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Report No: 65959-MX

PROJECT APPRAISAL DOCUMENT

ON THE PROPOSED

IBRD LOAN IN THE AMOUNT OF US$350.00 MILLION

AND

STRATEGIC CLIMATE FUND-FOREST INVESTMENT PROGRAM (SCF-FIP)
LOAN IN THE AMOUNT OF US$16.34 MILLION

AND

STRATEGIC CLIMATE FUND-FOREST INVESTMENT PROGRAM (SCF-FIP)
GRANT IN THE AMOUNT OF US$25.66 MILLION

TO THE

UNITED MEXICAN STATES

FOR THE

FORESTS AND CLIMATE CHANGE PROJECT

December 21, 2011

Sustainable Development Department
Mexico and Colombia Country Management Unit
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective December 21, 2011)

Currency Unit	=	Mexican Peso
Mexican Peso 1	=	US$0.07
US$1	=	Mexican Peso 14.29

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADL	*Agente de Desarrollo Local* (Local Development Agent)
ATL	*Agente Técnico Local* (Local Technical Agent)
CDI	*Comisión Nacional para el Desarrollo de los Pueblos Indígenas* (National Commission for the Development of Indigenous Peoples)
COINBIO	Indigenous and Community Biodiversity Conservation Project
CONAFOR	*Comisión Nacional Forestal* (National Forestry Commission)
CONABIO	*Comisión Nacional para el Conocimiento y Uso de la Biodiversidad* (National Commission for Information and Use of Biodiversity)
CONANP	*Comisión Nacional de Áreas Naturales Protegidas* (National Council for Natural Protected Areas)
CONEVAL	*Consejo Nacional de Evaluación de la Política de Desarrollo Social* (The National Council for the Evaluation of Social Development Policy)
CFE	Community Forest Enterprises
CTC	*Comité Técnico Consultivo* (Consultative Group)
FCPF	Forest Carbon Partnership Facility
FFM	*Fondo Forestal Mexicano* (Mexican Forestry Fund)
FIP	Forest Investment Program
FSC	Forest Stewardship Council
INMUJERES	*Instituto Nacional de las Mujeres* (National Institute of Women)
MRV	Monitoring, Reporting and Verification
NAFIN	*Nacional Financiera* (National Financial Agency)
PES	Payment for Environmental Services
PSAB	*Programa de Pago por Servicios Ambientales del Bosque* (Payment for Environmental Services in Forests)
PROCYMAF	*Programa de Conservación y Manejo Forestal* (Second Community Forestry Project)
PROCAMPO	*Programa de Apoyos Directos al Campo* (Farmers Direct Support Program)

PRODEFOR	*Programa de Desarrollo Forestal* (Forestry Development Program)
PROFEPA	*Procuraduría Federal de Protección al Ambiente* (Federal Attorney for the Environment)
PROGAN	*Programa de Estímulos a la Productividad Ganadera* (Stimulus Program for Livestock Productivity)
REDD+	Reduction of Emissions from Deforestation, Forest Degradation, Conservation of Forest Carbon Stocks, Sustainable Management of Forests, and Enhancement of Forest Carbon Stocks
SAGARPA	*Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación* (Ministry of Agriculture, Livestock, Rural Development, Fishing and Food)
SCF	Strategic Climate Fund
SEMARNAT	*Secretaría de Medio Ambiente y Recursos Naturales* (Ministry of Environment and Natural Resources)

Regional Vice President:	Pamela Cox
Country Director:	Gloria M. Grandolini
Sector Manager:	Ethel Sennhauser
Task Team Leader:	Laurent Debroux

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PAD DATA SHEET

Mexico

Forests and Climate Change

PROJECT APPRAISAL DOCUMENT

Latin America and Carribean Region

Sustainable Development Department

Basic Information

Date: December 21, 2011	Sectors: Forestry (60%); General agriculture, fishing and forestry sector (40%)
Country Director: Gloria M. Grandolini	Themes: Climate Change (50%), Other Rural Development (50%)
Sector Director: Ede Jorge Ijjasz–Vasquez	EA Category: B
Sector Manager: Ethel Sennhauser	
Project ID: P123760 (IBRD) and P124988 (FIP)	
Lending Instrument: Sector Investment Loan	
Team Leader(s): Laurent Debroux	

Does the project include any CDD component? No

Joint IFC: No

Borrower: United Mexican States

Responsible Agency: Comisión Nacional Forestal (CONAFOR)

Contact: Juan Manuel Torres Rojo Title: Director General

Telephone No.: [52] (33) 3777 7000 Email: directorgeneral@conafor.gob.mx

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

Expected Effectiveness Date: March 31, 2012

Expected Closing Date: February 28, 2017

Project Financing Data(US$M)

[X] Loan	[X] Grant	[ ] Other
[ ] Credit	[ ] Guarantee	

For Loans/Credits/Others

Total Project Cost: US$725 million Total Bank Financing: US$350 million

Total Cofinancing: US$42million Financing Gap: 0

Proposed Terms:

IBRD Loan. Flexible loan denominated in US dollars, with a variable spread, commitment linked, bullet repayment on November 15, 2024, all conversion options (currency, interest rate and Caps/Collars).

