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PROJECT APPRAISAL DOCUMENT  
ON A  
PROPOSED LOAN  
IN THE AMOUNT OF US\$21.3 MILLION  
TO THE  
UNITED MEXICAN STATES  
FOR THE  
SECOND COMMUNITY FORESTRY  
PROJECT

October 25, 2003

**Latin America and Caribbean Region  
Colombia and Mexico Country Management Unit  
Environmentally and Socially Sustainable Development**

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective October 13, 2003)

Currency Unit = Mexican Pesos

1 MXN = US\$11.043

US\$1 = 0.09 MXN

## FISCAL YEAR

2004 -- 2008

## ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Lending
<i>Asambleas</i>	Assembly of registered members of instance of an indigenous community or ejido
BP	Bank Procedures
CAS	Country Assistance Strategy
CDD	Community Driven Development
CDI	National Commission for the Development of Indigenous Peoples ( <i>Comisión Nacional para el Desarrollo de los Pueblos Indígenas</i> )
CELADE	Latin American Demography Center ( <i>Centro Latino Americano de Demografía</i> )
CGIAR	Consultative Group for International Agricultural Research
CIFOR	Center for International Forestry Research
CNA	National Water Commission ( <i>Comisión Nacional del Agua</i> )
COINBIO	Indigenous and Community Biodiversity Conservation Project
CONABIO	National Commission for the Understanding and Use of Biodiversity( <i>Comisión Nacional para el Conocimiento y Uso de la Biodiversidad</i> )
CONAFOR	National Forest Commission ( <i>Comisión Nacional Forestal</i> )
EA	Environmental Analysis
EIA	Environmental Impact Assessment
<i>Ejido</i>	Communal Land Holding
<i>Ejidatario</i>	Member of <i>ejido</i> community
EMP	Environmental Management Plan
FIRA	Agricultural Trust Fund ( <i>Fideicomisos Instituidos con Relación a la Agricultura</i> )
FMP	Forest Management Plan
FONAES	National Fund to Support Community Enterprise ( <i>Fondo Nacional de Apoyos para Empresas en Solidaridad</i> )
FSC	Forest Stewardship Council
GEF	Global Environmental Facility
GOM	Government of Mexico
GTZ	German Technical Cooperation Agency
IMTA	Mexican Institute of Water Technology ( <i>Instituto Mexicano de Tecnología del Agua</i> )
INE	National Ecology Institute ( <i>Instituto Nacional de Ecología</i> )
INI	National Indigenous Institute ( <i>Instituto Nacional Indigenista</i> )
INEGI	National Institute of Statistical Geography and Computer Science ( <i>Instituto Nacional de Estadística, Geografía e Informática</i> )
LGDFS	General Law for Sustainable Forests ( <i>Ley General de Desarrollo Forestal Sustentable</i> )
MDG	Millennium Development Goals
MIS	Management Information System
MOU	Memorandum of Understanding
NAFIN	National Financial Corporation ( <i>Nacional Financiera</i> )

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NGO	Non-governmental organization
NTFP	Non Timber Forest Product
OP	Operational Policy
PEF 2025	Strategic Forest Program for Mexico 2000-2025 ( <i>Programa Estratégico Forestal para México 2025</i> )
PES	Payment for Environmental Services
PIU	Project Implementation Unit
PNF	National Forestry Program (2001-2006) ( <i>Programa Nacional Forestal 2001-2006</i> )
PROCAMPO	Rural Direct Support Program ( <i>Programa para el Campo</i> )
PROCYMAF	Mexico Community Forestry Project ( <i>Proyecto de Conservación y Manejo Sustentable de Recursos Forestales en México</i> )
PRODEFOR	Forestry Development Program ( <i>Programa para el Desarrollo Forestal</i> )
PRODEPLAN	Commercial Forestry Plantations Program ( <i>Programa para el Desarrollo de Plantaciones Forestales Comerciales</i> )
PROFEPA	Federal Office of Environmental Protection ( <i>Procuraduría Federal de Protección del Ambiente</i> )
PRONARE	National Reforestation Program ( <i>Programa Nacional de Reforestación</i> )
SAGARPA	Agriculture, Livestock, Rural Development, Fisheries, and Food Secretariat ( <i>Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación</i> )
SDR	Special Drawing Rights
SEDESOL	Social Development Secretariat (Secretaría de Desarrollo Social)
SEMARNAT	Environment and Natural Resources Secretariat ( <i>Secretaría de Medio Ambiente y Recursos Naturales</i> )
SHCP	Finance and Public Credit Secretariat ( <i>Secretaría de Hacienda y Crédito Público</i> )
SDR	Special Drawing Rights
TOR	Terms of Reference
UMAS	Wildlife Conservation Area ( <i>Unidad de Manejo para la Conservación de Vida Silvestre</i> )
UNAM	National University of Mexico ( <i>Universidad Nacional Autónoma de México</i> )
WBG	World Bank Group

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**MEXICO  
COMMUNITY FORESTRY II**

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MAP(S)

32441 Mexico - Second Community Forestry Project - Targeted States

MEXICO  
Community Forestry II (PROCYMAF II)

## Project Appraisal Document

Latin America and Caribbean Region  
LCSEO

<b>Date:</b> October 25, 2003 <b>Sector Director:</b> John Redwood <b>Country Director:</b> Isabel M. Guerrero  <b>Project ID:</b> P035751 <b>Lending Instrument:</b> Specific Investment Loan (SIL)	<b>Team Leader:</b> Daniel R. Gross <b>Sector(s):</b> Forestry (100%) <b>Theme(s):</b> Other environment and natural resources management (P), Other rural development (P), Indigenous peoples (P)							
<b>Project Financing Data</b>								
<input checked="" type="checkbox"/> Loan <input type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:								
<b>For Loans/Credits/Others:</b> <b>Loan Currency:</b> United States Dollar <b>Amount (US\$m):</b> US\$ 21.3 million <b>Borrower Rationale for Choice of Loan Terms Available on File:</b> Yes <b>Proposed Terms (IBRD):</b> Fixed-Spread Loan (FSL) <b>Grace period (years):</b> 5 <b>Commitment fee:</b> 0.85%								
<b>Years to maturity:</b> 10 <b>Front end fee (FEF) on Bank loan:</b> 1.00% <b>Payment for FEF:</b> Capitalize from Loan Proceeds								
<b>Initial choice of interest-rate basis:</b> Maintain as Variable								
<b>Type of repayment schedule:</b> <input checked="" type="checkbox"/> Fixed at Commitment, with the following repayment method (choose one): level <input type="checkbox"/> Linked to Disbursement								
<b>Conversion options:</b> <input checked="" type="checkbox"/> Currency <input type="checkbox"/> Interest Rate <input type="checkbox"/> Caps/Collars: Capitalize from Loan Proceeds								
<b>Financing Plan (US\$m):</b>								
<b>Source</b>	<b>Local</b>	<b>Foreign</b>	<b>Total</b>					
BORROWER	7.60	0.00	7.60					
IBRD	21.30	0.00	21.30					
<b>Total:</b>	28.90	0.00	28.90					
<b>Borrower:</b> SECRETARIA DE HACIENDA Y CRÉDITO PÚBLICO <b>Responsible agency:</b> COMISION NACIONAL FORESTAL (CONAFOR) Address: Carretera a Nogales esq. Periférico Poniente S/N, Col. San Juan de Ocotán, C.P. 45010, Zapopan, Jalisco, México. Contact Person: Dr. Gerardo Segura, Coordinador General, PROCYMAF. Av. Progreso No. 5, Colonia del Carmen Coyoacán, C.P. 04100, México D.F., México. Tel: (5255) 5484-3571      Fax: (5255) 5484-3569      Email: gsegura@conafor.gob.mx								
<b>Estimated Disbursements ( Bank FY/US\$m):</b>								
<b>FY</b>	2004	2005	2006	2007				
Annual	5.32	5.33	5.32	5.33				
Cumulative	5.32	10.65	15.97	21.30				
<b>Project implementation period:</b> 2003 - 2007 <b>Expected effectiveness date:</b> 01/15/2004 <b>Expected closing date:</b> 12/31/2007								

## A. Project Development Objective

### 1. Project development objective: (see Annex 1)

The general objective of PROCYMAF II is to assist indigenous communities<sup>1</sup> and *ejidos*<sup>2</sup> that own forests in priority regions of Durango, Guerrero, Jalisco, Michoacán, Oaxaca and Quintana Roo to improve the management and conservation of their forest resources and to generate alternative sources of income in sustainable manner.

The project's specific objectives are (i) to strengthen community institutions by means of the consolidation of social capital and management capacity to improve the benefits flowing from use of forest resources; (ii) to strengthen technical and administrative capacity of *ejidos* and communities for the development of local and regional productive processes; (iii) to identify and develop investment alternatives and productive diversification for communities and *ejidos*, and to promote local and regional arrangements to facilitate access by these communities to schemes for payment for environmental services.

### 2. Key performance indicators: (see Annex 1)

#### (a) Outputs (End of Project)

**800,000** ha of forest area under improved management<sup>3</sup>

**65** Community enterprises functioning three or more years after launch

**118** Community Zoning Plans Completed

#### (b) Impacts (End of Project)

**20** percent increase in net value of forest goods and services produced by assisted communities and *ejidos*

**30** percent increase in jobs available in assisted communities versus control

Significant increases in levels of social capital<sup>4</sup> in communities

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<sup>1</sup> Indigenous lands are recognized in Mexican law as belonging to indigenous communities and are legally titled to these communities. There are an estimated 12 million indigenous people of many different ethnicities, based on the criterion of speaking an indigenous language in Mexico in nearly every State. In indigenous communities, there are individual family farming plots allocated by customary law as well as communally held land.

<sup>2</sup> An *ejido* is a land-holding consisting of either indigenous or non-indigenous members with rights, stipulated in law, in communal resources under which an individual family has a right to individual plot of land allocated by communal decision as well as access to communally owned lands (often forest lands, pasture and watercourses).

<sup>3</sup> "Improved management" refers to the adoption of management practices that contribute to the sustainable management of the ecosystem in question. The project would not normally finance preparation of forest management plans or UMAs because these can be financed under other CONAFOR programs, particularly PRODEFOR (qv.). However, such instruments can be considered as products of the proposed project because the project catalyzes the preparation of such plans and will often help secure CONAFOR support for preparation.

<sup>4</sup> Social capital is a relatively new term in social-science parlance although related concepts of community organization have been used for many decades. Social capital is intended to capture features of social organization in a community that permit or facilitate social action by individuals and groups. It does not necessarily imply communal actions although these may be particularly important in Mexico where communities and *ejidos* hold property communally. In the proposed project, detailed baseline studies would be conducted at the outset of the project and at two-year intervals as part of project design. These studies would be designed using probability sampling to measure levels of social capital in communities receiving different levels of assistance from the project in order to gauge the effectiveness of the program in building social capital. A number of different measures would be



## B. Strategic Context

### 1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 23849      Date of latest CAS discussion: 04/23/2002

The 2002 Mexico CAS, focuses on balancing growth and poverty reduction with environmental protection. The CAS further states that Mexico needs to strengthen natural resource conservation and management both to preserve environmental quality and to provide a more stable source of income for forest owners. The total cost of natural resource and environmental depletion is estimated at about 10 percent of GDP. This includes the unsustainable depletion of forest resources.

### 2. Main sector issues and Government strategy:

Of the 55.2 million ha of forested land in Mexico (FAO 2001), some 70 percent is owned by indigenous communities and *ejidos* (World Bank 1995). Mexican land tenure has unique characteristics in that since 1916, indigenous communities and *ejido* members (*comuneros* and *ejidatarios*) have legal title (or legally recognized rights) to their land and the natural resources on them. Many of these communities are very poor and have not had the tools to make good use of the resources on their lands and many of them are still suffering from a legacy of exploitative relations with State concessions. Policy makers have concluded that the only way to achieve the conservation and sustainable management of Mexico's forest resources and other environmental goods and services dependent on them (e.g., biodiversity, soil and water resources, sequestered carbon, scenic beauty), is by building the capacity of these communities to manage their own resources. The alternative -- namely to seek to impose such changes through a system of command and control -- is not politically feasible nor is it likely to be a successful strategy.

Until some twenty years ago, resources belonging to many of these communities were subject to private and parastatal concession contracts. In general, concessionaires managed communal forests for maximum profit with little regard for long-term productivity, biological diversity conservation, or other environmental externalities. They also continued a long-standing tradition of exploiting indigenous communities with little regard for their traditions and their desire for self-determination, exacerbating a legacy of distrust and resistance to outsiders. In many areas, forested lands were converted to other uses (mainly agricultural production), exploited without obtaining the necessary permits, contributing to a high rate of forest depletion which has recently been estimated as high as 1.1 percent of national forest cover (FAO 2001).

PROCYMAF I was the first project on a large scale to tackle the problem of empowering poor communities to manage their own resources. By most measures, PROCYMAF I was successful (see Annex 11). It demonstrated that poor communities can generate significant income through the sustainable management of natural resources. Departing from a more traditional production-oriented approach to forestry, PROCYMAF I focused mainly on the forest-owning communities and *ejidos* themselves, seeking to improve the capacity of villagers to make sound decisions and helping raise living standards of the villagers through improved forest management. Until the year 2000, most regulatory issues pertaining to forestry in Mexico were handled by SEMARNAT, the Environmental Secretariat and its enforcement arm, PROFEPA. In April 2001, the GOM created the National Forest Commission (CONAFOR) with a broad mandate to promote

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applied including measures of interpersonal relationships, leadership, capacity for social action, levels of communication, capacity to resolve conflict, and other measures. The baseline study would calibrate these variables for the type of community targeted by the project and repeat the study using similar instruments to gauge change.

sustainable production of forests and conservation of forest resources based on a Strategic Forestry Program with a 25-year horizon, and a National Forestry Program, (2001-2006). Among the functions attributed to CONAFOR in its Charter are (a) stimulate the organization of forest producers and assist them in the formation of associations under applicable legislation, and (b) promote production forestry through support for viable projects that contribute to generating employment and income in forest dwelling communities that have an aptitude for forest production. The creation of CONAFOR, and its long-range plan, represents a powerful effort to reverse the trend of natural resource depletion and to turn a national liability into a productive asset. The environmental agency SEMARNAT, and its enforcement arm PROFEPA, remain responsible for enforcement of environmental legislation and the National Biodiversity Council (CONABIO) is responsible for assuring conservation and sustainable use of biodiversity. In December 2002, Congress approved a Forestry Law, which provides a framework for long-term planning efforts in the forest sector, primarily by strengthening and decentralizing institutions aiming to protect and manage the forest resources.

CONAFOR has taken the lead in implementing a national forestry strategy. It is a decentralized institution which maintains field offices in every state, created to encourage and support conservation and forest production-related activities. These goals would be achieved through long-term planning and by adopting standards of good governance, democracy, decentralized management, transparency and accountability. CONAFOR has developed a long-term plan (PEF 2025)<sup>5</sup> and a sectorial national program for the current administration, both for the development of forest resources, and has launched a number of programs aimed at implementing these plans. CONAFOR's Governing Body is made up of representatives of various GOM Secretariats.<sup>6</sup> CONAFOR's mandate follows Mexico's Strategic Forestry Plan and includes detailed guidelines for sustainable management of forests, water, and soil. Through PROCYMAF I and other programs such as PRODEFOR and PRODEPLAN, CONAFOR offers important support in environmental and forestry-related themes (see Box 1 for more details). Its annual budget approved for 2002 was 1,500 million pesos (approximately US\$135 million).

The PROCYMAF I project made significant inroads in the areas where it operates, helping to raise the area of forest under management plans. During the period from 1998-2003 PROCYMAF I financed studies to develop Forest Management Plans for an estimated area of 127,690 ha. It also financed studies to update Forest Management Plans for an estimated area of 144,041 ha. Nevertheless, the rate and extent of deforestation and forest degradation in Mexico in general and particularly in areas yet untouched by the PROCYMAF I project is still unacceptably high with negative implications for natural resource management. In addition, the efficiency of timber and other forest-based industries is low, particularly with respect to the forests under communal and *ejido* management. The importance of multiple use of forested areas is increasingly recognized as a response to the general economic deterioration in rural Mexico.

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<sup>5</sup>The National Plan for Forestry Development 2025 active since June 2001, contains an analysis of the current situation and establishes a strategic development plan for the forest sector until 2025, and also establishes significant sectoral objectives. Some of these are: (a) to give priority to national economic strategy and national security in the forestry sector; (b) to strengthen the capacity of states and municipalities to manage their forest resources; (c) to integrate policies for sustainable use of forest resources, watershed management, soil conservation, and biodiversity protection; (d) to promote community participation in forestry projects; (e) to use economic instruments as incentives to conserve and restore ecosystems.

**Box 1 Mexican Government Forestry Programs**

<b>PROJECT</b>	<b>GOAL</b>	<b>TARGET POPULATION</b>	<b>SCOPE</b>
<b>PRODEFOR</b> Forestry Development Program	To provide temporary support to forest owners aimed at augmenting forest production, productivity of the forest ecosystems, development of the forest productive chain and diversification of activities to improve the incomes of the owners forest land owners.	<i>Ejid</i> os, communities and small scale private forest owners, and any partnership between them.	Nationwide.
<b>PROCYMAFI</b> Community Forestry Project	To improve resource management and conservation by community and <i>ejido</i> forest owners and to increase the range of forest-based income generating options available to them.	<i>Ejid</i> os and indigenous communities that own forest lands and the associations that they form.	Priority regions of Durango, Guerrero, Jalisco, Michoacán and Oaxaca States.
<b>PRONARE</b> National Reforestation Program	Reforestation program aimed at increasing the forest cover and the availability of commercially valuable and otherwise desirable trees using species adapted to the environmental conditions of each region.	Nationwide and for all stakeholders involved/interested in reforestation activities. Potential areas identified to conduct directed actions to revert the processes of deterioration of the different ecosystems.	Nationwide.
<b>PRODEPLAN</b> Development of Commercial Forest Plantation Program.	To support the establishment of commercial forest plantations in order to reduce imports of timber products and to create alternatives for the sustainable development and productive diversification of the forestry sector in Mexico.	<ol style="list-style-type: none"> <li>1. Proprietors of land suitable for commercial plantations.</li> <li>2. Forestland owners ineligible for other Federal subsidies.</li> </ol>	Nationwide.
<b>COINBIO</b> Indigenous and Biodiversity Conservation Project (refer to Box 2)	To conserve areas of high biodiversity by strengthening and promoting community conservation initiatives on communally owned lands in areas of high biodiversity in priority ecological zones	<i>Ejid</i> os and indigenous communities whose lands include with biodiversity natural resources and want to conserve them in a sustainable way.	Indigenous communities and <i>ejidos</i> in Guerrero, Michoacán and Oaxaca States.

<sup>6</sup> National Defense; Finance and Public Credit; Social Development; Environment and Natural Resources; Economy; Agriculture, Cattle-raising, Rural Development, Fisheries and Food; Agrarian Reform, and Tourism, as well as the National Water Commission.

### **Box 2 Indigenous and Community Biodiversity Conservation Project (COINBIO)**

The project provides technical assistance to communities for the formulation, presentation, implementation, financial accounting, monitoring and accounting of community / *ejido* subprojects that advance the goals of the project. Funds are available for four types of subprojects: (a) identification and legal creation of conservation areas on community or *ejido* lands; (b) conservation building activities and strengthening community / *ejido* conservation networks; (c) investments to strengthen the protection of community / *ejido* conservation networks and investments in productive activities that constitute environmentally sustainable alternatives such as bottled water, eco-tourism, etc., and finally, (d) investments in venture funds used by communities and *ejidos* to support sustainable economic activities. State coordinators have been named in each of the participating states and Oaxaca's committee has selected its first group of subprojects for financing. Recently a national coordinator was named. Based on recent discussions with the GOM, it was agreed that the COINBIO project would be more closely linked to the PROCYMAF project and its National Coordinator will work within the CONAFOR framework to assure complementarity and take advantage of synergies between the two programs.

It is widely agreed that diversification of income sources for the rural population is highly desirable and that forest-based products can play a major role in achieving this. In addition, attention has been given to the growing scarcity of fresh-water supplies, conservation of protected areas, conservation of biodiversity and the development of ecotourism. The GOM has officially recognized that forests play important roles in the stabilization of ecosystems, and constitute an important support for preserving biological diversity, contribute to air and water quality, help conserve soils and have an effect on temperature regulation. Even more important, the policy has shifted in favor of focusing on communities, not forest. Although it supports timber production, PROCYMAF I is primarily a people-centered project that aims primarily at improving the economic and social well-being of the poor.

Indigenous people from communities are among Mexico's poorest people (see Table 1 for data on the numbers of indigenous people in the states which will be targeted under PROCYMAF II: Oaxaca, Guerrero, Michoacán, Durango, Jalisco and Quintana Roo). Many, perhaps most, *comuneros* and *ejidatarios* are subsistence farmers, planting maize, beans, chiles and other crops on hillsides.<sup>7</sup> In absolute and relative terms, indigenous people have low levels of health and educational attainment, poor housing and lower access to government services (Psachoropoulos and Patrinos 1994). A CELADE report shows that 81 percent of indigenous people in Mexico live below the poverty line, versus 18 percent of the non-indigenous population. The indigenous illiteracy rate in 1994, was 63 percent, versus 42 percent for the general population. Many indigenous people and *ejidatarios* seek to overcome poverty by migrating to Mexico City and other urban centers and to North America, often as illegal migrant workers.

