in local, national, and international REDD+ related processes.

9. REDD+ processes include additional REDD+ processes in general and FIP processes in particular, including local, national, and global processes. It includes beneficiaries' participation at, among others, local and national CTC meetings, REDD+ national and international official forums, the FIP, and other demand-driven REDD+ initiatives besides the DGM. REDD+ projects refer to activities that aim at reducing emissions from deforestation and forest degradation under an integrated land management approach in forest landscapes and therefore explicitly include forest management as well as sustainable agriculture land management. These projects include, among others, SFM, protection of environmental services, enhancement of carbon stocks in forest landscapes, agroforestry, sustainable use of non-timber products, and promotion of alternative low-carbon sustainable community-based activities.

10. REDD+ processes and projects can translate to actual on-the-ground community-led investments or be directed toward establishing and strengthening the political and governance enabling framework for such investments. Thus, community participation and local governance structures for REDD+ are crucial. Given Mexico's unique land tenure situation, REDD+ necessarily leads to a community-driven approach. This very approach must target local and indigenous communities and community organizations, as well as community (forest and non-forest) enterprises.

11. That said, the project's activities will directly tackle the mitigation of GHG reduction through the following:

- **SFM**

- Reducing emission from deforestation and forest degradation using SFM 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, activities will contribute to enhance emission reductions. Furthermore, the use of low-emission

silvicultural operations aimed at increasing biomass productivity will enhance uptake of CO₂ making forest management more attractive than land conversion. All of these 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.

- Reducing emissions from mature secondary and production forests degradation caused by unsound overharvesting and firewood extraction through encouraging the use of firewood from local woodlot plantations, cultivating energy-efficient species, collecting sustainable firewood and logging debris in production forests, improving the efficiency of firewood use, and promoting formalization and registration of commercial firewood collectors and traders.
- **CFM.** Activities and projects to support communities and/or *ejidos* to help them combine SFM with socioeconomic development, enhance the contribution of forests to climate change mitigation and adaptation, and generate additional income opportunities for communities and/or *ejidos*, making sustainable management more economically attractive through the carrying out of activities (a) to promote, strengthen, and consolidate community institutions and local development processes for the collective and sustainable management of forest resources; (b) to support forest communities and/or *ejidos* and strengthen their capacities to manage productive forests sustainably; and (c) to promote and strengthen forest value chains established by CFEs and producer groups to add value to their timber and non-timber products in forest landscapes, expand access to markets, and improve competitiveness.
- **Eco-agriculture in forest landscapes**
 - Forest landscape restoration and stabilization of the agriculture and livestock frontier supporting the introduction of forest cover in productive landscapes. The tool kit of sustainable rural production systems includes silvopastoral techniques, grazing rotation, conservation tillage (zero tillage), agroecology 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. Given the specific socioeconomic and environmental circumstances in the intervention zones, the agriculture investments may include coffee plantations (*café de sombra*), milpa, and *acahual*.⁴⁸

⁴⁸ *Acahual* is a rotational system that combines high-value timber species with the natural colonizing species of secondary succession. The objective of its management (*acahual* management) is to produce forest goods outside the forest and avoid pressure on the forest, in addition to producing food in the growing phase. The establishment of the improved *acahual*, however, meets basic sustainability assumptions, such as increasing the value of land and labor. Being managed under the control of communities and attractive as renewable forest resources, it must take into account the expectations of producers, economic and social conditions, and the global context.