SCF-FIP Loan. 10-year grace period and a 40-year final maturity commencing on May 15, 2022 to and including November 15, 2031: (1%), and commencing on May 15, 2032 to and including November 15, 2051 (2%).

SCF-FIP Grant. N/A

Financing Source	Amount(US$M)
BORROWER/RECIPIENT	US$333 million
IBRD	US$350 million
Forest Investment Program	US$42 million (US$25.66 million grant, and US$16.34 million loan)
Financing Gap:	US$0
Total:	US$725 million

Expected Disbursements (in USD Million)

Fiscal Year	FY12	FY13	FY14	FY15	FY16	FY17			
Annual	42	72	72	72	72	62			
Cumulative	42	114	186	258	330	392			

Project Development Objective(s)

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

Components

Component Name	**Cost (USD Millions)**
Component 1. Policy Design and Institutional Strengthening	$41.66
Component 2. Consolidation of Priority Community-Based Programs at National Level	$320.00
Component 3. Innovation for REDD+ in Early Action Areas	$30.34

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any exceptions from Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy exception sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36	X	
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11	X	
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	
Safety of Dams OP/BP 4.37		X
Projects on International WaterwaysOP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Summary of Legal Covenants – Description of Covenant	**Due Date**	**Frequency**
CONAFOR shall set up (i) a steering committee; (ii) an operations committee; (iii) a financial management unit for external affairs.	March 31, 2012	Recurrent
CONAFOR shall assign an annual budget to CONAFOR's units in charge of social issues and communications to ensure effective implementation of the Indigenous Peoples Planning Framework and the Process Framework, and the integration of social issues in all of CONAFOR programs supported by the project.		Annual
CONAFOR shall hire additional staff in the communications, social, procurement and financial management areas. At least one CONAFOR staff will be available to work full time as of January 1, 2012 to handle the procurement issues of the Project.	Condition of disbursement for Components 2 and 3.3	Recurrent

CONAFOR shall maintain several Collaboration Agreements, *inter alia*: (a) an agreement with SEMARNAT, for the establishment of joint databases to share information and experiences regarding monitoring systems under Component 1.3 of the Project; (b) an agreement with SAGARPA, which shall include, *inter alia,* their respective responsibilities for the establishment of joint databases to share information and experiences regarding monitoring systems under Component 1.3 of the Project; (c) the necessary agreements with the applicable parties to the CONABIO Trust, for the provision of technical assistance to Communities and/or Ejidos under Component 3.2 of the Project; and (d) an individual agreement with each ATL, whereby the relevant ATL shall agree to provide technical assistance to ADLs, and Communities and/or Ejidos under Component 3.2 of the Project.	(a) and (b) were complied with on November 7 and November 9, 2011, respectively (c) and (d) are conditions of disbursement for Component 3.2	Recurrent
CONAFOR shall enter into additional Collaboration Arrangements with: (a) CONEVAL in which CONNAFOR shall seek CONEVAL's methodological advice for the design of an impact evaluation strategy under Component 1.1 of the Project; (b) CDI in which CONAFOR shall seek CDI's technical and institutional collaboration in the dissemination of information and consultations with indigenous peoples under the Project and (c) INMUJERES, in which CONAFOR shall seek INMUJERES' advice in the implementation of gender-related aspects of the Project.		Recurrent
CONAFOR shall enter into agreements with each Community and/or Ejido carrying out activities under Components 2 3.3 of the Project.		Recurrent