For many indigenous communities and *ejidos*, forest resources are the most marketable natural resource they possess but, until the 1980s, these resources were either underutilized or virtually plundered by outside concessionaires. Other natural resources controlled by communities and *ejidos* include water, soils, and rare and endangered species. Traditional land-use patterns and poverty have left the land relatively undegraded, particularly for communities located in mountainous and other inaccessible areas. The importance of mountain and coastal forests and the environmental services they provide has only recently been recognized. However, such recognition has not yet led to the formation of markets for environmental services or environmental services schemes. Thus, indigenous communities and *ejidos* often have little

capacity to take decisions regarding the resources on their lands and consequently were not able to derive full benefit from the goods and services they own. Although indigenous communities and *ejidos* have long traditions of communal resource management and have democratic decision-making procedures, many are beset by poverty, out-migration, factional conflicts aggravated by party politics and religious schisms, and other problems that are corrosive to traditional social structure. There is also a legacy of government policies that leaves many communities profoundly distrustful of new programs and policies. These difficulties also lower the capacity of communities to take sound decisions regarding management of communally owned natural resources. The linkage between communal ownership, weakened organization and poorly articulated markets made it mandatory to strengthen the social organization of indigenous communities and *ejidos* as a precondition for better resource management and the acquisition of technical knowledge required for competing in the marketplace.

**TABLE 1 - Size of Indigenous Population and numbers of Communities and *Ejid*os**

State	Total Population	Persons speaking indigenous languages	Percentage of Total	Ethnic Groups
Oaxaca	3,438,765	1,120,312	32.6	Mixtecs, Zapotecs Mazatecs; Chinantecos; Mixes and 11 other ethnic groups
Guerrero	3,079,649	367,110	11.9	Amuzgo, Mixteco, Nahuatl, Tlapaneco
Michoacán	3,985,667	121,849	3.1	Purepecha
Durango	1,448,661	24,934	1.7	Tepehuano
Jalisco	6,322,002	39,259	0.6	Huichol
Quintana Roo	874,963	173,592	19.8	Mayas
<b>Total</b>	<b>19,149,707</b>	<b>1,847,056</b>	<b>11.6</b>	<b>39</b>
<b>TOTAL MEXICO</b>	<b>98,000,000</b>	<b>8,989,895</b>	<b>9.2</b>	

Reference: Censo de Población y Vivienda 1995, INEGI // Censo de Población y Vivienda 2000, INEGI // PROCYMAF Annual Report 2002 // The World Bank 2002

### 3. Sector issues to be addressed by the project and strategic choices:

The adoption of the World Bank Forest Policy (OP/BP 4.36) in November 2002 provides a sound basis for proactive engagement with client countries to comprehensively address the challenges of forest management, conservation and sustainable development. The policy encourages the incorporation of forest issues in the CAS and addresses the cross-sectoral impacts on forests as well as providing guidance for lending for forestry and conservation projects. It also encourages community forestry with consideration for social and poverty issues and it encourages the use of certification as a means of assuring environmental quality.

Among the general problems observed in Mexico's forests are a high rate of forest conversion (primarily to agriculture or grazing land, but also to roads, urban settlements and other uses), and unsustainably high deforestation rates estimated at 250,000 ha to 1.5 million ha per year. FAO

<sup>7</sup>There are some *ejidos* and some communities where modern agricultural practices are employed, producing for domestic and export markets.

estimated that the deforestation rate between 1981 and 1991 was approximately 678,000 ha per year. Assuming a constant rate of deforestation, absent replacement through reforestation, this trend would lead to the conversion of half of Mexico's forests within 42 years, with likely highly undesirable results for watershed functions, ecosystem stability, plus the global release of carbon and loss of biological diversity. Even where forests are standing, poor management practices have resulted in the degradation of genetic quality and loss of regenerative capacity.

The communal owners of forest resources in Mexico have been ill-equipped to manage their resources and to successfully market their products, especially as technology changes and markets become increasingly complex, globalized and competitive. In many cases, communities and *ejidos* have set up community enterprises (such as sawmills) to add value to timber but many of them have been operated inefficiently with considerable waste of raw materials. These communities have also not been able to take advantage of non-timber forest products (NTFPs), some of which have significant economic value and market potential (Wollenberg and Ingles 1999). Finally, although they have a traditional attachment to the forests, including a rich spiritual tradition rooted in the forest, they have not, in general, had the capacity to conserve natural areas that have both spiritual and material value (e.g., timber, NTFPs, environmental services).

PROCYMAF I and the proposed PROCYMAF II seek to improve the capacity of communities and *ejidos* to make use of technical services to prepare land-use plans, NTFP development plans, and designs for enhancing production of specific products and environmental services. The proposed project would not normally provide assistance to communities for preparing forest management plans because they can be financed under the PRODEFOR project. The PROCYMAF II model requires a counterpart contribution from communities themselves on a sliding scale (see Box 3). Communities are classified along a continuum ranging from Type I communities that do not sell forest products on the formal market to Type IV which have developed forest-based industries that not only harvest products but also add value to them.

<b>Box 3 – Community type definitions and counterpart requirements for technical assistance under PROCYMAF I</b>		
<b>Type of Community</b>	<b>Definition of Type</b>	<b>Community Counterpart Required for TA</b>
I	Owners of commercially viable forest stocks but lacking authorized FMPs.	10 percent
II	Owners of forest stocks practicing forestry through concessions to third parties without participating in management.	20 percent
III	Owners of forest stocks with authorized FMPs involved in one or more phases of forest management.	25 percent
IV	Owners of forest resources who add value to forest products and market them directly.	30 percent

The GOM requires all communities participating in the program to demonstrate full participation by the community *lejido* assembly in the design and implementation of any initiative and also further to contribute from ten to thirty percent of the cost of investments in technical assistance.

A similar scale and the respective counterpart requirements are compatible with that used by the PRODEFOR project, which prevents competition between the two programs. PROCYMAF II would continue this same approach which has been shown to be suitable for building community / *ejido* commitment to sustainable forestry in a fashion that is both market- and environmentally friendly. PROCYMAF II would consolidate and extend this approach in Guerrero, Michoacán and Oaxaca and expand the same services to Durango, Jalisco and Quintana Roo.

One situation encountered at the inception of PROCYMAF I was the lack of skilled private service providers with the skill mix needed to serve indigenous communities and *ejidos*. The approach taken in the project was to identify a pool of potential providers and to build up their capacity to work with community / *ejido* forest owners. This involved a variety of skills including community / *ejido* organization skills, environmental planning and forest management skills, analysis of the biology of specific non-timber species, economic and market analysis, technical assistance for community / *ejido* enterprises, etc. Over the past five years, PROCYMAF I has built up a roster of 156 professional consultants, including individual specialists, small firms, and NGOs<sup>8</sup>. These providers are required to participate in a PROCYMAF training course, and to be accredited as service providers at which point, they are added to the roster from which communities may select service providers. They are then added to a roster of service providers from which communities can select to meet needs they have identified. Many of these service providers have also participated in ongoing training under the PROCYMAF “Continuing Education Program” offered to qualified and interested providers to strengthen their skills in specific areas demanded by the communities. See Annex 2 for a detailed description of the accomplishments of PROCYMAF I.

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<sup>8</sup>While the number of providers is large, the roster is somewhat skewed by discipline and location. There are, as yet, few providers located in the States of Michoacán and Guerrero and there may be some gaps in some disciplines such as business and financial professionals. While some providers speak indigenous languages and some are themselves indigenous, there may also be a need to prepare more bilingual providers for PROCYMAF II.

## C. Project Description Summary

**1. Project components** (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

### A - Social Capital Strengthening

This component consists of activities designed to strengthen the capacity of communities and *ejidos* to take decisions, particularly as regards natural resource management. It includes: (a) forming and strengthening Regional Participatory Committees or other regional participatory fora and providing support for their meetings; (b) conducting Rapid Rural Appraisal exercises in which specialized consultants hold workshops in communities and *ejidos* to help them to become aware of their main problems and to set priorities; (c) inter-community seminars which are designed to assist communities of different levels of development to define common goals and share their experience in achieving them; (d) development of community statutes in which specialized consultants assist communities in drafting by-laws for community governance; (e) and supervisory activities by PROCYMAF staff.

### B - Forest Resource Management Technical Strengthening

Under sub-component (1) of this component, the PROCYMAF II project would respond to community demand to: (a) contract specific studies to identify alternative resources for the diversification of production and assist communities and *ejidos* in decision making; (b) provide specialized consulting services to carry out land-use zoning in accordance with community goals and available resources; (c) conduct studies and make recommendations for the strengthening of community enterprises; (d) studies and recommendations for the development of inter-community associations; (e) contract feasibility studies for non-timber forest products; (f) specialized courses for human capital development including courses on identification and management of conflict; and (g) offer courses to train community/*ejido* forest technicians. Under sub-component (2) of this component, the project would strengthen and diversify the supply of professional services through courses. Under sub-component (3) of this component, forest management manuals would be produced for each participating state covered by the project. Under sub-component (4) of this component, the project would support specialized technical assistance teams to support communities.

### C - Diversification and Investment

Under sub-component (1) of this component, the project would (a) support diagnosis and analysis of potential investments, and (b) invest in subprojects in *ejidos* and communities. Under sub-component (2) of this component, the project would carry out studies and design payment for environmental services schemes. PROCYMAF II is not intended to be a major source of investment finance since other sources are available for this purpose. Any financing for actual investments made under the project would be complementary to financing from other sources including (a) other government programs such as PRODEFOR, (b) community funds, (c) private donations. Thus, this component is relatively small.



#### **Box 4 – Resin Production.**

There are many potential NTFPs and markets for products and services. One example of an NTFP for which there is an expanding demand is resin extracted from pine trees. Such resin is used in the manufacturing of paint and other products. While not providing a steady year-round income, resin can provide important supplemental income to individuals and communities. In the State of Oaxaca in 2001, about 208 tons of pine resin were produced and shipped to Michoacán (some 460 km. away) for processing. However, the cost of shipping is approximately 30 percent of the value of the product delivered to the gate of the processing plant. In order to capture a higher price for the product, PROCYMAF is supporting a feasibility study for the possible development of a community-based resin processing enterprise in Oaxaca. Reducing the shipping costs will create jobs, bring higher returns for Oaxaca's resin producers and stimulate production. PROCYMAF has the capacity to provide partial grant financing for NTFPs (as opposed to timber for which only technical assistance is offered).

#### **D - Institutional Strengthening**

This component would provide support for a project subunit coordination team in each participating state and for basic goods and services for the implementation of the project including vehicles (not financed by the loan), information technology for the subunits in the states, training and support baseline studies of environment and social relations that will provide a basis for monitoring and evaluation of project advances. It would also support strategic studies in each of the participating states proposed by CONAFOR and approved by the Bank.

#### **E – Project Management**

This component would provide support for the central project implementation unit (PIU) and annual financial audits.

<b>Component</b>	<b>Indicative Costs (US\$M)</b>	<b>% of Total</b>	<b>Bank-financing (US\$M)</b>	<b>% of Bank-financing</b>
A. Social Capital Strengthening	4.80	16.6	2.41	11.3
B. Forest Resource Management Technical Strengthening	12.39	42.9	9.47	44.5
C. Diversification and Investment	3.60	12.5	3.00	14.1
D. Institutional Strengthening	2.70	9.3	2.21	10.4
E. Project Management	3.10	10.7	2.60	12.2
F. Unallocated and Contingencies	2.10	7.3	1.40	6.6
<b>Total Project Costs</b>	<b>28.69</b>	<b>99.3</b>	<b>21.09</b>	<b>99.0</b>
Front-end fee	0.21	0.7	0.21	1.0
<b>Total Financing Required</b>	<b>28.90</b>	<b>100.0</b>	<b>21.30</b>	<b>100.0</b>

#### **2. Key policy and institutional reforms supported by the project:**

The project would not promote policy reforms in general. Rather the project would seek to consolidate the institutional gains made by the creation of CONAFOR, the PEF 2025, PNF 2001-2006 and the 2002 Forestry Law. The project would support a process of legal and institutional change, by designing and financing feasibility studies in environmental services markets and payment for financial services (PES). This process is supported by the WB Forest Policy (OP/BP

4.36) which encourages linking country policy dialogue and project development to national forest programs and other development processes.

### **3. Benefits and target population:**

The project would be carried out in selected areas of the states of Durango, Guerrero, Jalisco, Michoacán, Oaxaca and Quintana Roo. The areas were selected on a basis of the presence of high value standing forest resources owned by indigenous communities or *ejidos*. The potential benefits include strengthening of community decision-making processes, higher income from forest production, and diversification of household incomes. PROCYMAF I assisted approximately 300 communities and ejidos in the States of Guerrero, Michoacán and Oaxaca. It is expected that the new project would assist an additional 200 communities and *ejidos* on a demand-driven basis, and continue assistance to some of the 300 original communities. Eventually, additional States fitting the same description as above could be incorporated into the project conditional on the availability of funds and staff. Loan financing for additional states would need to be discussed and agreed to in advance.

### **4. Institutional and implementation arrangements:**

CONAFOR is a decentralized agency of SEMARNAT. While CONAFOR is based in Guadalajara, PROCYMAF I has been managed, since inception, from CONAFOR offices in Mexico City. The existing CONAFOR Project Implementation Unit, located in Mexico City, would be maintained and CONAFOR subunits would be maintained or established in each of the target states.

Most of the activities to be carried out in this project will consist of TA subprojects carried out in a demand-driven modality as approved by CONAFOR. Activities for strengthening social capital and forest resource management will be carried on a demand-driven basis by consultants drawn from a roster of qualified technical experts. Each community seeking assistance will sign an umbrella operating agreement (*convenio de concertación*) with CONAFOR and thereafter will be eligible to contract service providers from the PROCYMAF roster (*padrón*). While under contract to communities, these providers will be paid directly by CONAFOR on behalf of the communities and ejidos. In addition, the project will support investment subprojects to enhance the diversification of forest resource use in communities. In these cases, communities would receive resources directly in the form of matching grants under an Investment Implementation Agreement (*convenio de ejecución*). The project will also support training activities for communities and ejidos and for specialist forest technicians. It may also support inter-community workshops. The latter activities may also require payment of modest *per diems* for committee and workshop participants who need to travel to their destinations. This travel would be compensated at rates reflecting actual costs to participants. Under component C, the project could support investment subprojects that may involve minor works, goods and services. In such cases, communities would manage project funds themselves, under CONAFOR supervision, following agreed procurement procedures described in the Project Operational Manual. All other components will be carried out directly by CONAFOR.

## D. Project Rationale

### 1. Project alternatives considered and reasons for rejection:

Alternative project designs considered include: (a) a larger project encompassing nine states; (b) fully decentralized State management; (c) directed credit for timber production; and (d) fully privatized service delivery. A larger project would have had to be implemented in stages and was considered undesirable from a fiscal perspective by the SHCP. The second alternative was considered desirable as a long-term goal, but not feasible in the near term because of lack of state capacity to manage a project of this complexity. Most of the six states targeted for project interventions lack a qualified forestry management unit or the skills needed to reach out to indigenous communities and *ejidos*. One of the project input indicators is the establishment of a functioning CONAFOR subunits in each of the participating States. With regard to the third alternative, experience with directed credit programs in the Bank has been negative, especially for areas where credit markets already exist. Directed credit programs are costly to manage and it is difficult to avoid leakage from directed credit to non-targeted uses. The program would provide matching-grant financing for NTFPs for which established markets do not exist and where the technology is largely unknown to the participating communities, provided that adequate feasibility studies have been carried out. Finally, the existing PROCYMAF program relies heavily on private-sector service delivery; however the overall management of the program and regulation of the private-sector activity remains in the hands of PIU and direct contacts with communities by project staff has proven essential to good project management.

### 2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
<b>Bank-financed</b>			
Environmental Services	Costa Rica Ecomarkets	S	S
Community Forestry	Brazil PROMANEJO	S	S
Community Forestry	Argentina Native Forests and Protected Areas	S	S
Community Forestry	Ecuador Indigenous And Afro-Ecuadorian Peoples Development Project	S	S
Community Forestry	Nicaragua Forestry Project	HS	HS
Indigenous Community Development	Mexico Indigenous & Community Biodiversity (GEF)	S	S
Indigenous Community Development	Honduras Rural Land Management Supplemental Project	S	S
Community Forestry	Tanzania Forest Conservation and Management Project	S	S
Joint Forestry Management	India Andhra Pradesh Forestry Project	S	S
Community Forestry	Pakistan Punjab Forest Sector Development	S	S

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

### **3. Lessons learned and reflected in the project design:**

The main lesson of PROCYMAF I was to demonstrate that communities can manage their own forest resources<sup>9</sup>. The approach to communities recognizes different capacity levels, and encourages communities and *ejidos* to gradually acquire the capacity as they move through various stages of development. The requirement of full community / *ejido* participation in the design and implementation of program interventions has been one of the key contributions to program success. Each intervention is based on a formal solicitation made by the community / *ejido* and voted upon by the community / *ejido* assembly. Communities appoint a team to interface with the private-sector service providers and provide continuous input to the implementation of the Program. The new project would maintain and strengthen this feature.

The experience of PROCYMAF I showed that there is a high likelihood of success in communities where commercially viable forest resources are available. However, the program also provided important assistance, and achieved gains, in communities where forest resources were not abundant, often by assisting them in developing NTFPs and building their capacity for other activities in addition to timber harvesting.

PROCYMAF also helped broaden the view of what constitutes marketable forest products. Communities have learned, through PROCYMAF, that the forests can also yield other valuable benefits such as jobs, NTFPs, recreation, eco-tourism opportunities, and a diversified livelihood for the community. Community enterprises are more likely to be successful where a good feasibility study is in place and where the community / *ejido* members are familiar with market conditions. The more highly developed communities and *ejidos* (Types III and IV) have a higher success rate in creating and operating community / *ejido* enterprises. Some Type II communities have also successfully created and operated community enterprises. Communities with some experience and sophistication are more likely to create and maintain viable enterprises.

Private service providers have not usually been prepared to work with indigenous communities and *ejidos*. The PROCYMAF experience has validated the need for specialized and ongoing training for service providers so that they meet the communities needs in a culturally sensitive fashion.

### **4. Indications of borrower commitment and ownership:**

The primary indicator of Borrower commitment to the proposed project is the ongoing successful implementation of PROCYMAF I. A second indicator of commitment is the adoption of a National Forestry Strategy that incorporates and extends the goals and methods of the PROCYMAF project. A third indicator is embodied in the institutional development of the forestry sector including the creation of CONAFOR, passage by Congress of a new forestry law (LGDFS) in December 2002, and the amendment of the Loan Agreement to transfer responsibility for implementation of PROCYMAF from SEMARNAT to CONAFOR. Taken together, these events demonstrate the determination of the Government of Mexico to achieve the objectives set out in the its forestry strategy and law, its willingness to apply scarce federal resources to achieve these goals, as well as to seek loan funds from the World Bank.

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<sup>9</sup> See Annex 11 for a detailed description of PROCYMAF I.

Another important indicator of ownership is the strong commitment by the GOM to recognizing the rights and needs of its indigenous communities and the embodiment of this commitment in many programs of local development, health and education. With regard to indigenous people, the GOM has made poverty alleviation and the full recognition of their indigenous cultural background part of its government program policy.

#### **5. Value added of Bank support in this project:**

The World Bank has supported a wide range of forestry projects worldwide and particularly in Latin America (see Section D-2). Most of these projects have been based on similar principles as PROCYMAF, including: (1) community control over forest resources; (2) increasing local value added forest products locally; (3) diversification of forest production; and (4) experimenting with the identification and development of environmental services schemes from forests. These experiences have led to the accumulation of considerable knowledge and capacity in the design and implementation of these projects, which have been applied to the current project design.

### **E. Summary Project Analysis** (Detailed assessments are in the project file, see Annex 8)

#### **1. Economic (see Annex 4):**

Cost effectiveness NPV=US\$ million; ERR = % (see Annex 4)

PROCYMAF II would finance demand-driven pilot investments whereby eligible communities and *ejidos* would have access to funds for feasibility studies, market analysis and development of pilot projects for timber and non-timber forest products (NTFPs). Under PROCYMAF I, similar investments were piloted in the states of Guerrero, Michoacán and Oaxaca. As such, this analysis draws on the experience of this predecessor project in providing an economic justification for the proposed project.

**Cost-Effectiveness:** Several factors would lend support to the cost-effectiveness of investments in training and capacity-building financed under the proposed project. First, the demand-driven aspect of these investments (as was also the case under the predecessor project – PROCYMAF I) would imply that scarce investment resources are allocated where these are most needed. Second, the same demand-driven processes have proven to increase a sense of ownership on the part of beneficiary communities regarding these investments, especially when the expected returns to the training are income-generation activities that are grounded in feasibility analyses and marketing plans, also financed under the project.

#### **2. Financial (see Annex 4 and Annex 5):**

NPV=US\$ million; FRR = % (see Annex 4)

*Internal rates of return* were also estimated for the most common types of productive subprojects. These exceeded, in most cases, 20 percent. The analysis was made assuming constant benefits over a twenty-year subproject life cycle. In addition to these positive impacts, benefits are largely concentrated in the subprojects' beneficiary communities.