- In addition, low-intensive cattle ranching in forest landscapes will be supported to sustain livelihoods of forest-dependent people and consolidate forest coverage under silvopastoral schemes.
- Reducing 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 states of Chiapas and Oaxaca and those of the Yucatán Peninsula.
- **Ecotourism**
 - **Community-based ecotourism as a means to forest conservation and sustainable socioeconomic development.** Support nature-based forms of tourism in which the main motivation of the tourists is the observation and appreciation of nature as well as the traditional cultures in forest landscapes with the following characteristics: (a) it contains educational and interpretation features, (b) it is community driven, (c) it minimizes negative impacts upon the natural and sociocultural environment, and (d) it supports the conservation of forest landscapes by (i) generating economic benefits for host communities and providing alternative employment and income opportunities for local communities and (ii) increasing awareness toward the conservation of natural and cultural assets, both among locals and tourists.
- **Enhancing local governance, inclusion, and advocacy**
 - **Collaborative, community-driven processes for dialogue, planning, negotiating, implementation, and monitoring.** Community governance of forest resources has proved to be a key element for forest conservation and vital local forest economies. It sustains collective action needed for the sustainable management of common goods. Thus, activities will be supported that aim at building social organization within communities and supporting community governance models under an integrated landscape approach.
 - **Financial inclusion activities.** Activities that aim at developing and strengthening community capacities for developing viable financial and technical proposals and developing basic business administration and entrepreneurial skills for sound producer groups and community-based enterprises to implement low-carbon productive activities in forest landscapes and to meet REDD+ targets. In addition, specific activities that support the access to financial services and training will be supported.

Project Activities for Adaptation

12. Synergies between mitigation and adaptation to climate change in the forestry sector are widely recognized. Mexico ranks 12th worldwide in forest cover, with more than 65 million ha of forests considered commercially viable. With its wide range of ecosystems, species richness is

expectedly high and the country ranks 4th worldwide in its overall biological diversity. Fifty-five percent of the 13 million inhabitants living in the forests suffer from extreme poverty. About 8,500 indigenous communities and *ejidos* own around 70 percent of the country's forests under a legally recognized collective land ownership system—a situation unique in the world. Officially, around 373,873 people are employed in the forest sector, and forestry activities account for about 0.6 percent of GDP. Official net deforestation rate is moderate, while forest degradation is relatively high and both show significant variation across the country.

13. Forests play an important role in adaptation to climate change. While Mexico's forests have long been valued as a source of timber, they are increasingly being appreciated for their role in helping regulate the environment. For example, by providing a protective canopy and roots that hold and bind the soil, forests greatly reduce erosion and storm flow, which helps regulate the hydrologic cycle and protect watersheds. Moreover, in times of natural disasters (for example, floods and droughts), forests not only lessen the physical impacts but also provide livelihood and marketable resources that build economic resilience to the impacts of extreme events. For instance, in times of disaster, access to timber and non-timber forest produce can provide an alternative stream of income to cope with short-term emergencies.

14. As a result, the following adaptation aspects have been identified for the project:

- **Floods.** Floods cost approximately US\$1 trillion in damage during the 1990s, notwithstanding the 100,000 lives lost (Laurance 2007). Analysis of flood data from 56 developing countries found a significant link between forest loss and flood risk: “Unabated loss of forests may increase or exacerbate the number of flood related disasters, negatively impact millions of poor people and inflict trillions of dollars in damage in disadvantaged economies over the coming decades”.
- **Landslides.** A European Commission review of landslides noted that, “the reforestation of hill slopes can help to reduce the occurrence of shallow but still dangerous landslides (mainly mud flows and debris flows)” and “excessive deforestation has often resulted in a landslide”.
- **Fire.** More mature protected forests tend to be much less vulnerable to fire, which tends to sweep rapidly through undergrowth.
- **Drought and desertification.** An extreme form of soil degradation is desertification, driven mainly by forest destruction, intensive agriculture, overgrazing, and excessive ground water extraction. At present, desertification affects over 100 countries, mainly in Asia and Africa, with high population pressure and livestock units. Desertification leads to a drastic decline in an area's biological productive capacity and the economic and social cost is high.
- **Earthquakes.** Although ecosystem management clearly has no role in preventing earthquakes, it can help prevent the aftermath—landslides and other environmental hazards. Analysis of several thousand landslides triggered by the 2005 earthquake in Kashmir found that forested slopes suffered less slippage than bare agricultural and shrub-covered slopes

Map of Mexico