Team Composition

Name	Title	Specialization	Unit
Laurent Debroux	Sr. Natural Resources Specialist	Task Team Leader	LCSAR
Graciela Reyes	Junior Professional Associate	Environmental Economics	LCC1C
Gerardo Segura	Sr. Rural Development Specialist	Community Forestry	LCSAR
Adriana Moreira	Sr. Environmental Specialist	Environmental Management	LCSEN
Stefano Pagiola	Sr. Environmental Economist	Environmental Economics	LCSSD
Mi Hyun Bae	Social Scientist	Social Safeguards	LCSSO
Ricardo Hernandez	Sr. Environmental Specialist	Environmental Safeguards	LCSEN
Navin Rai	Adviser	Indigenous Peoples	SDV
Laura Tlaiye	Adviser	Forest Bond	CMD
Fernanda Zavaleta	Communications Officer	Communications	LCREA
Maria Carolina Hoyos	Communications Consultant	Communications	LCREA
Juan Carlos Serrano	Financial Management Specialist	Financial Management	LCSFM
Diomedes Berroa	Senior Operations Officer	Procurement	LCSPT
Mariangeles Sabella	Senior Counsel	Legal	LEGLA
Gabriel Penaloza	Procurement Analyst	Procurement	LCSPT
Victor Ordonez	Finance Officer	Disbursement	CTRLN
Jeannette Ramirez	Operations Officer	Operations Officer	LCSAR
Carolina Hammond	Program Assistant	Program Assistant	LCSAR
Diana Gabriela Jimenez	Program Assistant	Program Assistant	LCC1C
Nancy Montes de Oca	Team Assistant	Team Assistant	LCC1C
Diana P. Rebolledo	Lenguage Program Assistant	Language Program Assistant	LCSAR
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I. STRATEGIC CONTEXT

A. Country Context

1. The Mexican economy is starting to recover from a deep contraction of economic activity following the global economic and financial crisis. As a relatively open economy, Mexico was hard hit by the collapse of international trade at the end of 2008 and the beginning of 2009. As a result, annual economic growth in 2008 was down to a meager 1.3 percent and Gross Domestic Product (GDP) actually fell by 6.5 percent in 2009. In line with a global recovery in production and trade, and responding positively to the Government's countercyclical fiscal and monetary policies, economic activity in Mexico picked up in the second half of 2009 and the overall GDP grew by 5.5 percent in real terms in 2010. Real GDP growth is forecast at 4.3 percent for 2011. Presidential elections are scheduled for July 2012, with the new President expected to take office in December 2012.

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

3. The climate change collaboration between the Bank and Mexico has progressed in recent years, with subsequent stages building upon the achievements of previous efforts. This collaboration can be summarized in four stages: Foundations, Early Support, Strengthening, and Consolidation. This collaboration now encompasses the full range of Bank instruments, including knowledge, financial, convening and coordination services**.** Since 1997, two *Community Forestry Projects* helped indigenous and other rural communities to raise their standards of living through improved forest management (closed in 2009). The Bank also supported the *Mexico Environmental Services Project* aimed at enhancing the provision of environmental services of national and global significance and to secure their long-term sustainability (closed in 2011) and the *Indigenous and Community Biodiversity Conservation Project* (see Figures 1 and 2).

4. **The proposed project is consistent with the World Bank Group's Mexico Country Partnership Strategy 2008-2013** (Report #42846-MX) discussed by the Executive Directors on April 8, 2008**.** One pillar of the Country Partnership Strategy 2008–2013, and of the Country Partnership Strategy Progress Report dated February 10, 2010, is to help Mexico assure

environmental sustainability by reducing greenhouse gas emissions and deforestation. The outcomes include the conservation of the forestry natural capital. The proposed project is also consistent with Mexico's National Development Plan which aims to turn environmental sustainability into a cross-cutting theme of public policies.