#### **Fiscal Impact:**

All Bank-financed projects in Mexico operate within existing Federal budget allocations, in accordance with the tight fiscal policy pursued by the Federal government. The project seeks to improve the management practices of community-managed forests and increase the value-added

to forest-based production and NTFPs, both of which, if accomplished, would yield positive revenue flows via taxation. Furthermore, revenue generated at the local level which is reinvested in public goods and services – a common practice in indigenous communities – could substitute for and possibly reduce the demand for fiscal outlays from the Federal Government.

### 3. Technical:

The primary issue lies in developing and communicating appropriate management techniques for the wide range of forest types that are encountered in the six States that would be encountered in the project. The distribution of different forest types is outlined in Table 2.

State (Total)	Conifers	Temperate Broadleaf	Conifers and broadleaf	Plantations	High and medium tropical forest	Low tropical forest	Other associations	Disturbed forests
Oaxaca (7,059,653)	492,132	576,246	1,641,579	5,626	712,847	461,196	1,245,585	1,924,442
Guerrero (5,281,116)	104,458	536,642	1,304,071	0	71,815	681,818	862,771	1,719,541
Michoacán (4,206,451)	291,909	211,919	1,025,010	11,655	116,142	399,892	794,046	1,355,878
Durango (9,128,901)	1,589,306	1,284,955	2,115,140	0	2,144	480,338	2,784,924	872,094
Jalisco (4,838,620)	99,310	510,924	1,330,051	1,633	110,684	739,453	761,472	1,285,093
Quintana Roo (4,732,325)	0	0	0	0	1,613,736	834,686	1,395,684	888,219
<b>TOTAL (62,584,784)</b>	<b>2,577,115</b>	<b>3,120,686</b>	<b>7,415,851</b>	<b>18,914</b>	<b>2,627,368</b>	<b>3,597,383</b>	<b>7,844,482</b>	<b>8,045,267</b>

During project implementation, PROCYMAF I developed documents to promote best management practices that considered critical environmental aspects and the protection of rare and endangered species in the application of management. A manual was published for this purpose by the PROCYMAF I project which provides detailed instructions on environmental management to preserve biodiversity and avoid unnecessary damage for all forest managers in the areas covered by the project in Oaxaca. As part of project preparation, a specialized study was commissioned to identify the environmental risks posed by the project in the three additional states (Durango, Jalisco and Quintana Roo) and to propose, in general terms, environmental management procedures to be used in the management of the various types of forest. New Field Manuals to promote best management practices that consider environmental issues would be prepared during implementation. (see Section E. 5.2).

### 4. Institutional:

The major challenge of the proposed project is to extend the project to three additional states in different ecosystems with a diversity of institutional structures and indigenous and local cultures, while preserving the high quality of operations achieved in PROCYMAF I. State coordinators would be appointed by CONAFOR in each participating state and they would recruit field

workers (*promotores*) and establish offices in each state capital. There is an understanding, that would be reflected on the operational manual, that project activities would not be extended to the new states (Durango, Jalisco, Quintana Roo) until the PIU has been authorized to recruit a state team with a sufficient number of professionals to achieve the project's objectives.

#### 4.1 Executing agencies:

The Borrower is the United Mexican States (UMS), and the proceeds of the Loan would be managed by Nacional Financiera (NAFIN), a federal development bank responsible for managing many different projects with both local and foreign financing. NAFIN takes responsibility for the overall financial management of the project and manages the Special Account; of all formal transactions concerning the project including procurement and contracting, as well as matters pertaining to the Loan Agreement. The implementing agency is the National Forestry Commission, CONAFOR, that would enter into a special agreement with NAFIN and the UMS for the purposes of technical management of the project.

#### 4.2 Project management:

Although CONAFOR is a new agency, its management is drawn from some of the most politically and technically experienced personnel in Mexico. PROCYMAF I currently has an implementation unit based in Mexico City with a Coordinator and a core professional staff of 7, some of whom are CONAFOR staff members while others are on fixed-term contracts. The project also has subunits in each of the States including State-level directors and a staff. The Oaxaca subunit, with 7 staff, was the first to be established and has been the most active. Michoacán and Guerrero states each have a staff of 5. The coordination unit for the proposed project has accumulated nearly five years' experience in implementing the project and an excellent core group of managers and field workers has been developed. It is expected that there would be a high degree of continuity between the current PIU and subunits. The approximately 156 accredited professional service providers will also provide a good base from which to recruit additional providers.

#### 4.3 Procurement issues:

PROCYMAF would utilize a roster of consultants and firms that are technically qualified and trained to provide technical and professional services directly to indigenous communities. Admission to this list is based on presentation of qualifications and successful completion of a training course under commercial practices described in the Operational Manual. Communities develop proposals for technical assistance and, if approved, they may select a consultant from the official roster provided that consultant is available and qualified for the task at hand.

#### 4.4 Financial management issues:

The PIU (formerly attached to SEMARNAT) has had five years of experience in managing a World Bank Project. The World Bank's financial management assessment concluded that: (i) CONAFOR's headquarters in Guadalajara did not yet have in place an adequate financial management system specific to the project yet but that a reliable system is under development and during the life of the project CONAFOR will be supported by: (ii) existing financial management systems in the PIU located in Mexico City, which are acceptable to the Bank and fully operational for the proposed project; (iii) disbursement arrangements are satisfactory to the Bank; (iv)

CONAFOR and NAFIN will maintain records, accounts, files and project documentation, and will produce standard financial statements; (iv) an external private firm will carry out annual audit reviews; (vi) the project will produce FMRs on quarterly basis; and (vii) disbursements will be based on SOEs. Based on these findings, the implementation of an agreed financial management action plan (see Annex 6b) would result in proper/specific financial management arrangements in place before project implementation.

The draft Mexico Country Financial Accountability Assessment (CFAA) covers public financial accountability arrangements at the federal level: budget management, accounting and reporting, Treasury, Management Information System (SIAFF), internal controls and external audit. Based on the diagnostic work performed to date, the Task Team is of the opinion that, at the federal government level, Mexico has adequate public financial management capacity and reliable information systems, and that there is a considerable degree of external transparency.

Based on this assessment, it was agreed that two financial management supervision missions will be conducted during first project implementation year and for the following years one mission on yearly basis is planned. The aim is to avoid possible unfavorable results caused for the project implementation capacity, of CONAFOR both in Mexico City and Guadalajara, in financial management.

**5. Environmental:** Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

Based on the social and environmental studies carried during project preparation, no significant adverse environmental impacts are expected from the implementation of this project. This conclusion is partly based on experience with PROCYMAF I.

The relatively small scale of the project interventions and the built-in participatory mechanisms requiring assembly approval of all activities are strong guarantees against adverse environmental impacts. The project would support many activities contributing towards the sustainable management of forest resources by communities and *ejidos*. In order to achieve the latter the project would (i) continue and improve the provision of technical assistance and professional services for forest management, as initiated under PROCYMAF I, (ii) put in place sustainable management practices that take into consideration the conservation of water quality, biodiversity, and development of non-timber forest resources, (iii) strengthen community / *ejido* forestry enterprises, (iv) encourage product diversification and markets for environmental services, (v) strengthen local and regional institutions, as provided under the new forestry law (see section B.2) and (vi) encourage compliance with relevant laws and regulations.

The project would support performance-based certification of production forests by independent third-party agencies (such as FSC) in communities / *ejidos* where appropriate. Not all communities and *ejidos* would be encouraged to seek certification because the costs might outweigh the benefits in several cases. By promoting sustainable natural forest management, the project is expected to add value to standing forest rather than convert forests to agriculture or pasture. The key stakeholders were identified as being: (i) indigenous communities, (ii) *ejido* members, (iii) consumers of wood products, (iv) consumers of other environmental services (e.g., water), (v) commercial timber dealers and processors, and (vi) the agencies of the State.



## 5.2 What are the main features of the EMP and are they adequate?

The EA report, prepared by a specialized consulting team, is summarized as Annex 12 and has been publicly disclosed in Mexico. Through a series of field visits, extensive consultations with specialists and representatives of the beneficiaries, the EA team determined that the direct and indirect environmental impacts of the implementation of this project will be relatively light and mostly positive in nature. The PROCYMAF II EIA contains a description of the flow of project interventions from assessment to intervention. It takes into account their potential environmental impact by describing the safeguards required at the subproject level and at the regional level (e.g., cumulative impacts) to prevent irreversible environmental damage. The mechanisms comprise: (i) forest conservation plans including zoning plans that create set asides in areas of high biodiversity or vulnerability such as stream heads; (ii) environmental training and technical assistance to communities and private service providers; (iii) assistance in the management of rare and endangered species, especially those with commercial value; (iv) environmental institutional strengthening; (v) forestry research; (vi) environmental project monitoring; and (vii) the use of certification in some cases as an instrument to assure sustainable forest management and possibly help enhance the market value of products. Efforts will be made towards enhancing the capacity of communities and *ejidos* to follow sustainable management plans and to protect designated conservation zones within their lands.

PROCYMAF II would provide technical support to communities interested in achieving independent certification of their forests. Under PROCYMAF I, some communities achieved FSC certification covering a total of 147,314 ha and it is anticipated that other communities would achieve certification of their forests with PROCYMAF II support, covering some 75,000 ha. FSC certification provides assurance of social and environmental sustainability. It is recognized that not all communities attended will have the resources necessary to seek independent certification. However, the project would begin a process of improvements in community management that is substantially consistent with the Bank's forest policy (OP/BP 4.36). See Annex 12 for a detailed description of how the project complies with OP/BP 4.36.

As noted in Annex 14, there is a high degree of congruence between Mexican environmental regulations governing forests and the Bank's policies. Any forest management scheme supported under the project would be required to comply with Mexican legislation including filing of the required Forest Management Plan (FMP) which contains safeguards to ensure that proposed extractive activities would not cause damage to biodiversity, soils, or water quality. CONAFOR provides financing under the PRODEFOR program preparation of FMPs. In order to assure that completion of FMPs do not create a bottleneck, the project would provide financing of FMPs if needed. Following SEMARNAT regulations would also prevent support for any activity in or near a nationally gazetted conservation unit that is not permitted under law.

It was agreed that Field Guides will be produced with project support during the first two years of implementation. These will consist of (i) a guide for each states containing specific advice pertaining to forest types in that state, and (ii) a guide containing general advice on forest management and best practices on specific topics such as construction and maintenance of roads, timber harvesting, protection of soils and water courses, and biodiversity conservation through protection of nesting sites, etc. These guides will be based on existing sources, the experience of PROCYMAF I, and on relevant international experience. In view of the relative sensitivity to issues concerning humid tropical forests, it was agreed that the project would not support logging

activities in such areas and the relative lack of systematic experience in humid tropical forests, until the appropriate manual had been disseminated, except where the forest has received FSC or equivalent certification.

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft: 03/17/2003

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

Stakeholders listed under Section 5.1, including local, regional, and national government representatives from the CONAFOR and other relevant agencies, non-profit organizations, private entities, donors involved in the project area, and were consulted frequently during consultative meetings were held in each of the new target states (Durango, Jalisco and Quintana Roo) at which different beneficiaries, NGOs, academics and other stakeholders could learn about the project. The results of these meetings are summarized in Annex 15. During implementation, the individual EA and management plans as required under Mexican law would be informed by a wide consultation process with stakeholders in each respective locale. Each subproject financed by the project would include evaluation of the pertinent environmental parameters.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

The Project forms part of a larger government strategy which is embodied in other projects under the overall management of Mexico's forestry commission, CONAFOR. Furthermore, the project would follow the requirements of the WB Operational Policies (see section E.7.1). Among the indicators that will be considered are: (i) the increments in areas brought under formal management plans; (ii) increments in non-timber forest product production; and (iii) area of forest certified (although universal certification is not a goal of this project).

## **6. Social:**

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

The baseline condition of indigenous communities in Mexico is generally one in which indigenous communities enforce community solidarity through a system of rotating civil-religious "cargos" which impose significant financial and work burdens on their holders during their period of service. In a tradition as old as the Spanish conquest, many indigenous communities tend to be inward-looking and defensive. They place a high value on employment within the community / *ejido* and seek to minimize the need to migrate outside the community / *ejido*. Nevertheless, in many indigenous communities in Mexico, men migrate to distant cities and to the United States, sometimes illegally, in search of employment. Men may remain away for years on end, but most apparently intend to return and often remit part of their earnings to families at home.

Another social issue that arises in many of the target regions is the existence of inter-community conflict, often over land. Although indigenous communities own land, the exact boundaries are often not clearly demarcated and conflicts over land and other issues may remain alive for many years. They may result in long legal battles and sometimes violence. Such conflicts may make it

difficult or impossible to implement the project properly, especially when boundary disputes exist. The PROCYMAF I project generally did not offer services to communities where boundary disputes prevail, or restricted such services to areas free of conflict. The proposed project would not involve itself directly in dispute resolution. However, it would devote resources to training staff and service providers to recognize and assess conflict situations, and, where appropriate, to apply techniques to construct consensus within communities and reduce tensions between communities. The staff would also refer cases to the pertinent legal authorities, mainly the *procuraduría agraria*, which has specific tools for dispute resolution. The goal would be to help communities to resolve their differences to a point where they can benefit from project services.

*Ejidos* present another set of social issues revolving around the land rights held by *ejidatarios*. Although *ejidatarios* have rights in specific plots of land, those rights are not equivalent to titled ownership. *Ejidos* also include areas of communally managed land used as forest preserves, communal pastures, hunting and other purposes. While in 1917, *ejidos* were seen largely as a way of restoring of communal ownership to various rural populations, under President Lázaro Cárdenas (1934 - 1940), the *ejido* became an instrument of land redistribution and many new *ejidos* were created. In 1992, the law was changed to allow individual *ejidatarios* to register their plots, reducing certain rigidities in land management and transaction of land. Some 70 percent of *ejido* land is estimated to be under transferable public title. However, the law did not fully “commoditize” *ejido* land with the result that distortions persist such as the widespread illegal occupation of *ejido* land, particularly in urban and peri-urban areas, and the nonacceptance of *ejido* land as collateral by banks<sup>10</sup>. Nevertheless, there are still thousands of *ejidos* in Mexico holding substantial amounts of communal land. Individual *ejido* plots tend to be cleared and devoted to agriculture or livestock, while communal lands are often forest lands or communal pastures. There is a tendency for people to invest primarily in individual lots while they remain relatively indifferent to communally held land.

The project design includes specific inputs and outputs that relate to strengthening social capital. The project also aims at raising community living levels in the assisted communities.<sup>11</sup> In order to measure changes in social capital and levels of living, the project would support a systematic baseline study of communities using a panel methodology in a randomly selected subset of the universe of potential client communities. The study would be carried out early in the implementation period and repeated at two-year intervals to gauge the social impact of the project.

## 6.2 Participatory Approach: How are key stakeholders participating in the project?

OP 4.36 calls for the active involvement of people living in and near forest areas in all aspects of the management, conservation and sustainable development of their natural forests. There is a good experience from the PROCYMAF I project, that has stimulated the active participation of the key stakeholders in participating communities and *ejidos*. Under PROCYMAF I, regional committees were formed of key stakeholders (primarily community / *ejido* leaders and *comuneros*) in eight different regions of the State of Oaxaca. These committees serve as fora for the identification of needs and for the discussion of the project, its procedures and policies. They are constituted by and for the actual and potential beneficiaries of the project. Participation at the community / *ejido* level takes different forms but the requirement that decisions be taken by the broadest possible community body is maintained in all cases.

In Type I and II communities, there frequently is a need to help develop coherent community / *ejido* organization to build a process that allows the community / *ejido* to discuss issues and reach collective decisions. PROCYMAF staff help organize and attend community / *ejido* meetings to guide the process. The project offers assistance in the preparation and approval of community statutes which are important for the ongoing governance of the community in general. The goal is to ensure that communities will adopt and adhere to democratic procedures, centered mainly around the *asamblea*, or community assembly, which brings together the community / *ejido* members to discuss issues and vote on community actions. The exclusion of women and, non-*ejidatarios* and non-*comuneros* from *asamblea* decisions is a matter of concern, but is beyond the scope of this project. It is expected that inclusion of women in productive activities will help raise their profile and promote the gradual change in community governance practices.

In many communities the *asamblea* is in place, although the PROCYMAF staff are ready to assist in organizing meetings and assisting in the general process of decision making. In all communities, PROCYMAF requires that all project activities carried out in communities must be approved by a formal vote in the *asamblea*. Through the *asamblea*, a formal request is sent to PROCYMAF requesting specific services and, once the request has been granted, the *asamblea* must formally notify the CONAFOR PIU of this action.

The proposed project is aligned with many other Bank-financed projects implemented in recent years characterized as “community driven development” or CDD. Under this paradigm, communities organize themselves to identify their needs and receive assistance in the form of a matching grant to allow them to acquire or build some needed facility or improvement. The benefits of such programs are that the community itself decides what its needs are, the community manages the resource and decides how they will be used. Such projects are typically carried out in a transparent fashion and with a high degree of participation. Communities also benefit by strengthening their internal organization and capacity for joint action and problem solving.

Unlike other CDD projects, PROCYMAF I does not have an open “menu” of choices regarding the kind of investments that can be made since the project only supports actions relating to forest resources. Also, most of the funds will support technical assistance activities contracted by CONAFOR on behalf of communities. However, PROCYMAF I does share other characteristics and benefits typical of CDD projects.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

PROCYMAF I has created a space with which all the actors involved in the project within subregions of each participating state have a chance to express their thoughts and exchange points of view; this space is called Natural Resources Regional Committees, and it includes representatives of communities/*ejidos* representatives, civil society, state and federal organizations. Many of the technical service providers are affiliated with the Regional Natural Resource Committees.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

The absence of many community residents and internal conflicts may make the process of communal decision making more difficult. Therefore one of the issues that the project addresses

is the strengthening of community / *ejido* organization. As in the first PROCYMAF project, no actions would be taken by the project affecting any particular community or *ejido* that have not been thoroughly discussed and agreed by a vote in the community assembly. The project would also require that each community activity be carried with the direct participation of a group of community / *ejido* members selected by the community at large. A Mid-Term Review would be held approximately two years after project effectiveness to measure the extent to which the project is achieving its objectives and to make adjustments as necessary.

#### 6.5 How will the project monitor performance in terms of social development outcomes?

Early in the implementation of PROCYMAF II, a carefully designed baseline study would be carried out to measure social, economic and environmental aspects of communities in the targeted areas. A panel of randomly sampled communities and persons within these communities will be selected from the universe of all communities that may participate in the project. Among the parameters monitored will be those listed as indicators of project inputs, outputs and impacts under section A.2. The sampled communities and individuals will be revisited at two-year intervals throughout the life of the project to measure changes, using the same methodology to assess the impact of the project. The study will also take into account the number and type of interventions carried out in the communities studied.

### 7. Safeguard Policies:

#### 7.1 Are any of the following safeguard policies triggered by the project?

Policy	Triggered
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	Yes
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	Yes
Forestry (OP 4.36, GP 4.36)	Yes
Pest Management (OP 4.09)	No
Cultural Property (OPN 11.03)	No
Indigenous Peoples (OD 4.20)	Yes
Involuntary Resettlement (OP/BP 4.12)	No
Safety of Dams (OP 4.37, BP 4.37)	No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	No

#### 7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

Most of the clientele of the project are indigenous people organized as *comunidades indigenas* as recognized under Mexican law, or indigenous people living in *ejidos*. There are also non-indigenous people living in *ejidos*. Because of this an IPDP was prepared for this project, although most of the project's activities are designed around the traditional indigenous community (see Annex 13). The Social Analysis (Annex 13) recommended that special care be taken to avoid exacerbating existing conflicts within communities, especially in multi-settlement communities. The project design takes account of and strengthens many features of indigenous organization, especially the process of community decision-making. It also provides support for harmonizing the traditional *cargo* system (see above) with the demands of market-based

<sup>10</sup>[http://nt2.ec.man.ac.uk/multimedia/mexican\\_land\\_reform.htm](http://nt2.ec.man.ac.uk/multimedia/mexican_land_reform.htm)

<sup>11</sup> It is not possible to predict securely that family or household incomes will increase with the project since it would be implemented at the community level. Communities can benefit directly from income from forestry activities since often the proceeds from such activities are invested in improved services such as roads, schools and other amenities.

enterprise. Technical service providers are specially selected and trained to work with indigenous people. Thus, most of the project is oriented towards providing culturally appropriate assistance to indigenous people even though part of the clientele would not be classified as indigenous.

The environmental assessment (Annex 12) has examined the risks in every possible project activity and has found that, in general, the risks are low. The analysis recommends a screening function to identify possible risk from forest management practices that exceed the carrying capacity of the local environment.

**F. Sustainability and Risks**

**1. Sustainability:**

The design of the project has from the beginning been designed and implemented with the participation of forest communities and *ejidos*. The project empowers local communities and *ejidos* to take decisions in respect to the nature, extent and timing of the assistance on sustainable forestry management practices. The project objectives further supports GOM policies and are the product of an extensive consultation process. The project builds upon a successfully implemented PROCYMAF I project and the preparation team included the staff from PROCYMAF and CONAFOR, who will continue to be involved in the implementation of the project. It is expected that payment for environmental services schemes will also enhance the sustainability of the management systems supported by the project. Project actions complement measures developed and/or being implemented by the GOM, as well as Federal efforts under other programs such as shown in Box 1.

**G. Main Loan Conditions**

**1. Effectiveness Conditions**

- Operational Manual Satisfactory to the Bank has been adopted by the Recipient.
- Tripartite Agreement between UMS, NAFIN and CONAFOR signed and in effect.

**2. Other**

Conditions of disbursement.- Payments covered by Categories (4) and (5) set forth in the table in paragraph 1 of the Loan Agreement, would be ineligible unless the respective Implementation Agreement has been entered into with the respective Community or *Ejido*; and payments covered by Category (5) set forth in the table in paragraph 1 of Schedule 1 of the Loan Agreement in respect of any Investment Subproject involving humid tropical forest timber extraction, unless either: (i) the respective forest management practices of the Community or *Ejido* applicable to the Investment Subproject has received certification from an independent entity satisfactory to the Bank; or (ii) a Field Guide, satisfactory to the Bank, with recommendations and procedures for the sustainable extraction of timber in the ecosystem where the Investment Subproject is to be carried has been disseminated in the applicable region.

**H. Readiness for Implementation**

- 1.a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- 1. b) Not applicable.


- 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
- 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.

The following items are lacking and are discussed under loan conditions (Section G):

The PROCYMAF I project has already developed standard terms of reference and consultant contracts that will be used for contracting consultants from the PROCYMAF Roster (see Section C.3). Goods and minor works will be contracted under commercial practices described in the Operational Manual.

### **I. Compliance with Bank Policies**

- 1. This project complies with all applicable Bank policies.
- The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

  
Daniel R. Gross  
Team Leader

  
John Redwood  
Sector Director

  
Mark V. Hagerstrom  
Acting Country Director

## Annex 1: Project Design Summary

### MEXICO: Community Forestry II (PROCYMAF II)

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
<b>Sector-related CAS Goal:</b>	<b>Sector Indicators:</b>	<b>Sector/ country reports:</b>	<b>(from Goal to Bank Mission)</b>
Improvement of the quality of life of the forest owners in the six target states where the project will be carried out.	Reduction in labor migration. Increased availability of employment in communities and <i>ejidos</i> .	Baseline and follow up surveys in sample communities and <i>ejidos</i> .	The conditions affecting migration and employment can be affected positively or negatively by external factors independent of the project.
<b>Project Development Objective</b>	<b>Outcome / Impact Indicators:</b>	<b>Project reports:</b>	<b>(from Objective to Goal)</b>
Sustainable forestry development in targeted communities and <i>ejidos</i> .	<p>20 percent increase in net value of forest goods and services, produced by assisted communities and <i>ejidos</i>.</p> <p>30 percent increase in jobs available in assisted communities vs. control.</p> <p>Significant increase in social capital in assisted communities.</p>	PROCYMAF / MIS. Baseline and follow up surveys in sample communities and <i>ejidos</i> .	<p>The technology available is appropriate and adequate to assure sustainable management.</p> <p>Conflict with other governmental programs with policies incompatible with sustainable forest management (e.g., programs that encourage expanded croplands at the expense of forests).</p> <p>Inadequate financial support to carry out project activities.</p>



Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Output from each Component:	Output Indicators:	Project reports:	(from Outputs to Objective)
a) Communities and <i>ejidos</i> of the target states manage and develop their forestry resources in a sustainable manner.	80 community statutes adopted by community or <i>ejido</i> assembly.	CONAFOR/ PROCYMAF/MIS	Mexican forest products are at a competitive disadvantage on domestic and international markets.
b) Communities and <i>ejidos</i> have stronger technical capacity to manage forests.	75,000 ha receiving independent, performance-based certification.		The information is of good quality and information infrastructure exists at local level.
c) Payment for environmental services is accepted as a principle.	9 payment for environmental services schemes in place.		Enabling legal framework is in place.
d) Government institutions and competent private-sector providers effectively support communities and <i>ejidos</i> .	12 associations and 65 community enterprises functioning three or more years after launch.		External financing could mask true conditions of enterprise finances or cause dependency.
e) Community and <i>ejido</i> forestry enterprises, strengthened, singly, or in association, operating and competitive.	800,000 ha of forest area under improved management.		
	350,000 ha under zoning plans.		

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
<b>Project Components / Sub-components:</b>	<b>Inputs: (budget for each component)</b>	<b>Project reports:</b>	<b>(from Components to Outputs)</b>
A. Strengthening of Social Capital. (US\$4.7 million)	150 participatory planning exercises completed  48 inter-community seminars held.  48 community statutes drafted.	PROCYMAF/MIS	Gender aspects are not sufficiently considered, both at community / <i>ejido</i> level and within project unit and the padrón.
B. Forest Resource Management Technical Assistance (US\$12.39 million)	130 community enterprises successfully launched or strengthened.  160 communities that have completed or updated improved forest management and conservation plans.  118 zoning plans completed.  80 feasibility plans completed.  150 professionals trained and added to the PROCYMAF II Roster.  240 professionals completing advanced training.	PROCYMAF/MIS	The perception that the project harms indigenous people or the environment (e.g., logging).
C. Diversification and Investment (US\$3.6 million)	12 pilot projects for payment for environmental services launched.  US\$2.3 million invested in non-timber forest products.	PROCYMAF/MIS	Insufficient economic and financial feasibility studies undertaken for timber and NTFPs.  Investments in NTFP production could induce dependency among the beneficiaries, making it difficult to wean them from reliance on

			program resources.
D. Institutional Strengthening (US\$2.7 million)	25 regional participatory committees launched or strengthened.  25 associations successfully launched or strengthened.	PROCYMAF/MIS	Formation of dependency relationships between technical service providers and their clients.  Counterpart requirements for communities create a perverse incentive to remain at a low level of development in order to benefit from lower counterpart requirements.
E. Project Implementation Unit (US\$3.1 million)	6 State-level coordination subunits in place and functioning.	PROCYMAF/MIS	Insufficient time to adapt to local environmental and social conditions in each of the new states.

## **Annex 2: Detailed Project Description MEXICO: Community Forestry II (PROCYMAF II)**

### **By Component:**

#### **Project Component A - Social Capital Strengthening - US\$4.80 million**

This component consists of activities designed to strengthen the capacity of communities and *ejidos* to take decisions, particularly as regards natural resource management. It includes: (a) forming and strengthening Regional Natural Resource Committees or other regional participatory fora and providing support for their meetings; (b) conducting Participatory Rural Appraisal exercises in which specialized consultants hold workshops in communities and *ejidos* to help them to become aware of their main problems and to set priorities; (c) promoting inter-community seminars which are designed to assist communities at different levels of development to work together in a structured setting to help define common goals and share their experience in achieving them; (d) developing community statutes in which specialized consultants assist communities in drafting by-laws for community governance; (e) and supervisory activities by PROCYMAF staff.

#### **Project Component B - Forest Resource Management Technical Strengthening - US\$12.39 million**

Under sub-component (1) of this component, the PROCYMAF II project would: (a) contract specific studies to identify alternative resources for the diversification of production and assist communities and *ejidos* in decision making; (b) provide specialized consulting services to carry out land-use zoning in accordance with community goals and available resources; (c) conduct studies and make recommendations for the strengthening of community enterprises; (d) studies and recommendations for the development of inter-community associations; (e) contract feasibility studies for non-timber forest products; (f) specialized courses for human capital development including courses on identification and management of conflict; and (g) offer courses to train community/*ejido* forest technicians. Under sub-component (2) of this component, the project would strengthen and diversify the supply of professional services through courses. Under sub-component (3) of this component, forest management manuals would be produced for each participating state covered by the project. Under sub-component (4) of this component, the project would support specialized technical assistance teams to support communities.

#### **Project Component C - Diversification and Investment - US\$ 3.60 million**

Under sub-component (1) of this component, the project would (a) support diagnosis and analysis of potential investments, and (b) invest in pilot subprojects in *ejidos* and communities. Under sub-component (2) of this component, the project would carry out studies and design payment for environmental services schemes.

#### **Project Component D - Institutional Strengthening - US\$2.70 million**

This component would provide basic goods and services for the implementation of the project including vehicles, information technology, training and support baseline studies of environment and social relations that will provide a basis for monitoring and evaluation of project advances. It would strengthen CONAFOR operating units in each participating states to form State subunits. It would also support strategic studies in each of the participating states.

#### **Project Component E - Project Management - US\$3.10 million**

This component would provide support for the central project implementation unit and support annual financial audits.

#### **Project Component Unallocated, Physical and Price Contingencies - US\$2.10 million**

#### **Project Component Front End Fee - US\$0.21 million**

### Annex 3: Estimated Project Costs

#### MEXICO: Community Forestry II (PROCYMAF II)

<b>Project Cost By Component</b>	<b>Local US \$million</b>	<b>Foreign US \$million</b>	<b>Total US \$million</b>
Strengthening of Social Capital	4.80	0.00	4.80
Forest Resource Management Technical Assistance	12.39	0.00	12.39
Diversification and Investment	3.60	0.00	3.60
Institutional Strengthening	2.70	0.00	2.70
Project Implementation Unit	3.10	0.00	3.10
Unallocated and Contingencies	2.10	0.00	2.10
FEF	0.00	0.21	0.21
<b>Total Baseline Cost</b>	28.69	0.21	28.90
<b>Physical Contingencies</b>	0.00	0.00	0.00
<b>Price Contingencies</b>	0.00	0.00	0.00
<b>Total Project Costs<sup>1</sup></b>	28.69	0.21	28.90
Front-end fee		0.00	0.00
<b>Total Financing Required</b>	28.69	0.21	28.90

<sup>1</sup> Identifiable taxes and duties are 0 (US\$m) and the total project cost, net of taxes, is 28.9 (US\$m). Therefore, the project cost sharing ratio is 73.7% of total project cost net of taxes.

#### **Annex 4: Cost Effectiveness Analysis Summary MEXICO: Community Forestry II (PROCYMAF II)**

The primary activity under PROCYMAF II would be investments in capacity-building and technical assistance to communities and *ejidos* to both strengthen their social capital and to improve their management capacity and conservation of forest resources. Additionally, PROCYMAF II would finance demand-driven pilot investments whereby eligible communities and *ejidos* would have access to funds for feasibility studies, market analysis and development of non-timber forest products (NTFPs). Under PROCYMAF I, similar investments were piloted in the states of Guerrero, Michoacán and Oaxaca. The analysis set forth here draws heavily on the experience of the predecessor project -- PROCYMAF I -- in providing an economic rationale for the proposed project.

The results reported are based on an economic analysis of PROCYMAF I in one of the participating states (Oaxaca). Field work was conducted during late 2002 by the *Institut de Reserches et d'Applications des Methods de Développement* (IRAM), from which a final report was submitted to the project team in May 2003.

##### Cost-Effectiveness of Training Investments

A substantial proportion (US\$7.4 million) of project cost would finance capacity-building activities for communities and *ejidos*. While research concerning the private and social returns to training and technical assistance are scant, it may be instructive to look at returns to investments in education for which more evidence is available.<sup>1</sup> Psacharopoulos and Patrinos (2002) report that, for a data set consisting of 42 countries (including Mexico), the average rate of return to an additional year of schooling is 10 percent, with the highest returns accruing to low- and middle-income countries. Furthermore, average returns are highest in Latin America and the Caribbean region and Sub-Saharan Africa. Sianesi and Van Reenan (2002) review the existing literature regarding the macroeconomic effects of investments in human capital. They find that: (1) compelling evidence points to increased productivity through human capital investment; and (2) education is found to yield additional indirect benefits to growth (in particular, by stimulating physical capital investments and technological development and adoption).

In Mexico, the contribution of educational inequality to income inequality is second only to Brazil among Latin American countries (Lopez-Azevedo 2001). Applying a decomposition model to Mexican income inequality over the period 1988 to 1997, Lopez-Azevedo found that the gross effect of education (i.e., when considered in isolation) and the marginal effect (i.e., when included in a model with other explanatory variables) provided the highest explanatory power among all independent variables in explaining income inequality.

<sup>1</sup> Using formal education as a proxy for training and capacity-building (i.e., non-formal education) is risky, given the distinct nature of each type of education, material used, age groups, etc.

**Table 1: Contribution the Explanation of Earnings Inequality, Mexico 1988-97 (%)**

Variable	1988		1992		1996		1997	
	Gross	Marginal	Gross	Marginal	Gross	Marginal	Gross	Marginal
<b>Education</b>	20.2	20.2	26.9	22.3	29.3	22.6	32.6	24.5
<b>Age</b>	5.4	5.4	7.2	4.8	6.6	4.6	7.3	4.5
<b>Hours Worked</b>	1.7	3.8	1.9	3.3	1.3	4.0	1.2	3.5
<b>Status</b>	12.8	7.6	13.7	7.1	13.7	6.0	15.6	6.5

Source: Lopez-Azevedo (2001)

In addition to the literature, several factors would lend support to the cost-effectiveness of investments in training and capacity-building financed under the proposed project. First, the demand-driven aspect of these investments (as was also the case under the predecessor project – PROCYMAF I) would imply that scarce investment resources are allocated where these are most needed. Second, the same demand-driven processes have proven to increase a sense of ownership on the part of beneficiary communities regarding these investments, especially when the expected returns to the training are income-generation activities that are grounded in feasibility analyses and marketing plans, also financed under the project.

#### Economic Viability of Pilot Productive Subprojects

##### *Forest Production:*

Forestry production was assessed in four communities in Oaxaca. In three communities (Santiago Lachivia, San Antonino, San Pedro El Alto), *comuneros* engage in the sale of air-dried sawn lumber, using traditional saw mills which produce from 6,000 to 10,000 board-feet daily. In a fourth community (Pueblos Mancomunados), production technology is more advanced, the lumber is kiln-dried, and daily production can reach 20,000 board-feet, with noticeable gains in quality when compared to traditional methods used in the remaining three communities. Summary characteristics of the four communities are given in Table 2.

**Table 2: Summary Characteristics of Sampled Communities, Oaxaca**

	Santiago Lachivia	San Antonino	San Pedro El Alto	Pueblos Mancomunados
<i>Type of Community</i>	<i>Type 3</i>	<i>Type 3</i>	<i>Type 4</i>	<i>Type 4</i>
No. Inhabitants	190	400	450	1,900
Forest Area (Ha.)	2,800	5,400	28,000	5,000
Forest Area per capita (Ha.)	14.7	13.5	62.2	2.6

Source: Merlet, et al. 2003-08

*Type 3* communities are those which own forest stocks, have authorized Forest Management Plans, and are involved in one or more phases of forest management. *Type 4* communities (in addition to *Type 3* characteristics) engage in value-added activities of forest products and market them directly.

In all four communities, competition from external suppliers, namely Chile and the United States, is particularly acute. Both countries market sawn lumber in Oaxaca at prices below those of community mills. Foreign lumber is uniformly kiln-dried and often judged to be of higher quality than local obtained lumber from community mills. Hence the challenge is one of reducing

production costs and improving product quality, particularly through efficiency gains from technology adoption.

These communities and projects typify the investments which could be financed under PROCYMAF II. Financing for such projects would be obtained through PROCYMAF II, along with other complementary sources (e.g., PRODEFOR, Alianza para el Campo, FIRA, FONAES). Community counterpart contributions would range from 10 to 30 percent (see Box 2), as defined by type of community. Bank financing would be catalytic in supporting feasibility studies, training, marketing plans and other product development activities, while non-Project sources would finance plant and equipment and other start-up costs associated with the proposed communal forestry production. The community investments assessed in this annex are typical of those financed under PROCYMAF I and are indicative of those which could be proposed under the demand-driven processes to be continued under the proposed project.

Detailed models of communal forestry production were compiled for each community sampled. The economic analysis presented focuses on two fronts: (i) internal rate of return and (2) communal distribution of “value-added”, defined here as gross income, less depreciation and input costs. While the internal rate of return provides an indicator for the viability of the communal forest production, the calculation of value-added and its distribution reveals the extent to which each community “captures” the benefits which accrue to this production. A time horizon of twenty years was assumed for the analysis. Timber extraction per year is assumed to be equivalent to the overall growth rate of the forest area managed by each community. Results are reported in Table 3.

**Table 3: Financial Assessment, Community Forestry Production**

	<b>Santiago Lachivía</b>	<b>San Antonio</b>	<b>San Pedro El Alto</b>	<b>Pueblos Mancomunados</b>
<b>Total Investment (\$)</b>	<b>1,320,000</b>	<b>932,400</b>	<b>35,270,000</b>	<b>23,730,000</b>
<b>Net Present Value (\$)</b>	<b>1,872,777</b>	<b>23,510,492</b>	<b>61,343,616</b>	<b>23,628,226</b>
Per hectare	3,362	4,354	3,408	4,726
<b>Internal Rate of Return (%)</b>	<b>21</b>	<b>&gt;50</b>	<b>24</b>	<b>16</b>
<b>Value-added (\$)</b>	<b>493,694</b>	<b>2,243,244</b>	<b>12,619,205</b>	<b>5,422,178</b>
Per comunero (\$)	2,598	5,608	28,043	2,854
per Ha of forest (\$)	176	415	451	1,084
<b>Value-added (% gross income):</b>	<b>74</b>	<b>90</b>	<b>94</b>	<b>86</b>
<i>Individuals</i>	26	20	40	37
<i>Community-at-large</i>	48	70	54	49
<i>Labor (outside of community)</i>	8	4	7	3
<i>Technical Services</i>	11	4	2	1
<i>Financial Costs</i>	7	1	2	9
<i>Taxes</i>	0	1	- 2	1

Source: Merlet et al. (2003)

The models yield satisfactory internal rates of return for all communities, in excess of the prevailing opportunity cost of capital. Note that in three of the four communities, the value-added captured by the community itself exceeds 85%. In all cases, the community-at-large (vis-à-vis individuals) captures the bulk of the value-added. When viewed on a per hectare basis, the value-added becomes a proxy for the state of technology utilized by each community. For example, Pueblos Mancomunados, with its kiln for drying wood and modern mill equipment, is able to



generate a value-added per hectare of forest twice that of San Pedro el Alto – also a type 4 community, even though the latter has thirty times more forested area available

*Non-timber Forest Products (NTFPs):*

The proposed project will also finance feasibility studies of investment alternatives to forest production. Financing arrangements for NTFPs would be similar to those for communal forestry production project. Two NTFP examples considered here are resin extraction and spring water bottling.

Pine resin production has several positive attributes, namely: (i) rural employment generation; (ii) value-added to tropical pine forests which typically produce otherwise inferior quality lumber; (iii) stabilization of the agricultural frontier; and (iv) incentives for forest parceling, given the producers’ desire to maintain control over a given stock of trees. Under PROCYMAF I, training to resin producers was financed, as was a feasibility study for a resin processing plant in Oaxaca.

Land-use planning has led to protection of springs and other freshwater sources, and water bottling has arisen as a means of capturing the returns from this natural resource. In some cases, communities have leveraged their forest production income toward plant and equipment needed for this purpose. Summary results for these two types of NTFPs are presented in Table 4.

**Table 4: Results of Economic Analysis, NTFPs**

	<b>Resin Extraction</b>	<b>Water Bottling</b>
Total Investment (\$)	9,750,000	1,954,487
Net Present Value (\$)	28,169,893	4,744,510
Internal Rate of Return (%)	25	26

Source: Merlet et al. (2003)

Fiscal Impact

All Bank-financed projects in Mexico operate within existing Federal budget allocations, in accordance with the tight fiscal policy pursued by the Federal government. The project seeks to improve the management practices of community-managed forests and increase the valued-added to forest-based production and NTFPs, both of which, if accomplished, would yield positive revenue flows via taxation. Furthermore, revenue generated at the local level which is reinvested in public goods and services – a common practice in indigenous communities – could substitute for and possibly reduce the fiscal outlays from the Federal Government.

## Annex 5: Financial Summary

### MEXICO: Community Forestry II (PROCYMAF II)

Years Ending

	IMPLEMENTATION PERIOD						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
<b>Total Financing Required</b>							
<b>Project Costs</b>							
Investment Costs	5.9	6.5	6.4	6.4	0.0	0.0	0.0
Recurrent Costs	0.8	0.9	0.9	0.9	0.0	0.0	0.0
<b>Total Project Costs</b>	6.7	7.4	7.3	7.3	0.0	0.0	0.0
Front-end fee	0.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Financing</b>	6.9	7.4	7.3	7.3	0.0	0.0	0.0
<b>Financing</b>							
IBRD/IDA	4.5	5.8	5.5	5.5	0.0	0.0	0.0
Government	2.4	1.6	1.8	1.8	0.0	0.0	0.0
Central	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
User Fees/Beneficiaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Project Financing</b>	6.9	7.4	7.3	7.3	0.0	0.0	0.0

**Main assumptions:**

Roughly equal expenditures for capital goods and recurrent costs, each year.

**Annex 6(A): Procurement Arrangements  
MEXICO: Community Forestry II (PROCYMAF II)**

**Procurement**

**Section I. Procurement of Goods and Works**

Procurement of goods and works financed by the Bank under the project would be carried out in accordance with Bank's Guidelines for Procurement under IBRD Loans and IDA Credits (January 1995, revised in January and August 1996, September 1997, January 1999 and May 2000) and the following provisions of Section I of this Annex. The executing agency for the project will be the *Comisión Nacional Forestal (CONAFOR)* the same institution that has implemented, under SEMARNAT, the first project (Community Forestry – Ln. 4137-ME) since April 2001.

**Grouping of contracts:** To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost US\$200,000 when these contracts are bid centrally by CONAFOR. Due to their size and nature, small works contracts procured under CDD procedures will not be subject to packaging arrangements.

**Notification and advertising:** The General Procurement Notice to be published in the *Development Business* shall be updated annually for major procurement packages. An invitation to bid shall be published in the *Diario Oficial de la Federación* and *COMPRANET*.

**Procurement Methods.** The proposed procurement methods described below and the estimated aggregate amounts for each method are summarized in Table A. The thresholds for contract values for the use of each method described in Sections I and II appear in Table B.

Procurement methods (Table A)

**Table A: Project Costs by Procurement Arrangements**  
(US\$ million equivalent)

Expenditure Category	ICB	Procurement NCB	Method Other	N.B.F.	Total Cost
<b>1. Works</b>	0.00 (0.00)	0.00 (0.00)	0.55 (0.46)	0.00 (0.00)	0.55 (0.46)
<b>2. Goods</b>	0.00 (0.00)	0.21 (0.17)	1.15 (0.95)	0.41 (0.00)	1.77 (1.12)
<b>3. Services</b>	0.00	0.00	9.00	0.00	9.00
PROCYMAF Roster	(0.00)	(0.00)	(7.47)	(0.00)	(7.47)
<b>4. Other Services</b>	0.00	0.00	10.35	2.80	13.15
Consultants & PIU Workers	(0.00)	(0.00)	(8.54)	(0.00)	(8.54)
<b>5. Front-end fee</b>	0.00 (0.00)	0.00 (0.00)	0.21 (0.21)	0.00 (0.00)	0.21 (0.21)
<b>6. Training</b>	0.00 (0.00)	0.00 (0.00)	4.22 (3.50)	0.00 (0.00)	4.22 (3.50)
<b>Total</b>	0.00 (0.00)	0.21 (0.17)	25.48 (21.13)	3.21 (0.00)	28.90 (21.30)

1/ Figures in parentheses are the amounts to be financed by the . All costs include contingencies.

The bulk of procurement activities in the project is technical assistance amounting to approximately US\$22 million, or 76 percent of project costs. In most cases, technical assistance activities will be conducted by consultants (firms and individuals) retained by CONAFOR on behalf of participating communities, under TA procedures described in Section II below. No ICB is expected in the project. Goods to be procured amount to approximately US\$200,000 and will be contracted under NCB procedures centrally by CONAFOR for computing equipment and software. NCB procedures will use standard bidding documents as agreed between the Bank and Secretaría de la Función Pública. No vehicles will be financed by the Bank. Operational/recurrent costs in the project will be financed with counterpart funds.

### Technical Assistance to Communities and Investment Subprojects

**Profile of Communities/Ejidors.** The principal actors in the project will be organized groups that may be scattered -- sometimes in remote rural locations -- in project areas. These groups will be organized to ensure a legal personality and thus be eligible to apply for matching grants under the project to finance their subprojects. The transactions that these communities may engage in will be small, with aggregate values in their activities not to exceed US\$50,000 equivalent of a mix of inputs. However, the organized communities, who are the beneficiaries of the project, will decide all activities. Communities would be responsible for deciding the goods and services they need.

**Type of Activities.** Participating communities will prepare technical assistance activities or productive investment subprojects, or both. The selection of service providers, goods, works

and related services, and consulting services would be the responsibility of the communities/*ejidos*, implementing their activities or subprojects, supported by an ample range of implementation tools and instruments. The procurement method for contracting that communities/*ejidos* would be using are simplified, streamlined requirements for documents, accounting and controls.

**Training Activities:** Contracts for training activities managed by CONAFOR in participating communities and *ejidos* may be awarded, on a competitive basis, to individuals, consulting firms, NGOs or educational institutions. In some cases, however, training of short duration in certain forest management specialties to be offered in participants' communities may be contracted by direct contracting, in isolated, distant or remote communities and the difficulty of finding qualified trainers willing and able to work in such communities. Such contracts would have a maximum value of US\$20,000 equivalent, up to an aggregate total of US\$800,000 equivalent.

**Technical Assistance Activities.** Communities or *ejidos*, with the assistance of PROCYMAF project staff, would identify their needs for technical assistance or for strengthening their governance. Interested communities would sign an umbrella agreement (*convenio de concertación*) with CONAFOR conditional upon agreement by the community or *ejido* assembly. Under such agreements communities could seek assistance for social capital strengthening activities such as drafting of community bylaws, participatory rural appraisal (PRA), or community-to-community seminars. Communities that seek technical assistance could request assistance in land-use zoning, assessments of economic potential of natural resources, design of productive activities, etc. Communities seeking this type of assistance would select service providers from the PROCYMAF roster. After submitting a preliminary proposals for the desired activity, CONAFOR would contract the selected service providers through to perform the requested service. Service providers could also be selected from the roster by groups of communities to provide assistance for regional committees, specialized training or assistance in formation of community enterprises.

Most service providers will be drawn from a roster of qualified consultants (*el padrón de Procymaf*) maintained by the PROCYMAF State Subunit in each participating state. Admission to the roster would be conditional on presentation of technical qualifications and participation in a training course provided by PROCYMAF. and would be subject to satisfactory performance of consultants rated periodically on the basis of their technical performance, drive for results, and work relationships with the communities. Competitive selection of these providers will be on a fixed-budget basis (para. 3.5 of Guidelines). Fees for these services will be paid by CONAFOR according to standard compensation table according to the complexity of the task and the time required. Contract values for service providers are not expected to cost more than the equivalent of US\$20,000. The OM will detail the task descriptions, minimum qualifications for each line of service provided, and terms of contract using a standard simplified contract. The level of effort of the service providers and the quality of their service would be monitored by the State Subunit. Each service provider is required to submit a written report to the contracting community and to CONAFOR.

**Productive Investment Subprojects.** Once communities have determined their productive capacity, they may sign an Investment Implementation Agreement (*Convenio de Ejecución*), also conditional on approval by the community or *ejido* assembly. Experts can be recruited by communities from the roster to design investment projects or to conduct feasibility studies

for specific investments. Communities can apply for modest matching grants to support investments in value-added production facilities, such as sawmills, furniture factories, ecotourism facilities, etc. Communities will also invest their own resources in such projects and will typically also obtain cofinancing from other sources including CONAFOR's PRODEFOR program, the *Alianza para el Campo* program, NGOs and other sources. Communities will typically contribute their own labor, some of which may be paid from such grants up to a level of US\$20,000 equivalent. Goods such as machinery, construction materials, tools, minor field equipment estimated to cost above US\$20,000 but less than US\$50,000 will be procured by communities under CONAFOR supervision following commercial practices. Goods and service contracts valued above US\$50,000 will be contracted under NCB procedures with CONAFOR supervision. For works, contracts with values under US\$50,000 will be awarded on the basis of commercial procedure under fixed-priced, lump-sum contracts, where at least three qualified local contractors submit quotations in response to a written invitation, supported by minimum technical specifications. Direct contracting of works will be used exceptionally when only one qualified contractor supplier is available in or near the community, and would be applicable to contracts of less than US\$20,000 equivalent, by the community in distant communities outside of metropolitan areas of state capitals, and when regional reference price lists are used to approve investment subprojects.

## **Section II. Employment of Consultants**

Consultants services shall be procured in accordance with Bank Guidelines for the use of Consultants (January 1997, revised in September 1997, and January 1999 and May 2002) and the following provisions of Section II of this Annex. Consultants services will be contracted under this project in skill areas such as the following: community organization, training, preparation of technical specifications for minor works, land-use zoning plans, special studies, preparation of manuals, capacity building, among others. Consultant services other than those sought by communities through the Roster (contracted under fixed-price budgets, para. 3.5 Guidelines), will be contracted competitively by comparison of at least three resumé. Partial staffing of the central and State Subunits will consist of consultants selected under this procedure with annual contracts. They will be evaluated annually and, if their performance is satisfactory, they may be recontracted without competition as provided under Guidelines Para. 5.4.

**Firms:** Large consulting services contracts are not expected in the project. Short lists composed only of national firms may be contracted when contract value does not exceed US\$500,000 equivalent. The bulk of consultant services are for assignments of small value under US\$100,000, with estimate aggregates of US\$10.0 million equivalent. Contracts above US\$50,000 equivalent will be contracted by QBCS using the agreed RFP and standard contract for lump-sum contracts.

**Individuals:** Full-time individual consultants to assist in promotion activities, core staff in the State Subunits and PIU, and other advisory services would be selected by comparison of qualifications of at least three candidates and hired in accordance with the provisions of Chapter V of Consultants Guidelines, up to an aggregate amount of US\$5.1 million (US\$4.5 by sole source).

**Single-Source Selection.** The Bank has agreed to a single-source contract with *Colegio de Postgraduados*, the academic institution presently contracted under the first project, which is expected to continue delivering training modules for operational chain of staff, supporting the Program of Continuing Education. The annual cost of this training is estimated at US\$100,000 equivalent. However, it has been agreed that CONAFOR will seek competitive selection of other academic institutions for delivery of any new modules in the Program, using QCBS procedures.

### **Procurement Plan.**

The Global Procurement Plan has been prepared for the life of the project for all non-demand driven activities. A specific procurement plan for the first 18 months of project life will be available by Board presentation.

### **Section III. Procurement Responsibilities and Capacity**

A procurement capacity assessment for the project was conducted by Rosa Estrada and approved by the World Bank's Regional Procurement Advisor on September 17, 2003. The organization and staffing of the PIU in the ongoing project will remain intact and is expected to continue to operate in the second project with successful outcomes of its main accountabilities (monitoring, supervision, and disbursements). Procurement activities, including preparation of bidding documents that would be required for centralized purchases in the project will be conducted by the Procurement Unit (PU) at CONAFOR's *Gerencia de Recursos Materiales* in Guadalajara. CONAFOR is a recent executing agency in Bank-financed projects however, the capacity assessment conducted for the second project (filed with LCOPR) indicates that CONAFOR, both at its headquarters office and in the PIU in Mexico, has seasoned staff with experience in government procurement. For additional staff training and capacity building, an Action Plan will be agreed at negotiations. NAFIN, as intermediary financial institution for the Government of Mexico will continue to supervise procedures and contracts, including issuance of no objection to documentation and awards under the delegation the Bank makes of its fiduciary responsibilities not included in the prior review arrangements.

**Operational Manual.** The PIU will update its Operational Manual (OM) to include the lessons learned from the first project and will give special attention to fine tune procedures to ensure successful outcomes of TA activities and applicable flow of actions for the selection and eventual de-selection of consultants from the PROCYMAF roster. For investment subprojects (under matching grants), the OM will provide detailed instructions to insure satisfactory commercial procedures to be used by communities and *ejidos* in the procurement of goods, small works and services.

### **Section IV. Procurement Monitoring**

The PIU will be responsible for updating periodically the Procurement Plan, and will continue to use the present institutional capacity to monitor project execution, impact, benchmarks and maintain detailed records of procurement activities and contracts.

## Thresholds for Procurement Methods and Prior Review.

Category	Procurement Method	Contract Prior Review	Threshold
Goods and Works by	Commercial Practices	First 2 contracts in Durango,	<US\$20,000
Service Providers ( <i>Padrón</i> )	Fixed Budget	None	<US\$20,000
	Fixed Budget	All	>US\$20,000
Consulting Services, Firms (Centralized)	QCBS	All	>\$100,000
	Single-source selection ( <i>Colegio de Postgraduados - CPG</i> )	All	N/A
Consulting Services, Individuals	Competitive Selection (Chapter V, Guidelines)	All	>US\$50,000
	Sole source (contract renewals after evaluation - Guidelines 5.4)	Annual Contracting Program	<US\$50,000
Consulting Services, Firms & Individuals (CDD TA contracts)	Community Selection from Roster, fixed-budget.	All	>US\$20,000
		None	

## Other Support and Control Systems

CONAFOR is subject to regular financial (prior and ex-post) audits, either internal or external, as detailed in the statutes of SFP and Organic Law (*Ley Orgánica*) of CONAFOR. CONAFOR has also made provisions to ensure that all control areas/units in the institution are represented (with voice) in the ad-hoc Evaluation Committees for all contracts financed by the Bank. Furthermore, it has been agreed with NAFIN that it will enforce additional control mechanisms under its supervisory role of project activities. Furthermore, the PIU may engage the services of specialized firms to assist in the implementation and monitoring of investment subprojects. These services may include training in small-scale procurement by the community, accounting, and document filing.

## Frequency of Procurement Supervision

One ex-post supervision mission at least every 6 months.

## Overall Risk Assessment

The procurement activities under this project are very straightforward with a limited number of major contracts during project execution. However, in view of (a) the large component of TA activities in rural and distant communities, (b) the limited availability of detailed procedures in the OM for activities to assist the PIUs in the monitoring and supervision of purchases by the community, and (c) the limited experience of CONAFOR's PU in



Guadalajara in Bank-financed contracting, the assessment of this project is considered high. This assessment may be revised after the first year of execution according to outcomes.

**Table A1: Consultant Selection Arrangements (optional)**  
(US\$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost <sup>1</sup>
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
<b>A. Firms</b>	4.40 (3.20)	0.00 (0.00)	0.00 (0.00)	3.50 (2.30)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	7.90 (5.50)
<b>B. Individuals</b>	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	7.90 (5.80)	0.00 (0.00)	7.90 (5.80)
<b>Total</b>	4.40 (3.20)	0.00 (0.00)	0.00 (0.00)	3.50 (2.30)	0.00 (0.00)	7.90 (5.80)	0.00 (0.00)	15.80 (11.30)

<sup>1</sup> Including contingencies

Note: QCBS = Quality- and Cost-Based Selection

QBS = Quality-based Selection

SFB = Selection under a Fixed Budget

LCS = Least-Cost Selection

CQ = Selection Based on Consultants' Qualifications

Other = Selection of individual consultants (per Section V of Consultants Guidelines), Including "Sole Source" of Annually reviewed contractors as per Guidelines 5.4

N.B.F. = Not Bank-financed

Figures in parentheses are the amounts to be financed by the Bank .

<b>Overall Procurement Risk Assessment:</b>	High
<b>Frequency of procurement supervision missions proposed:</b>	One every 6 months during first year of operation and annually thereafter.

## Annex 6(B): Financial Management and Disbursement Arrangements

### Financial Management

#### 1. Summary of the Financial Management Assessment

##### *Country Issues*

The Mexico Country Financial Accountability Assessment (CFAA), nearly completed, covers public financial accountability arrangements at the federal level: budget management, accounting and reporting, Treasury, Management Information System (SIAFF), internal controls and external audit. The CFAA will include a Fiduciary Risk Assessment which covers financial management. Based on the diagnostic work performed to date, the Task Team is of the opinion that, at the federal government level, Mexico has adequate public financial management capacity and reliable information systems, and that there is a considerable degree of external transparency.

Although Mexico continues to improve its public financial management framework, procedures and systems, the sheer volume of transactions calls for expediting and incorporating a more efficient and effective approach to the administrative aspects of public finances management - including accounting and financial reporting - and for making internal and external audit functions more systematic and risk-based. The CFAA report offers detailed analyses, conclusions and recommendations on these areas.

##### *Strengths and Weaknesses*

*Strengths.* FM officials' of CONAFOR have experience in project FM for Bank projects and existing systems are fully operational for a similar project currently under implementation (PROCYMAF I). The PIU will be supported by key areas of CONAFOR (namely, accounting, budgeting, treasury, information technology and internal audit) and NAFIN.

##### *Weaknesses.*

<b>Significant weaknesses</b>	<b>Mitigation measures</b>
CONAFOR is not able to produce FMRs yet.	CONAFOR will initiate actions to adjust its systems to produce FMRs. Those actions will be concluded to ensure that CONAFOR is able to produce FMRs for project management and Bank reporting since the beginning of project implementation. FMRs will be produce on quarterly basis.
The administrative area of CONAFOR needs to improve integration between Guadalajara and Mexico City.	CONAFOR will fully integrate its administrative area since FM staff from SEMARNAT needs to closely coordinate project FM with Guadalajara.

#### **Implementing Entity**

The existing Project Implementation Unit (PIU), located in Mexico City, would be maintained and State Subunits would be maintained or set up in each of the six target states. CONAFOR was founded in 2001 and is organized as a commission and is a decentralized agency of SEMARNAT. Although it has a short track record, it has a strong central staff and has already launched a number of initiatives. CONAFOR succeeded in maintaining a stable budget allocation for 2003 and a similar situation is expected for 2004.

Although CONAFOR is a relatively new agency, its management is drawn from some of the most politically and technically experienced personnel in Mexico. PROCYMAF currently has an implementation unit based in Mexico City with a Coordinator and a core professional staff of 7, all of whom are CONAFOR staff members. The project also has State Subunits in each of the States including State-level directors and a staff. The PIU for PROCYMAF II would benefit from nearly five years' experience in implementing the preceding project and an excellent core group of managers and field workers. Staff will be maintained during project implementation, will continue operating from Mexico City and will coordinate with Guadalajara.

### **Staffing**

*Key FM staff.* The PIU FM staff includes three public accountants specialised in financial management. These officials, located in Mexico City and Guadalajara offices, have qualifications and public sector experience adequate to undertake the FM tasks related to this project. The main duties will be to: (i) prepare project budgets, financial statements and disbursement requests; (ii) supervise internal controls and efficiency in the execution of funds; (iii) coordinate among them on FM issues, with the financial agency NAFIN, the Secretaria de Hacienda y Crédito Público and the Bank; (v) coordinate project audits; and (vi) prepare and submit FMR reports 45 days after the end of the first semester of operation and after each subsequent trimester, following the same sequence each year.

### **Funds Flow**

Current CONAFOR's programs, including PROCYMAF I, are financed through the standard budget in local currency. The national treasury, a branch of the MOF (*Secretaria de Hacienda y Credito Publico*) transfers CONAFOR's budget via SEMARNAT. CONAFOR's HQ in Guadalajara handles all payments (goods, services, works, etc.), transfers funds to finance sub-projects (pilot projects in *ejidos* and communities) and manages bank accounts. All financial management activities are carried out in Guadalajara and the office in Mexico city is responsible of specific project activities such as preparation of SOEs, TOR, etc. but does not handle funds. Additionally, this office is in frequent contact with the financial agency NAFIN to process project disbursements, submit required reports, coordinate audits and Bank missions, etc. NAFIN manages the Special Account including the reimbursements to the national treasury (this based on applicable agreements e.g. financing percentage).

Funds of the proposed project will be disbursed to an Special Account (US dollar account), which will be utilized only for project activities.

*World Bank and Counterpart funds.* Funds will be disbursed to the Special Account, which will be maintained in the Central Bank (*Banco de Mexico*). The financial agency NAFIN will manage this account to support the project PIU. Local (standard) budget will pre-finance all project expenditures. The reimbursement to the GOM of the equivalent in US dollars will be transferred out of the balance of the Special Account.

### **Accounting Policies and Procedures**

CONAFOR will maintain records and accounts adequate to reflect, in accordance with practices compatible with International Accounting Standards and in compliance with local requirements, its operations and financial condition, including records and separate accounts for this project (Second Community Forestry, PROCYMAF II). Administrative procedures

are in place and coordination between the two offices (Mexico City and Guadalajara) will be intensified to ensure that financial transactions are made with consideration to safeguarding project assets and ensuring proper entry in the accounting/monitoring systems. The project accounting system complemented with information systems, has the capacity to record assets, liabilities and financial transactions of the project, and produce financial statements and reports useful to project management and meeting Bank's fiduciary requirements. The office in Mexico City will be responsible for all information related to disbursements. The Operational Manual will clarify the respective roles and responsibilities for accounting and monitoring systems between the PIU and CONAFOR's headquarters in Guadalajara.

### **Reporting and Monitoring**

Financial statements and reports will be prepared in formats satisfying local and Bank's monitoring and fiduciary requirements.

*Monthly.* CONAFOR will prepare (i) the project's Statement of Expenditures, a matrix classifying receipts by financing source and expenditures by financing source, disbursement category and component and (ii) the Special Account Reconciliation. NAFIN will support or carry out these activities depending on existing arrangements for the preceding project.

*Quarterly.* The project financial statements (the Statement of Receipts and Payments by Funding Source, with expenditures classified by budgetary line and disbursement category; the Uses of Funds by Project Activities; and the Special Account Reconciliation Statement), along with the physical progress and procurement sections of the Financial Monitoring Reports, will be submitted to the Bank no later than 45 days after the end of each quarter (May 15, August 15, November 15 and February 15 of each calendar year). The content of this reports have been discussed and the initial design of the reports has been agreed with CONAFOR. Final agreed format will be included in the Operational Manual, which is a board condition.

*Annually.* The annual Financial Statements will include the cumulative information of the quarterly financial statements cited above, plus the schedule of Statements of Expenditure (SOEs) presented during the year in support of Withdrawal Applications. This information will be complemented with annual audit reports.

A financial management section of project manual will include detailed information on reporting and monitoring.

### **Information Systems**

CONAFOR operates multiple systems which are not integrated but that are acceptable to the Bank. The following are the main FM systems: (i) *Sistema de contabilidad por polizas* Cheppaq and Contpaq –commercial software- ; and (ii) the new Multilan, which is a commercial software with in-house applications. Those systems produce information on budget execution, accounting and financial operations.

## Action Plan

Action	Responsible	Date
Completion and adoption of a FM section of the project Operational Manual.	CONAFOR	Prior to board date.
Implementation of organizational arrangements to ensure effective coordination between Mexico City PIU and CONAFOR Guadalajara (the administrative area).	CONAFOR	Before first disbursement.
Project financial management staff must receive training on FM for Bank financed projects	CONAFOR	Before first disbursement. PIU staff is currently in the GDLN's group attending training provided by the Bank.
Modification of existing systems for FMR production.	CONAFOR in coordination with NAFIN.	Before first disbursement..

## Supervision Plan

Two FM supervision missions will be conducted during first project implementation year and for the following years one mission on yearly basis is planned. The aim is to mitigate possible unfavourable results caused for CONAFOR implementation capacity in financial management. A Financial Management Specialist must review the annual audit reports.

## 2. Audit Arrangements

### Internal Audit

CONAFOR's internal audit department (CIAD) is responsible for permanent internal audit reviews. No internal auditor will be assigned specifically to the project, although the PCIU will supervise the project to insure that proper internal control procedures are followed. CIAD will include project operations in its annual audit plans.

### External Audit

*Audit compliance.* The audit report corresponding to the previous project (PROCYMAF I) was reviewed by LCOAA and considered satisfactory to the Bank. Secretaria de la Función Pública (SFP) in coordination with the financial agency NAFIN will timely submit to the Bank the last project audit report. Discussions with those institutions, CONAFOR, SEMARNAT and the auditors indicate that opinion will be unqualified without major audit findings. As of date of assessment (May 2003), all project funds were properly supported or refunded to the Bank and there are no outstanding audit reports.

*Audit arrangements.* The new audit policy will apply to this project. Annual project Financial Statements will be audited in accordance with International Standards on Auditing, by an independent firm and in accordance with terms of reference (TORs) satisfactory to the Bank. The audit opinion would cover project financial statements and will be complemented with a report on the internal control structure for the project. The Project Operational Manual will include a section on auditing in which detailed information is provided. The auditors would perform at least one interim visit per year.

The Borrower will furnish annual audit reports to the Bank as soon as available, but in any case not later than six months after the end of each audited year.

The table below summarizes audit requirements:

Audit report	Due dates
Project Financial Statements	Six months after the end of the reporting period. Starting by <b>06/30/2005</b> until <b>06/30/2007</b> . The period covered will be from January the 1st to December 31st.
Internal Controls	Six months after the end of the reporting period. Starting by <b>06/30/2005</b> until <b>06/30/2007</b> . The period covered will be from January the 1st to December 31st.

### 3. Disbursement Arrangements

*Method.* Disbursements would be in accordance with guidelines set out in the Bank's Disbursement Handbook i.e. transaction-based disbursement procedures. Project is not ready to use FMR-based disbursements and; if ready during project implementation, before to migrate to this methodology, an agreement between the GOM and the Bank must be reached. Project will establish (in Banco de Mexico), maintain and operate an Special Account in US dollars, and NAFIN will support project in SA's management (additionally to coordination of reporting and auditing).

*Other procedures.* Project will not require other procedures, however upon request from CONAFOR and subject to Bank's approval, payments may be made: (i) directly to a third party (supplier or consultant) for goods, works, and services; (ii) to a procurement agent; or (iii) to a commercial bank for expenditures against a Bank Special Commitment covering a commercial bank's letter of credit.

Allocation of proceeds (Table C)

Table C: Allocation of Proceeds

Expenditure Category	Amount in US\$million	Financing Percentage
Goods	0.91	83
Works	0.46	83
Consultants Services	8.34	83
Training	3.50	83
Technical Assistance (Padrón)	7.16	83
Investment Projects	0.72	83
	0.00	0
Up-Front Fee	0.21	100%
<b>Total Project Costs with Bank Financing</b>	<b>21.30</b>	
<b>Front-end fee</b>	<b>0.00</b>	
<b>Total</b>	<b>21.30</b>	

**Use of statements of expenditures (SOEs):**

Loan withdrawal applications will be supported by SOEs for expenditures relating to contracts that are not subject to the Bank's prior review. Reimbursement of other expenditures would require submittal to the Bank of full supporting documentation.

Documents in support of SOEs must be maintained by CONAFOR at least until one year after the Bank has received the audit report for the fiscal year in which the last loan withdrawal was made. Such documents must be available to review by the external auditors and Bank staff at all time.

**Special account:**

*Special account (SA).* Project will establish (in Banco de Mexico), maintain and operate an Special Account in US dollars. NAFIN will support project in SA management and will coordinate reporting and auditing.

The SA is only to be used for eligible expenditures under this proposed loan. Under no circumstances may funds in the SA be used to cover the share of expenditures corresponding to the counterpart. Transfers from the Special Account to other bank accounts will only be permitted to meet eligible expenditures for a limited period of less than 30 days i.e. to project account in local currency. Funds flow chart (above) provides details on SA.

Total advances to the Special Account (assuming a four-year project for US\$28.9 million) at any given time would not exceed an authorized allocation of US \$3 million. However, that unless the World Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$2. million until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments shall be equal to or exceed the amount of \$7 million.

For replenishment of the advance, the PIU will prepare monthly (in any case, no more than quarterly) requests for reimbursement of expenditures made.

## Annex 7: Project Processing Schedule

### MEXICO: Community Forestry II (PROCYMAF II)

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	12	17
First Bank mission (identification)	05/01/2002	03/01/2003
Appraisal mission departure	07/20/2003	07/20/2003
Negotiations	10/08/2003	10/20/2003
Planned Date of Effectiveness	01/15/2004	

**Prepared by:**  
CONAFOR, NAFIN.

**Preparation assistance:**  
Gerardo Segura, Juan Rodriguez, Juan Manuel Barrera, CONAFOR. Arturo Escobedo, Lourdes Gonzalez NAFIN. Leticia Merino, Pedro Alvarez Icaza, Luis Vera, Consultants.

**Bank staff who worked on the project included:**

Name	Speciality
Daniel R. Gross	Task Team Leader, Anthropologist
Francisco José Viteri-Romero	Consultant
James Smyle	Forestry Specialist
Tania Carrasco	Indigenous Peoples Specialist
Andrea Semaan	Project Assistant
Esme Abedin	Operations Analyst
Víctor Ordoñez	Financial Management Specialist
Marta Elena Molares-Halberg	Lawyer
Ricardo Hernandez	Environmental Specialist
George Ledec	Environmental Specialist
Rosita Valencia Estrada	Procurement
Rees Warne	Consultant
Edward W. Bresnyan	Economist
Juan Martinez	Social Specialist
Oliver Braedt	Forestry Specialist
John Kellenberg	Sector Leader
Carter Brandon	Environmental Economist, Peer Reviewer
David Cassells	Forestry Specialist, Peer Reviewer



**Annex 8: Documents in the Project File\***  
**MEXICO: Community Forestry II (PROCYMAF II)**

**A. Project Implementation Plan**

**B. Bank Staff Assessments**

Environmental Assessment  
Social Assessment  
Economic Study  
Legal Study

**C. Other**

\*Including electronic files

## Annex 9: Statement of Loans and Credits

### MEXICO: Community Forestry II (PROCYMAF II)

06-Aug-2003

Project ID	FY	Purpose	Original Amount in US\$ Millions					Difference between expected and actual disbursements <sup>a</sup>	
			IBRD	IDA	GEF	Cancel.	Undisb.	Orig	Frm Rev'd
P068290	2004	E-Business for Small Business Devpt. Pr.	58.40	0.00	0.00	0.00	58.40	0.00	0.00
P059161	2003	GEF MX-Climate Measures in Transport	0.00	0.00	5.80	0.00	5.80	1.66	0.00
P070108	2003	MX Savings & Credit Sector Strengthening	64.60	0.00	0.00	0.00	58.95	8.42	0.00
P060686	2003	MX Municipal Dev in Rural Areas	400.00	0.00	0.00	0.00	396.00	122.67	0.00
P074539	2003	MX Programmatic EnvSAL	202.02	0.00	0.00	0.00	101.01	98.99	0.00
P074655	2003	MX Rural Finance Develop Struct Adj Loan	505.06	0.00	0.00	0.00	505.06	0.00	0.00
P057531	2002	MX Basic Ed. APL II	300.00	0.00	0.00	0.00	130.66	35.66	0.00
P065988	2002	GEF MX Consolidat.Prot Areas (SINAP II)	0.00	0.00	16.10	0.00	7.02	11.19	0.00
P060577	2002	MX Southeast Reg'l Development LIL	5.00	0.00	0.00	0.00	4.37	1.06	0.00
P077602	2002	MX Tax Admin Institutional Development	52.00	0.00	0.00	0.00	51.48	6.28	0.00
P065779	2001	MX FEDERAL HIGHWAY MAINTENANCE PROJ.	218.00	0.00	0.00	0.00	113.58	60.24	0.00
P064887	2001	MX DISASTER MANAGEMENT (ERL)	404.05	0.00	0.00	200.00	181.27	165.56	0.00
P066321	2001	MX: III BASIC HEALTH CARE PROJECT	350.00	0.00	0.00	0.00	327.73	56.33	0.00
P066674	2001	GEF MX-Indigenous&Community Biodiversity	0.00	0.00	7.50	0.00	6.58	4.06	0.00
P071323	2001	MX Bank Restructuring Facility II	505.06	0.00	0.00	0.00	175.01	175.01	0.00
P063463	2001	METHANE CAPTURE & USE AT A LANDFILL	0.00	0.00	6.27	0.00	1.41	5.01	3.76
P060908	2001	GEF MX-MESO AMERICAN CORRIDOR	0.00	0.00	14.84	0.00	14.88	5.51	0.00
P066938	2000	MX GENDER (LIL)	3.07	0.00	0.00	0.00	2.33	2.33	1.12
P060718	2000	GEF MX ALTERNATIVE ENERGY	0.00	0.00	8.90	0.00	5.51	8.90	0.00
P007610	1999	MX FOVI RESTRUCTURING	505.50	0.00	0.00	0.00	185.00	185.00	0.00
P044531	1998	MX KNOWLEDGE & INNOV.	300.00	0.00	0.00	0.00	161.60	132.44	0.00
P049895	1998	MX HIGHER ED. FINANCING	180.20	0.00	0.00	0.00	104.22	90.60	0.00
P007700	1997	MX COMMUNITY FORESTRY	15.00	0.00	0.00	0.00	5.18	5.18	0.00
P007713	1996	MX WATER RESOURCES MANA	186.50	0.00	0.00	54.00	40.51	94.51	1.51
P007710	1994	MX N. BORDER I ENVIRONM	368.00	0.00	0.00	328.00	6.49	334.49	61.09
P007648	1993	MX MEDIUM CITIES TRANSP	200.00	0.00	0.00	96.76	1.10	97.86	74.86
Total:			4822.46	0.00	59.41	678.76	2651.14	1708.93	142.33

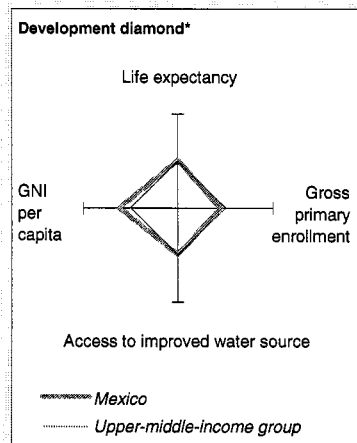
STATEMENT OF IFC's  
Held and Disbursed Portfolio  
June 30 - 2003  
In Millions US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC		Quasi	Partic	IFC		Quasi	Partic
Loan	Equity	Loan	Equity						
1988/91/92/93/95	Apasco	9.00	0.00	0.00	36.00	9.00	0.00	0.00	36.00
1998	Ayvi	7.14	0.00	0.00	0.00	7.14	0.00	0.00	0.00
0	BBVA-Bancomer	42.35	0.00	0.00	0.00	42.35	0.00	0.00	0.00
1995/99	Baring MexFnd	0.00	1.89	0.00	0.00	0.00	1.70	0.00	0.00
1998	CIMA Mexico	0.00	4.80	0.00	0.00	0.00	4.80	0.00	0.00
1998	CIMA Puebla	6.75	0.00	0.00	0.00	3.25	0.00	0.00	0.00
0/94	CTAPV	1.93	0.00	1.05	0.00	1.93	0.00	1.05	0.00
0	Chiapas-Propalma	0.00	1.02	0.00	0.00	0.00	0.89	0.00	0.00
1997	Comercializadora	1.75	0.00	1.25	2.50	1.75	0.00	1.25	2.50
2001	Compartamos	1.00	0.66	0.00	0.00	1.00	0.66	0.00	0.00
2002	Coppel	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
1999	Corsa	9.29	3.00	0.00	0.00	9.29	3.00	0.00	0.00
2001	Ecomex	5.00	1.50	0.00	0.00	3.00	1.50	0.00	0.00
2000	Educacion	6.50	0.00	0.00	0.00	4.90	0.00	0.00	0.00
0/97	Fondo Chiapas	0.00	3.53	0.00	0.00	0.00	0.00	0.00	0.00
1998	Forja Monterrey	9.29	3.00	0.00	9.29	9.29	3.00	0.00	9.29
2001	GFNorte	50.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1991/96	GIBSA	13.52	0.00	0.00	45.48	13.52	0.00	0.00	45.48
1993	GIRESA	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1996/00	GIRSA	41.79	0.00	0.00	55.71	41.79	0.00	0.00	55.71
	Grupo BBVA	0.00	30.00	0.00	0.00	0.00	30.00	0.00	0.00
0	Grupo Calidra	8.67	6.00	0.00	5.83	8.67	6.00	0.00	5.83
1998	Grupo FEMSA	0.00	2.85	0.00	0.00	0.00	2.85	0.00	0.00
	Grupo Minsa	12.46	0.00	0.00	18.69	12.46	0.00	0.00	18.69
1989	Grupo Posadas	23.68	0.00	10.00	0.00	23.68	0.00	10.00	0.00
1997	Grupo Sanfandila	6.20	0.00	0.00	2.53	6.20	0.00	0.00	2.53
0/92/96/99	Hospital ABC	30.00	0.00	0.00	14.00	10.29	0.00	0.00	7.21
1998	ITR	12.00	0.00	0.00	3.33	12.00	0.00	0.00	3.33
2000	Innopack	0.00	15.00	0.00	0.00	0.00	15.00	0.00	0.00
2000	InverCap	0.00	0.07	0.00	0.00	0.00	0.06	0.00	0.00
2000	Merida III	28.27	0.00	0.00	66.45	28.27	0.00	0.00	66.45
2000/01	Mexmal	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	Mexplus Puertos	0.00	1.41	0.00	0.00	0.00	1.41	0.00	0.00
2003	NEMAK	0.00	0.00	1.51	0.00	0.00	0.00	1.51	0.00
0/95/99	Occidental Ho...	30.00	10.00	0.00	40.00	0.00	0.00	0.00	0.00
1996/99/00/01	POLOMEX S.A.	8.00	0.00	0.00	0.00	8.00	0.00	0.00	0.00
2003	Pan American	0.00	9.00	0.00	0.00	0.00	9.00	0.00	0.00
2003	Plata	10.00	0.00	0.00	0.00	8.00	0.00	0.00	0.00
2000	Puertas Finas	13.00	0.00	0.00	0.00	13.00	0.00	0.00	0.00
2001	Qualita	0.00	2.50	3.50	0.00	0.00	2.50	3.50	0.00
2002	Rio Bravo	47.69	0.00	0.00	55.06	47.69	0.00	0.00	55.06
2002	Saltillo S.A.	33.31	0.00	0.00	39.46	33.31	0.00	0.00	39.46
2000	Servicios	9.75	1.90	0.00	9.17	9.75	1.90	0.00	9.17
2000	Su Casita	1.87	10.62	0.00	0.00	1.87	10.62	0.00	0.00
2000									
2001									
	Total Portfolio:	524.03	134.05	20.06	410.42	405.22	112.76	20.06	363.63

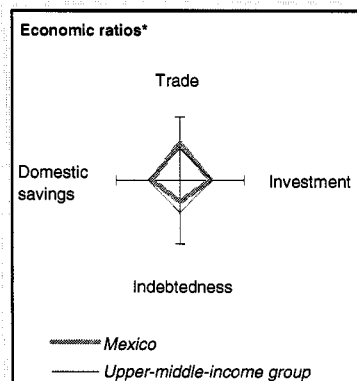
FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic
1999	BANAMEX LRF II	50.00	0.00	0.00	0.00
2001	BBVA-Bancomer CL	100.00	0.00	0.00	0.00
2003	Calidra Swap	0.50	0.00	0.00	0.00
1998	Cima Hermosillo	7.00	0.00	0.00	0.00
2003	Copamex	57.00	25.00	0.00	60.00
2001	Ecomex	3.50	0.00	0.00	0.00
2000	Educacion	3.20	0.00	0.00	0.00
2001	GFNorte-CL	50.00	0.00	0.00	100.00
2003	Mexmal	0.00	5.00	0.00	0.00
2003	Polomex	2.00	0.00	0.00	0.00
2003	Rio Bravo III	52.00	20.00	0.00	170.00
2003	Rio Bravo IV	52.00	20.00	0.00	170.00
2003	Tizayuca	25.00	10.00	0.00	30.00
Total Pending Commitment:		402.20	80.00	0.00	530.00

## Annex 10: Country at a Glance MEXICO: Community Forestry II (PROCYMAF II)

	Mexico	Latin America & Carib.	Upper-middle-income
<b>POVERTY and SOCIAL</b>			
<b>2001</b>			
Population, mid-year (millions)	99.4	524	504
GNI per capita (Atlas method, US\$)	5,540	3,560	4,460
GNI (Atlas method, US\$ billions)	550.3	1,862	2,248
<b>Average annual growth, 1995-01</b>			
Population (%)	1.4	1.5	1.3
Labor force (%)	2.4	2.2	1.8
<b>Most recent estimate (latest year available, 1995-01)</b>			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	74	76	77
Life expectancy at birth (years)	73	70	71
Infant mortality (per 1,000 live births)	29	29	24
Child malnutrition (% of children under 5)	8	9	9
Access to an improved water source (% of population)	86	85	87
Illiteracy (% of population age 15+)	8	11	10
Gross primary enrollment (% of school-age population)	114	130	127
Male	114	131	128
Female	113	128	126

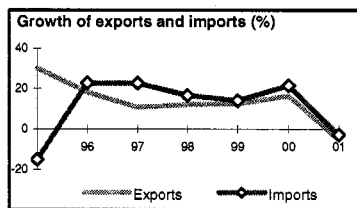
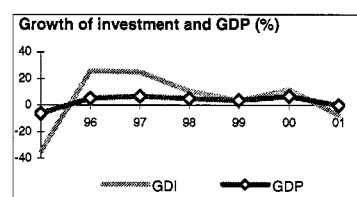


	1981	1991	2000	2001	
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>					
GDP (US\$ billions)	306.4	314.5	580.1	617.8	
Gross domestic investment/GDP	27.4	23.3	23.5	20.7	
Exports of goods and services/GDP	10.4	16.4	31.1	27.6	
Gross domestic savings/GDP	24.8	20.4	21.5	18.4	
Gross national savings/GDP	21.9	18.6	20.2	17.7	
Current account balance/GDP	-5.3	-4.7	-3.1	-2.9	
Interest payments/GDP	2.0	2.0	2.0	1.8	
Total debt/GDP	25.5	36.3	25.9	25.0	
Total debt service/exports	47.5	23.6	30.2	20.4	
Present value of debt/GDP	..	..	27.1	..	
Present value of debt/exports	..	..	81.4	..	
<b>(average annual growth)</b>					
GDP	1.3	3.1	6.6	-0.3	4.0
GDP per capita	-0.8	1.5	5.1	-1.8	2.4
Exports of goods and services	6.0	14.3	16.4	-5.1	5.4



### STRUCTURE of the ECONOMY

	1981	1991	2000	2001
<b>(% of GDP)</b>				
Agriculture	9.0	7.5	4.1	4.4
Industry	33.2	28.0	27.9	26.8
Manufacturing	21.9	20.6	20.4	19.4
Services	57.9	64.4	68.0	68.9
Private consumption	64.4	70.5	67.4	70.1
General government consumption	10.8	9.1	11.1	11.6
Imports of goods and services	12.9	19.3	33.0	30.0
<b>(average annual growth)</b>				
Agriculture	0.7	1.7	0.6	1.9
Industry	1.5	3.8	6.1	-3.5
Manufacturing	2.1	4.4	6.9	-3.9
Services	1.5	3.0	7.4	0.9
Private consumption	1.8	2.7	8.3	3.4
General government consumption	2.1	1.6	2.0	-1.4
Gross domestic investment	-1.2	4.6	11.6	-7.5
Imports of goods and services	5.2	12.1	21.5	-2.9

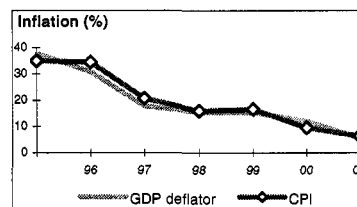


Note: 2001 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

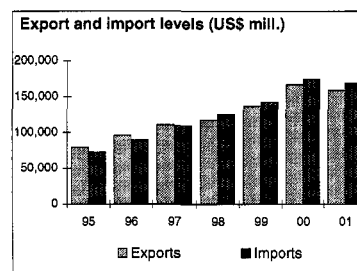
## PRICES and GOVERNMENT FINANCE

	1981	1991	2000	2001
<b>Domestic prices</b> (% change)				
Consumer prices	28.0	22.7	9.5	6.4
Implicit GDP deflator	26.0	23.3	12.0	5.5
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	24.9	23.5	21.7	22.0
Current budget balance	0.9	3.0	2.0	2.8
Overall surplus/deficit	-11.9	-0.4	-1.1	-0.7



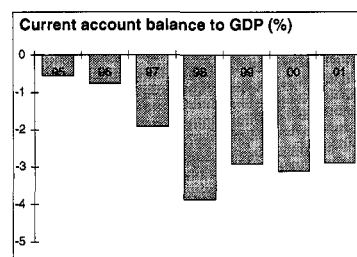
## TRADE

(US\$ millions)	1981	1991	2000	2001
<b>Total exports (fob)</b>	21,078	42,688	166,455	158,443
Oil	14,573	8,166	16,383	12,799
Agriculture	1,482	2,373	4,217	3,903
Manufactures	4,336	31,602	145,334	141,353
<b>Total imports (cif)</b>	24,955	49,967	174,458	168,396
Food	2,808	5,834	16,691	19,752
Fuel and energy	14,572	35,545	133,637	126,149
Capital goods	7,574	8,588	24,130	22,496
Export price index (1995=100)	141	91	106	103
Import price index (1995=100)	72	90	102	103
Terms of trade (1995=100)	196	100	103	101



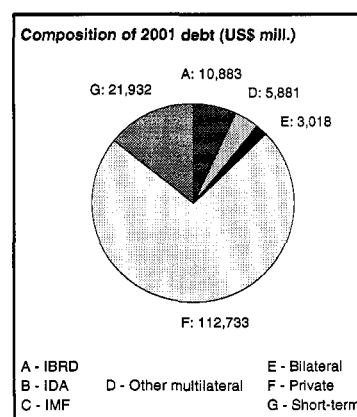
## BALANCE of PAYMENTS

(US\$ millions)	1981	1991	2000	2001
<b>Exports of goods and services</b>	28,255	51,478	180,167	171,103
<b>Imports of goods and services</b>	35,401	60,508	190,494	184,614
Resource balance	-7,146	-9,030	-10,326	-13,511
Net income	-10,115	-8,608	-14,732	-13,674
Net current transfers	1,020	2,991	6,994	9,338
<b>Current account balance</b>	-16,241	-14,647	-18,065	-17,847
Financing items (net)	17,253	22,025	20,886	25,172
Changes in net reserves	-1,012	-7,378	-2,822	-7,325
<b>Memo:</b>				
Reserves including gold (US\$ millions)	4,166	17,772	33,595	39,463
Conversion rate (DEC, local/US\$)	2.00E-2	3.0	9.5	9.3



## EXTERNAL DEBT and RESOURCE FLOWS

(US\$ millions)	1981	1991	2000	2001
<b>Total debt outstanding and disbursed</b>	78,215	114,067	150,288	154,447
IBRD	2,417	11,928	11,444	10,883
IDA	0	0	0	0
<b>Total debt service</b>	14,340	13,545	58,259	37,848
IBRD	283	1,815	2,220	2,173
IDA	0	0	0	0
<b>Composition of net resource flows</b>				
Official grants	14	46	23	..
Official creditors	901	1,338	-526	-670
Private creditors	11,597	2,984	-5,265	-15,710
Foreign direct investment	2,835	4,742	13,286	21,022
Portfolio equity	135	4,404	3,517	3,882
<b>World Bank program</b>				
Commitments	1,021	2,532	1,182	860
Disbursements	460	1,581	1,748	748
Principal repayments	106	954	1,330	1,309
Net flows	354	628	418	-561
Interest payments	177	861	890	864
Net transfers	177	-234	-472	-1,425



**Additional Annex 11: Accomplishments of PROCYMAF I (1998-2001/2002)  
MEXICO: Community Forestry II (PROCYMAF II)**

The PROCYMAF I project (Loan 4137-MX) (1997 – 2003) pursued goals similar to the proposed PROCYMAF II project in the States of Oaxaca, Guerrero and Michoacán. The main aim of the project was to assist indigenous communities and *ejidos* living in forested areas to better their standards of living through improving management and conservation of forest resources and by increasing the range of options for entrance to local communities and *ejidos* in regional, national and international markets. Specific objectives of the project were to: (i) improve natural resource management and conservation by community and *ejido* forestry resource owners; and (ii) increase the range of forestry-based income generating options available to them.

The main accomplishments achieved during the project period are listed according to the main activities proposed by the project:

***(A) Strengthen the capacity of communities and ejidos to manage their forest resource base***

Eligible communities and *ejidos* of Guerrero Michoacán and Oaxaca received 454 technical assistance studies during 1998 – 2003. Implementation began in Oaxaca in 1997. Activities were first implemented in that State, with subsequent development of full-scale activities in Guerrero and Michoacán in 2002. Oaxaca therefore had the longest sustained period of implementation and around 350 communities and *ejidos* that received support under the project.

The project also conducted 61 ‘Community to Community Seminars’ (Seminarios de comunidad a comunidad) during 1998-2003. These seminars are carried out in order to improve the organizational and operative capacity of the participating communities through the direct interchange of experiences acquired by those having had successful experiences in implementing project strategies. In the same period a total of 113 ‘Participatory Rural Evaluation Exercises’ (evaluaciones rurales participativas) were conducted for communities to help them identify their primary issues and improve their capacity to manage and conserve their natural resources as a community.

<b>TOTAL NUMBER OF COMMUNITIES AND EJIDOS THAT RECEIVED TECHNICAL ASSISTANCE AND NUMBER OF STUDIES UNDERTAKEN BY PROCYMAF I BETWEEN 1998-2001</b>				
Type of Community	<i>Communities / Ejidos</i>			Studies Financed
	Total	Received Technical Assistance 1997-2001	% Received Technical Assistance 1997-2001	
<b>Oaxaca</b>				
II	77	53	68.8	89
III	36	27	75.0	59
IV	30	26	86.7	92
<b>Total</b>	<b>329</b>	<b>167</b>	<b>50.8</b>	<b>317</b>
<b>Guerrero</b>				
I	43	4	9.3	4
II	47	6	12.8	6
III	52	2	3.8	2
IV	14	5	35.7	5
<b>Total</b>	<b>156</b>	<b>17</b>	<b>10.9</b>	<b>17</b>
<b>Michoacán</b>				
I	244	13	5.3	14
II	168	8	4.8	10
III	20	1	5.0	2
IV	13	1	7.7	2
<b>Total</b>	<b>445</b>	<b>23</b>	<b>5.2</b>	<b>28</b>

Reference: <http://www.conafor.gob.mx/pprocymaf.htm>

***(B) Strengthen the capacity of the private sector to provide forestry services to communities and ejidos***

The project identified a pool of potential service providers from among interested and technically qualified professionals and organizations (consulting firms and NGOs) and assisted them to raise their capacity to work with communities and *ejidos*. They were selected among the skills imparted to these individuals or organizations were: community organization skills, environmental planning and forest management techniques, analysis of the biology of specific species, economic analysis, technical assistance for community enterprises, etc. Over the project period a roster of some 156 professional consultants, including both individual specialists, small firms, and NGOs has been established. These providers have all participated in a PROCYMAF training course, and have been certified as service providers. Many of these service providers have also participated in ongoing training called "Continuing Education". The latter component offers scholarships to qualified and interested providers to strengthen their skills in specific areas demanded by the communities.



<b>NUMBER OF PROVIDERS FOR TECHNICAL SERVICES</b>	
<b>STATE</b>	<b>NUMBER OF PROVIDERS</b>
Oaxaca	75
Guerrero	35
Michoacán	46
<b>TOTAL</b>	<b>156</b>

*(C) Design strategies to promote timber, non-timber, and nontraditional products from community and ejido forests:*

A number of strategies for the promotion of timber, non-timber, and nontraditional products were developed and thought through a number of capacitating courses. For the year 2002 a total of 69 courses were carried out. Furthermore a total of 312 technical studies were carried out in specific communities during the entire project period.

<b>NUMBER OF STUDIES AND AREA OF LAND COVERED UNDER PROCYMAF I</b>						
<b>SUBJECT</b>	<b>No. OF STUDIES</b>			<b>AREA COVERED (HA)</b>		
	<b>Oaxaca</b>	<b>Guerrero</b>	<b>Michoacán</b>	<b>Oaxaca</b>	<b>Guerrero</b>	<b>Michoacán</b>
Preparation of Forestry Managing Programs	41	2		92,578		
Updating of Forestry Managing Programs	42	5		105,613		
Complementary Studies (evaluation of forestry managing systems, etc.)	16					
Market and Efficiency Studies	60	3				
Conservation Studies	32	3		97,762		
Land Zoning Studies	24	3		169,835		
Special Studies (certification, etc.)	46	1				
Investigation Studies	6					
<b>TOTAL</b>	<b>267</b>	<b>17</b>	<b>28</b>	<b>465,788</b>		

Note: Data for Oaxaca are for 1998-2001 and Guerrero are for 2002.

Reference: <http://www.conafor.gob.mx/pprocymaf.htm>

## **Additional Annex 12: Environmental Assessment Report MEXICO: Community Forestry II (PROCYMAF II)**

Paragraph 10 of OP4.36 stipulates the requirements of a sound forest management strategy necessary for any independent scheme but also that serve as benchmarks for community management schemes. The following paragraphs analyze the principal requisites of sound forest management, using OP4.36 as a guide, showing how the proposed project would

### **a) Compliance with relevant laws**

Any forest management initiative supported (directly or indirectly) under the project will be required to demonstrate the proponent community has complied with pertinent national legislation. Project resources would be withheld from subprojects out of compliance with law except where it can be demonstrated that compliance is pending and that the necessary steps leading to compliance have been taken. Under Mexican law, harvesting of timber or other forest products and other management practices require prior submission of Forest Management Plans (FMPs) prepared by qualified professionals. The forest owner must file an “Notice of Forest Use” (*Aviso de Aprovechamiento*), a Forest Management Plan (FMP), for review by a local office of the Federal Environmental Secretariat (SEMARNAT) to receive a license for the proposed activity. Many forest owners, particularly impoverished indigenous communities and *ejidos* find the preparation of FMPs expensive and complicated and may skirt such measures or to forego FMPs altogether. SEMARNAT, and its enforcement arm PROFEPA, do not have the manpower to review each plan *in situ*, nor to follow up on compliance with license restrictions. These conditions discourage forest management planning, encourage illegality, and are ineffective as a deterrent to unsustainable practices. FMP’s can be financed under programs supported by CONAFOR, particularly PRODEFOR. The Legal Agreement will provide for supplemental financing by PROCYMAF II for preparation of FMPs and related documents if PRODEFOR financing is not available in a timely fashion.

### **b) Recognition of and respect for any legally documented or customary land tenure and use rights as well as the rights of indigenous peoples and workers**

Indigenous communities and *ejidos* are guaranteed land rights under Mexican law. In some cases, there are competing land claims by neighboring communities or *ejidos*. Until such conflicts can be resolved, the PROCYMAF II project will normally refrain from providing support for forest management or exploitation inside the disputed areas. However, PROCYMAF *promotores* would be trained to recognize cases of land conflict and may take some measures to help reduce tensions and to refer communities embroiled in conflict to appropriate sources of assistance for conflict management.

Most of the labor utilized for forestry activities in *ejidos* and indigenous communities is supplied by community members. There is little risk of labor exploitation. Some community labor is unpaid labor donated by community members as part of their *tequio*, or community service obligation. In other cases, members are paid for their work at rates set by communal decision. Water-bottling plant workers in Oaxaca, for example, are paid at about 150% of the minimum wage. The project will take measures to avoid the use of child labor, specially where such activities interfere with schooling. Some communities also use non-community members as workers, mainly unskilled workers paid at a daily rate or per production. It

appears from inquiries that such workers are paid at local market rates, normally slightly higher than legally required minimum wages. Such workers do not normally receive the benefits of formal-sector workers as required under national labor legislation. Under the project measures will be taken to bring community enterprises into compliance with labor legislation, first aid and other services.

It would be virtually impossible to raise labor standards in poor indigenous communities and *ejidos* to the full standards of the Mexican formal-sector labor force in the context of the proposed project. However, in order to upgrade these standards in communities benefiting from investments or technical assistance for utilization of forest resources, the PROCYMAF project team would undertake two measures:

(i) require each community receiving benefits that indirectly or directly involve extraction of forest resources to include a Statement of Commitment, between communities and CONAFOR, in which the community pledges to pay wages in a timely fashion, in cash, equivalent to regionally prevailing wages for comparable tasks; take measures to avoid child labor in detriment of health or school attendance; and to provide appropriate personal protection gear to workers, etc.

(ii) provide technical assistance to communities requiring improvements in labor practices. This could include development of schemes that allow children to help their parents in their work but not expose them to risky activities or keep them out of school. This would involve adding relevant experts to the PROCYMAF roster.

### **c) Measures to maintain or enhance sound and effective community relations**

A substantial portion of the project's resources are devoted to strengthening community governance and building capacity for communal decision making. (See Section SUPPLY). The PROCYMAF II project, like its predecessor, is designed around community participation. No subproject or other activities are undertaken without an official action by the community or *ejidos* assembly.

### **d) Conservation of biological diversity and ecological functions**

Among the technical inputs available to communities under PROCYMAF I and II are the creation of community protected areas which for cultural or environmental are maintained within the community or *ejido* lands without direct use or, if appropriate, specific low intensity uses. Many communities have sought to protect sensitive areas within their lands, particularly those where there are watersheds, rare or endangered species present or special cultural concerns. The project would provide support for general land-use zoning; identification, demarcation and management of protected areas. The related Indigenous and Community Biodiversity Project (COINBIO) provides similar support that would be coordinated with PROCYMAF. Under both PROCYMAF I and COINBIO, support has been provided to help communities manage specific species that are useful or considered at risk. In addition, the COINBIO National Coordinator intends to seek a form of official recognition of protected areas within indigenous lands and *ejidos*. This could potentially make communities and *ejidos* eligible for benefits under schemes to compensate landowners for environmental services.

**e) Measures to maintain or enhance environmentally sound multiple benefits accruing from the forest**

One of the main goals of the PROCYMAF program is diversification of the use of forest resources by indigenous communities and *ejidos* as means of increasing income, as a way of reducing the pressure on any single resource, and finally as a means of increasing the value of the standing forest. Among the specific activities aimed at diversification, the PROCYMAF I project has supported such activities as mushroom production, pine-resin production, bottled water production, ecotourism, and studies aimed at the management and conservation of other forest resources including plants and animals. The proposed project would continue such activities and seek additional diversified opportunities for sustainable use of forest resources. In addition, PROCYMAF II would support studies and pilot projects for payment for environmental services under which communities could seek compensation for such services such as pure water, biodiversity protection, or carbon sequestration.

**f) Prevention or minimization of the adverse environmental impacts from forest use**

The project would not support any activity leading to the conversion of forested areas to other uses; in addition by supporting activities that add value to the standing forest and diversifying the use of forest resources, the project would contribute to the sustainable management of forest properties and to reduced attractiveness of alternate land uses.

**g) Effective forest management planning**

The entry point for forest communities in PROCYMAF is the conduct of Participatory Rural Appraisal (PRA) which normally leads to land-use zoning exercises. In nearly every community served by PROCYMAF I, land is set aside for conservation or light management particularly around stream heads, along water courses, in areas of high biodiversity or in areas with high cultural significance to the community. Other areas are designated for resource extraction at levels of intensity designed to maintain ecosystem integrity and a steady source of income. PROCYMAF II would help communities to strengthen their decision making capacity, after which such communities would receive the necessary technical assistance from the project itself, or other CONAFOR programs to develop a comprehensive management plan consistent with best practice under Mexican law. The project would also offer assistance to communities and *ejidos* seeking to achieve FSC certification for their forests.

**h) Active monitoring and assessment of relevant forest management areas; and**

The project would sponsor a comprehensive social and environmental baseline study, with two additional studies at two-year intervals to measure changes over time and to review the impacts of the project. These would include such variables as changes in forest cover, measures of forest health, areas under effective land-use zoning or management plans, possibly the abundance of designated indicator species, etc.

**i) Maintenance of critical forest areas and other critical natural habitats affected by the operation.**

The project would apply screening procedures to avoid any interference with critical natural habitats. Project support for protected areas such as UMAS has been described above.

Under Mexican law, harvesting of timber or other forest products and other management practices require prior submission of Forest Management Plans (FMPs) prepared by qualified professionals. The forest owner must file an “Notice of Forest Use” (*aviso de aprovechamiento*), a kind of Forest Management Plan (FMP), for review by a local office of the Federal Environmental Secretariat (SEMARNAT) to receive a license for the proposed activity. Many forest owners, particularly impoverished indigenous communities and *ejidos* find the preparation of FMPs expensive and complicated and may skirt such measures or to forego FMPs altogether. SEMARNAT, and its enforcement arm PROFEPA, do not have the manpower to review each plan *in situ*, and to follow up on compliance with license restrictions. These conditions discourage forest management planning, encourage illegality, and are ineffective as a deterrent to unsustainable practices.

**Additional Annex 13: Development Plan for Indigenous Peoples  
(abstract, original in Spanish)  
MEXICO: Community Forestry II (PROCYMAF II)**

## **1. Introduction**

The Mexico Community Forestry Project (PROCYMAF) has, at this point, achieved most of its objectives to varying degrees of success and is entering its second stage. PROCYMAF II aims at widening and deepening the scope of the challenges of its predecessor. It would work with a greater number and a greater diversity of indigenous communities in the Mexican States of Oaxaca, Guerrero and Michoacán, which were already covered under PROCYMAF I and would expand its reach to the states of Jalisco, Durango and Quintana Roo.

In order to ensure the adequate participation and assistance of the Mexican indigenous population, a strategy has been developed that considers the specific conditions of each group. Such conditions include, but are not limited to, social, economic and political organization around natural resources, labor divisions, history, state of surrounding environment, as well as the overall relationship with the Spanish language. Understanding and harnessing these differences is a key to the successful implementation of PROCYMAF II.

## **2. Legal framework and indigenous rights**

The PROCYMAF program exists within the context of several laws and ordinances that touch upon the rights of indigenous peoples and the use of natural resources at federal and local levels. Some examples are:

Articles 2 and 27 of the Mexican Constitution establish the basic rights for indigenous peoples and the legal framework for land ownership, respectively. Article 2 recognizes the country as having a multicultural composition, based on the indigenous population, which the state must recognize and protect through the promotion of indigenous culture, languages, organization systems, etc. Article 2 further assures the right of the indigenous population to participate in agrarian proceedings involving land ownership issues through their own customs and practices.

Article 27 deals with the types of land ownership in the country and establishes the existence of property schemes central to PROCYMAF, such as *ejidos* and agrarian communities.

The Agrarian Law regulates article 27 of the Constitution; it spells out the rules and regulations which govern the functioning of the above mentioned property schemes. Some other relevant laws and codes include the Forestry Law, the Law of Ecological Equilibrium and Environmental Protection, the Wildlife Law and diverse legal standards known as *Normas Oficiales Mexicanas*.

None of the three new states under PROCYMAF II have specific legislation related to indigenous peoples and the environment, such as that found in Michoacán and Oaxaca.

Mexico has signed diverse international treaties that involve indigenous affairs, such as Convention 169 of the International Labor Organization and the Convention on Biological Diversity.

## **3. Basic information**

The Social Evaluation study for PROCYMAF II involved the use of several different information gathering tools. Careful consideration of the information on indigenous peoples contained in this study is important for the successful implementation of the new program.

The census data, shows significant indigenous population percentages in each of the new PROCYMAF states (See PAD Section B, Table 1). Common to the three states is the presence of important nuclei of indigenous populations, and in the three cases this population has an important presence in the forested areas. In Durango, for example, the areas proposed for action concentrate close to 70% of the total state's indigenous population, whereas in Quintana Roo and Jalisco the indigenous population has migrated to urban areas in great numbers during the last 10 years. In these two states however, the remaining rural-dwelling indigenous populations reside mainly in regions to be covered by PROCYMAF II.

#### **4. Socioeconomic profile of the new PROCYMAF states**

Durango – In the forested regions of Durango, the ejido is the main form of land ownership. Population density is low and the population shows a highly dispersed pattern. Economic activities are mainly forest based, although small-scale agriculture also contributes to household income. In the Mezquital region, the indigenous population is a majority and the agrarian community is the prevalent form of ownership, though ejidos are not entirely absent.

Jalisco – There is great diversity in the socio-economic and cultural conditions of the forested regions of Jalisco. There are areas of low indigenous presence as well as high. In these latter areas, agrarian communities are also prevalent and inter-ethnic conflict over land property issues occurs frequently.

Quintana Roo – The Maya population has a high presence in the north of this state, and mainly presents a pattern of subsistence agriculture as well as a long history of chicle production, although forest extraction is also practiced in the areas where mahogany and cedar can be found. Migration to tourism centers in this state is an economic strategy with growing popularity. In the South, on the other hand, indigenous presence is low and the ejido is the exclusive form of land ownership.

#### **5. Organization and land ownership forms**

There are several different complex forms of land ownership in Mexico and a complete analytical comparison is beyond the scope of this work, but some of the more pertinent differences are important to point out:

Agrarian communities tend to be more inclusive than ejidos, in terms of who participates in the decision-making processes. Furthermore, conflict tends to arise more easily in ejidos or agrarian communities that encompass several settlements than the ones that have only one. Therefore, PROCYMAF II will favor working with single communities and be careful when dealing with multi-community schemes and seek the highest level of consensus possible among these communities prior to any interventions. Finally, ejidos and communities, where the traditional system of government by cargos (civil-religious roles) is deeply rooted and better organized, tend to be more functional and efficient and commitment to common objectives tends to be stronger.

#### **6. Indigenous participation strategy**

In order to begin the work of PROCYMAF II in the new regions, it is essential to take into account their ethnic and organizational conditions. To this end, three regional workshops were carried out in each of the new states (the minutes of these meetings, in Spanish, are attached [Annex 15]).

Given the success that the participation strategy of PROCYMAF I had in the state of Oaxaca, PROCYMAF II will follow the same program lines, with some adaptations to the specific

conditions. Some of the characteristics of this program are: formation of Regional Committees, as a tool to promote information and knowledge sharing and trust between communities, thus building social capital. In Oaxaca such committees have proven to be very useful tools for promoting “ownership” of the program, in some cases even serve as mechanisms for dispute resolution. Intense field promotion has been central to the success of PROCYMAF, as a source of local knowledge about the conditions and needs of specific groups. Promotion efforts have effectively complemented the regional committees and facilitated the knowledge sharing efforts of the community-to-community program. These practices will be maintained and extended in PROCYMAF II.

Finally, PROCYMAF II will make use appropriate communication media for disseminating information, focusing on the media most widely used in the participating regions (i.e. posters and radio) and working with indigenous languages AS needed and appropriate.

## **7. Strategic lines**

The strategic lines proposed in this document are a result of information compiled in the three previously mentioned workshops as well as through interviews and fieldwork in the regions proposed for PROCYMAF II. These lines have also been included in the social assessment. There are a number of themes that arose in the three workshops and are common to the three states. These include the demand for training the populations of *ejidos* and agrarian communities in topics like fire prevention, certification schemes, forest resources management, accounting techniques and business administration. Common to the three states is the need to build social capital through inter- and intra- community knowledge sharing and through participatory decision-making processes. Some needs specific to each state were also identified, particularly for Jalisco (i.e. support for ecotourism development and deer protection schemes) and Quintana Roo (i.e. agro-forestry systems development and tropical forest-specific management training).

## **8. Institutional commitment**

The National Forestry Commission (CONAFOR) will be the implementing agency for PROCYMAF II. Although it has no formal responsibility for indigenous affairs, such affairs are highly influenced by CONAFOR’s actions, due the fact that a high percentage of the population that inhabits forested areas is of indigenous origin. Nevertheless, other agencies, such as state-level environmental ministries and protected areas authorities are also highly influential. CONAFOR has recruited a number of indigenous *promotores* and others who are familiar with and highly sensitized to conditions in indigenous communities and *ejidos*.

## **9. Institutional capacity for project implementation**

The project depends greatly on the capacity of local professionals to provide services to indigenous communities. The six different states in question have different conditions in terms of institutional capacity for the implementation of PROCYMAF. Durango, for example, is limited in terms of human capital, in contrast to Quintana Roo, where a tradition of forest management professionals exists. In Jalisco, the local State University and that of neighboring Colima would provide support for the implementation of PROCYMAF II programs. Michoacán has both an important number of forestry technicians and academic institutions able to provide the human capital. The PROCYMAF roster would seek services providers in these institutions.



## 10. Monitoring and evaluation

A monitoring and evaluation component, including monitoring by an independent entity is included in this new stage of the program. Financing is assured in the project budget.

Regional committees constitute the natural spaces for monitoring and evaluation of the program. In addition, the PROCYMAF – the implementation team would follow up and evaluate project impact as well as PROCYMAF's formal structure.

## 11. Risks of program implementation in new indigenous regions, possible mitigation measures and agents responsible for the actions

- An increase in the marginalization of certain communities arising from the selectivity in groups benefiting from PROCYMAF.
- The increase in inter- and intra- group conflict (mainly in Jalisco and Durango) over land ownership related issues or from possible operational and administrative malfunctions within PROCYMAF.
- The marginalization of the young population in indigenous communities is a risk if the program is not implemented or if it neglects these population segments.

There is also a risk that PRODEFOR (a similar program also carried out by CONAFOR – see Box 1 in PAD) attracts such a large pool of qualified forest technicians so as to lower the standards within PROCYMAF. Coordination of both programs is key to avoid this scenario.

PROCYMAF II Implementation Risks		
Risks	Mitigation Actions	Responsible Actors
a. Expanding the marginalization of groups in certain communities.	a.1 The population of all the agrarian centers should be informed about PROCYMAF programs	a.1 PROCYMAF promoters, Natural Resources Committees, CONAFOR Communications Division
b. Deepening of existing inter- and intra- community conflicts	b.1 Conflict resolution spaces should be promoted within agrarian centers  b.2 (Where relevant) The careful delimitation of land and resources belonging to different agrarian centers should be encouraged	b.1 PROCYMAF promoters and consultants  b.2 Agrarian Attorney's office (procuraduria agraria)
c. Marginalization of the younger population in indigenous <i>ejidos</i>	c.1 Conflict resolution spaces should be promoted within agrarian centers	c.1 PROCYMAF promoters and consultants
d. Creation or deepening of conflicts in <i>ejidos</i> and communities based on administrative problems	d.1 Technical assistance and capacity building activities on management and accounting themes should be promoted  d.2 There should also be promotion of transparency and accountability practices within agrarian centers	d.1 PROCYMAF consultants  d.2 PROCYMAF promoters and consultants
e. Another risk is that the forestry technical service providers will deliver low quality technical assistance and training in the forestry management plans	e.1 There should be coordinated efforts with PRODEFOR in order to jointly raise quality standards  e.2 Mechanisms for monitoring and evaluation of the work carried out by forestry technical service providers should be established (with PRODEFOR and PROCYMAF resources) in the communities and within the Regional Natural Resources committees	e.1 Regional offices for CONAFOR, PROCYMAF and CONAFOR  e.2 PROCYMAF state teams, particularly the regional promoters, Natural Resources Regional Committees

**Additional Annex 14 Concordance between SEMARNAT Regulations and World Bank  
Safeguard Policies  
MEXICO: Community Forestry II (PROCYMAF II)**

***OP 4.01 (Environmental Assessment)***

*EA* – If projects have potential (adverse) environmental risks and impacts in its area of influence and EA is required.

An EA is required for the use of tropical forests > 20 ha, forest species with difficult regeneration pattern and if use takes place in protected natural habitats. It must contain a description on the natural habitat and conservation status for the proposed area. Further, for each application, an inventory of flora and fauna and the intended use, as well as alternatives to the proposed utilization, is required. Areas ≤ 20 ha require a simplified forest management plan. Subsistence use of non-endangered species is excluded. Species that are listed as endangered can only be utilized if an UMA (Environmental Management Unit) is established.

An EA study has been carried out (see Annex 12). The project also would carry out EA during the project implementation so that it does not end with the EA for appraisal. Among the indicators that will be considered are: (i) the increments in areas brought under formal management plans, (ii) the change in prevalence of good management practices, and (iii) increments in non-timber forest product (NTFP) production.

Ref. <sup>1</sup>: 1 (Art. 15, 28 - 33, 77); 7 (39, 44, 83 - 93); 10 (Art 22); 12.

*Consultation* - Project-affected groups and local NGOs need to be consulted about the project's environmental aspects and their views taken into account.

The formulation of forest management plans requires the participation of local groups, local government and non-government representatives. The same requirements are valid for management plans for protected areas.

Local, regional, and national government representatives from the CONAFOR and other relevant agencies, non-profit organizations, private entities, donors involved in the project area, and beneficiary organizations were consulted throughout project preparation in Durango, Jalisco and Quintana Roo. During implementation, the individual EA and management plans are informed by a wide consultation process with stakeholders in each respective locale.

Ref.<sup>1</sup>: 1 (Art 18, 157 - 159); 7 (Art. 15-16).

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All Laws, Regulations and Decrees in the list of references were consulted, only the most important articles are referred to in the table.

*Disclosure* - Relevant information is presented in a timely manner prior to consultation and in a form and language accessible to the groups being consulted.

Once a solicitation for use authorization or an EA has been submitted for approval it must be disclosed (electronically and in official news papers). An applicant may request non-disclosure (e.g., to protect intellectual property rights).

Ref. <sup>i</sup>: 1 (Art 34 - 35, 159); 7 (Art. 15-16).

Consultations with potential beneficiaries were held from February to April, 2003. Final reports including screening procedures, mitigation measures, and monitoring mechanisms will be presented, and summaries of these reports will be disclosed on the CONAFOR website prior to appraisal and at least 30 days before Board Presentation.

#### **OP 4.04 (Natural Habitats)**

Avoid significant damage (conversion or degradation) to Critical Natural Habitats.

If management and use in critical natural habitats will take place, SEMARNAT will establish special management requirements and relevant mitigation measures. Species that are listed as endangered can only be utilized if an UMA is established (see above).

Ref. <sup>i</sup>: 1 (Art. 15, 46, 53, 64); 6 (Art. 81-86); 7 (Art. 60, 64); 9 (Art. 117); 12.

The EA commissioned for the project delineate Critical Natural Habitats. In general, the study follows the identification of critical habitats by the National Biodiversity Commission (CONABIO)

If significant conversion or degradation of a (non-critical) natural habitat is needed to achieve a project's key objectives, the project must include mitigation measures.

Every project that receives authorization by SEMARNAT contains mitigation measures that have to followed. Authorization is conditional on adhering to the imposed measures. Specific attention to mitigation measures must be given to areas with steep slopes, easily erodable soils, riverine areas, harvesting methods, and the establishment of forest roads.

Ref. <sup>i</sup>: 1 (Art. 15, 64); 7 (Art. 60, 64); 15.

The project would only support activities that are in compliance with the national legislation and will support the establishment of required mitigation measures.

#### **OP 4.36 (Forests)**

Commercial harvesting operations are only financed when the areas affected by the harvesting are not critical forests or critical natural habitats.

Extractive measures require permission from SEMARNAT, which establishes the amount and time this activity can take place. SEMARNAT can impose limitations on use at any time. The commercial use of NTFPs requires permission from SEMARNAT.

Ref. <sup>i</sup>: 1 (Art. 87); 4 (Art. 5); 6 (Art 86); 7 (Art. 83 – 93); 9 (Art. 48 - 50, 73 – 84, 97 - 100).

The project will not support commercial harvesting operations in Critical Natural Habitats. Other operations might be financed if in accordance with the national and WB regulations. While it would not support road construction or actual harvesting operations, it could support value-added activities for timber, NTFPs and ES.

To be eligible for financing, industrial-scale commercial harvesting operations must be certified under an independent forest certification system or where a pre-assessment under such an independent forest certification system determines that the operation does not yet meet the requirements, adhere to a time-bound phased action plan.

A forest certification system<sup>1</sup> must require: a) compliance with relevant laws; b) recognition of and respect for any legally documented or customary land tenure and use rights as well as the rights of indigenous peoples and workers; c) measures to maintain or enhance sound and effective community relations; d) conservation of biological diversity and ecological functions e) measures to maintain or enhance environmentally sound multiple benefits accruing from the forest; f) prevention or minimization of the adverse environmental impacts from forest use; g) effective forest management planning; h) active monitoring and assessment of relevant forest management areas; and i) the maintenance of critical forest areas and other critical natural habitats affected by the operation.

Community-scale forest management schemes are not required to seek formal certification but they are expected to be based on the principles of sustainable management sought by such schemes as outlined above.

Mexican legislation does not require certification, however, the forestry law recognizes the importance of certification and specifies that it will support certification efforts through the National Forest Fund.

Ref. <sup>1</sup>: 9 (Art. 114).

Each harvesting/utilization activity requires a detailed management plan, done by a registered professional, and authorized by SEMARNAT. Special management requirements and possible mitigation measures can be imposed.

Management plans must include: description of objectives, ownership prove, extent and composition (inventory data) of area to be utilized, timetables, contingency plans, extraction procedures, etc.

PROFEPA, as well as the Secretaria de Agricultura y Recursos Hidraulicos and the Secretaria de Desarrollo Social are the entities responsible for the control and execution of the relevant regulations.

Ref. <sup>1</sup>: 7 (Art. 83 - 93); 9 (58 – 72).

Mexican legislation does not distinguish between industrial-scale and community management schemes, except that it provides different treatment for management units ≤ 20 ha.

Ref. <sup>1</sup>: 10 (Art 22).

It was agreed that subprojects for timber harvesting in humid tropical forest would not be supported under PROCYMAF II until the corresponding manual (see comments below) had been issued, except for forests/communities that have already achieved internationally recognized certification standards.

In addition to the compliance with national standards and laws, PROCYMAF II would support production and dissemination of Field Guides for each major habitat type to be encountered in the various target areas. One *Field Guide* would be produced for each State, containing information on forest management practices, endangered species, cultural aspects, etc., and, additionally, a *Manual of Best Management practices* would be produced by main ecosystems for specific subjects like construction and maintenance of forest roads, sustainable timber extraction, ground protection, and conservation of biodiversity.

PROCYMAF II will only support community managed schemes.

**Additional Annex 15: SUMMARY OF MINUTES FROM THE THREE REGIONAL  
CONSULTATION WORKSHOP FOR PROCYMAF II  
MEXICO: Community Forestry II (PROCYMAF II)**

**STATE: DURANGO**

PROCEEDINGS

The workshop was held on April 11<sup>th</sup>, 2003, in the meeting room of the North Pacific Regional Office of National Forestry Commission (CONAFOR), in the City of Durango.

27 people attended the meeting (24 representatives from *ejidos* and social organizations, one representative from a forest technical services consulting firm and two CONAFOR representatives.

The main interventions by the representatives from the *ejidos* and the organizations are synthesized below:

The following requests were made:

- Support for fire prevention and protection activities that could complement similar activities that exist in other projects.
- Support for lower altitude areas with tropical and dry forests that are not contemplated in other programs.
- Support for investment projects to renovate the industrial stock that complement existing investments and contribute value adding to forest products (i.e. carpenter shops, wood molders, computing equipment).
- Promotion of certified products and protection of local producers from the competition of less expensive imported products.
- Support in negotiating schemes of resource combination for the financing of larger investment projects.
- Support for restoration and management of projects for environmental services related to water in urban areas.

The following propositions were made:

- Projects need to have a larger reach, with more resources and a real impact on producers at the local level. Furthermore, proposals should have good technical foundations and be economically feasible.
- There needs to be assurance that resources reach producers directly and are not lost to intermediaries.
- There should be pilot projects for protection against water run-off using fruit trees.

Referring to causes of the forest sector crisis in Durango, the following explanations were presented:

- There has been a reduction in the authorized volumes of timber at a time when the need for resources at the *ejido* level was high.
- Foreign forest products with lower prices have poured into the market.
- There has been inadequate management of forests dating back to the concessions period, leading to reduced volumes available for harvesting.

The following thoughts were presented in relation to the processes and activities that are required in order to strengthen forest organizations and *ejidos*:

- Capacity building initiatives are needed for producers for every level of the production chain, as well as for other primary productive activities.
- Needs and requirements for capacity building should take into account the particular characteristics of each *Union* and *ejido* (using the PRODEFOR typology).
- Training is needed in topics like commercialization and administration.
- The regionalization scheme developed by the social consultancy was recommended. Based on this scheme, a diagnostic process at the regional level should be developed, in order to identify needs and priorities of organizations, *ejidos* and communities.
- It was suggested that the PROCYMAF process should be linked to CONAFOR's "Productive Chains" initiative, in order to improve the industrial infrastructure of *ejidos* and communities.
- It is necessary to support the search for alternatives in forest and natural resource management.
- Economic resources are needed for the acquisition of infrastructure that supports the industrialization and modernization process of *ejidos*.
- Process integration should be promoted to correct the current situation in which social forest production is highly fragmented.
- Along these same lines, the integration of *ejidos* was also recommended in order to reduce production costs.
- A strategy needs to be designed to modernize and diversify productive activities in *ejidos* and forest communities.
- There needs to be a change with the "utility sharing" culture in *ejidos*.
- The promotion of evaluation and reflection activities inside *ejidos* was recommended to achieve the cultural change mentioned in the previous point.
- Each *ejido* and community should decide the process or project that it wishes to follow, especially when faced with the dilemma of modernization and efficiency on one side and high levels of employment on the other.
- The level of organization reflects the *ejido's* activities.
- There is a need to elaborate *ejido*- and organization- specific diagnostics in order to properly identify their needs and priorities.

## **STATE: QUINTANA ROO**

### PROCEEDINGS

The workshop took place on April 7<sup>th</sup>, 2003, in the meeting room of the Planning and Rural Development Ministry of the State of Quintana Roo.

26 people attended the meeting (18 representatives from *ejidos* and social organizations, three representatives of academic institutions and civil organizations and five representatives from government institutions, at the state and federal level).

The presentations took place in the following order:

- The Sustainable Conservation and Management of Forest Resources Project (PROCYMAF). Juan Martínez - PROCYMAF
- The environmental studies for PROCYMAF II in Quintana Roo. Julio Romaní – Consultant.
- Social Studies for PROCYMAF II in Quintana Roo. Salvador Anta – Consultant.

After the presentations a session was opened for questions and a workshop format was adopted, during which the following main questions (Q) and answers (A) were posed:

Q What are the studies for which the *ejidos* require PROCYMAF support?

- A Monitoring studies for forest extraction activities
- A Environmental impact studies
- A Forest ecology studies
- A Ecosur reported that they are gathering the available data from permanent land sections in order to evaluate the growth of commercial interest species
- A Carbon production and commercialization studies
- A Studies for the establishment of UMAS (Environmental Management Units) for several species
- A Market studies

Q What are the training needs in ejidos and organizations?

- A In extraction processes
- A Inventories and cubage
- A Administration and accounting
- A Legal framework
- A Campesino to campesino exchanges
- A Ecotourism: languages, service provision, route development, etc.
- A Non-timber species management: medicinal plants, orchids, etc.
- A Agro forestry development

Q How can social organizations be strengthened?

- A Through strategic planning processes in organizations
- A With land use planning studies
- A Through efficiency-enhancing processes for the forest management units of organizations and ejidos

Finally, there were further comments about the need for support for investments in infrastructure for timber transformation and ecotourism, among others. The representatives from *ejidos* and forest organizations manifested their interest in PROCYMAF II beginning operations as promptly as possible. An agreement was reached that a new presentation would occur in June 2003 with the final results of the two presented studies, as well as the advances in negotiations between CONAFOR and the World Bank for the launching of PROCYMAF II.

## **STATE: JALISCO**

### PROCEEDINGS

The meeting took place in the Center for Forest Training (CEFOFOR) in Ciudad Guzmán, Jalisco, on April 9<sup>th</sup>, 2003.

Representatives from the following organizations participated: Advising Council and general staff of the *Sierra de Manantlán* Biosphere Reserve (RBSM), General Direction of *Nuestra Tierra A.C.* (an NGO), CONAFOR regional management and the CEFOFOR Management, as well as the consultants Julio Romaní and Sergio Graff and the PROCYMAF Coordinating Unit.

In the first stage of the meeting, Juan Manuel Barrera, representing PROCYMAF, presented the Project's background, the results and lessons learned in Oaxaca, Guerrero and Michoacán during 1998 – 2002. Thereafter attendants raised questions related to the use, the conservation and the management of natural resources in their territories. Likewise, some of the problems that the *ejidos* located inside the Biosphere Reserve have were raised, as well as the possibility that PROCYMAF II could provide support in the efforts to solve them.

A PROCYMAF representative also outlined the components of PROCYMAF II, emphasizing the strengthening of community management, the weight of sustainability in the use of their forests and the need to generate regional instruments to increase social capital amongst the forest dwellers. The need to design mechanisms to market environmental services was also discussed, mainly related to water provision in sub- and micro- watersheds in some of the regions of Jalisco and the need to have institutional arrangements with the involved municipalities. It was also mentioned that PROCYMAF II could begin execution in some regions of Jalisco from the year 2004 onwards, if negotiations with the World Bank are successful.

Some agreements related to the launching of PROCYMAF I in some regions of Jalisco were taken. The representative from PROCYMAF made a commitment that within two months after the meeting the personnel in charge of PROCYMAF I would be operational in Jalisco.

In relation with the recommendations of the social and environmental studies, in which PROCYMAF is recommended to support activities in some of the *ejidos* in the State of Colima which fall within the limits of the Sierra de Manantlán Biosphere Reserve, the PROCYMAF representative made a commitment that this topic would be discussed with the PROCYMAF management. The parties involved will be informed of the results at the earliest possible date.

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MAP SECTION