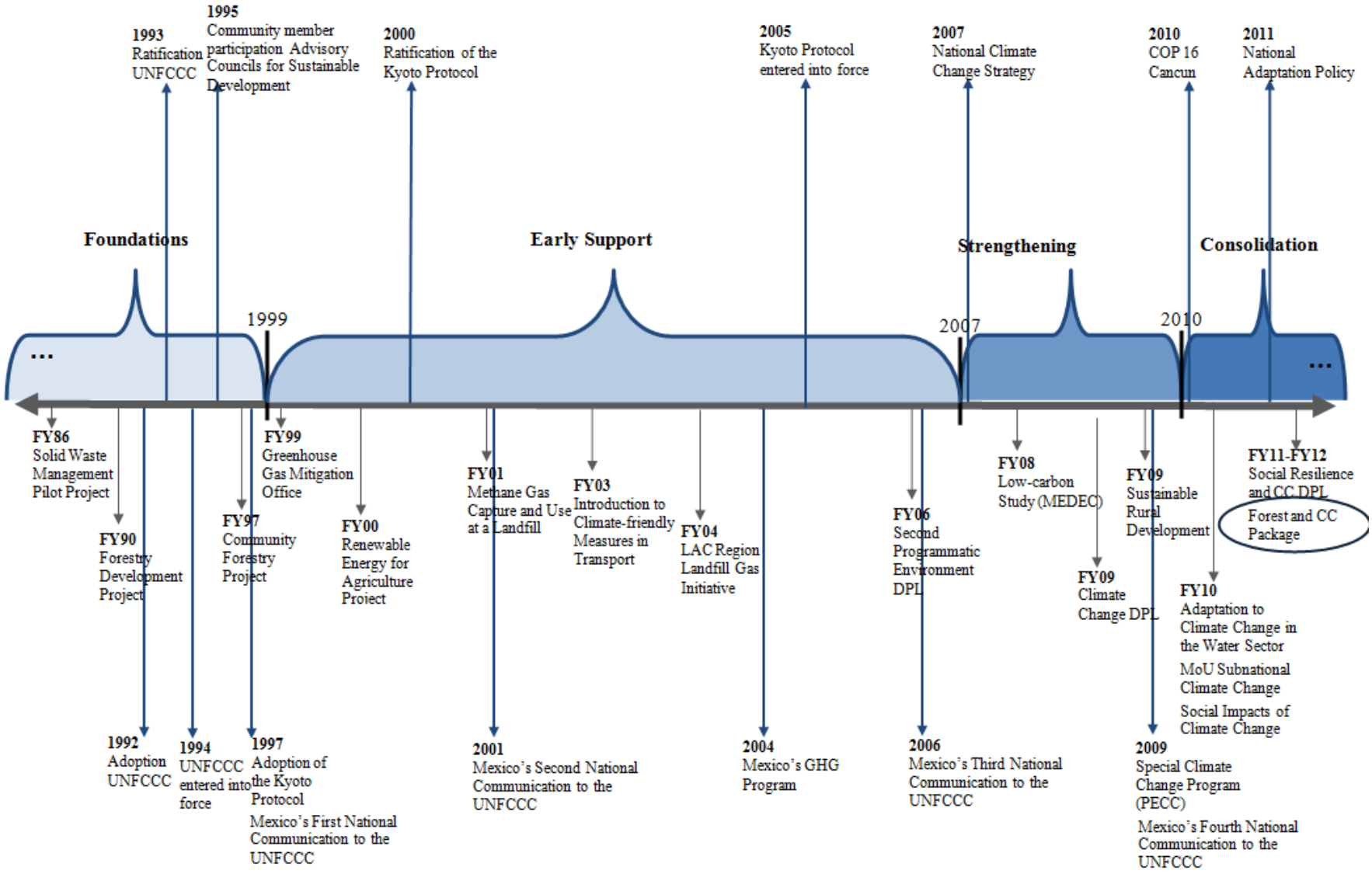
Figure 1. Stages of climate change engagement in Mexico and relationship with the Forests and Climate Change Package (Forest-related operations are **highlighted in bold**, and projects included in the Forests and Climate Change Package underlined)

Stages of Climate Change Engagement in Mexico

	Foundations (Before 1999)	Early Support [1999–2007]	Strengthening [2007–2009]	Consolidation [2010–]
Knowledge Services		• LAC Region Landfill Gas Initiative (FY06) • Evaluation of Energy Efficiency Initiatives (FY06) • Economic Assessment of Policy Interventions in the Water Sector (FY06)	• **Carbon Finance Assistance Program for Mexico (FY09)** • **Low-Carbon Study (FY09)** • Mass Urban Transport-Federal Program (FY09)	• Social Impacts of Climate Change (FY11) • MoU Subnational Climate Change (FY11) • Othon P. Blanco Sustainable Development Strategy (FY11) • Climate Change Public Expenditure Review (FY12) • Forest Carbon Partnership Facility (FY11-13) • Advisory Services under the Program on Forests (PROFOR) (FY11-on)
Convening and Coordination Services		• Consolidation & Strengthening of the Mexican Office for Greenhouse Gas Mitigation (FY99)	• Preparation of the CTF Investment Plan (FY09)	• Energy-efficiency conference (FY10) • Water sector events in the lead-up to COP16 (FY10) • Agriculture and forestry sector events during COP16 and COP 17 (FY10-11) • Forests and Climate Change Donor Coordination
Financial Services	• Solid Waste Management Pilot Project (FY86) • Urban Transport Project (FY87) • **Community Forestry (FY97)**	• Renewable Energy for Agriculture Project (FY99) • **Indigenous and Community Biodiversity Conservation Project COINBIO (FY01)** • Introduction to Climate-friendly Measures in Transport (FY03) **Mexico Environmental Services Project (FY06)** • **Programmatic Environment DPL I and II (FY06)**	• Climate Change DPL (FY08) • **Environmental Sustainability DPL (FY09)** • **Sustainable Rural Development Grant** (FY09)	• **Green Growth DPL (FY10)** • **Adaptation to Climate Change in the Water Sector DPL (FY10)** • Urban Transport Transformation Program (FY10) • Adaptation to Climate Change Impacts in the Coastal Wetlands (FY11) • Low-carbon DPL (FY11) • Social Resilience to Climate Change DPL (FY12) • Forest and Climate change SIL and FIP (FY12) • Sustainable Production Systems and Biodiversity GEF (FY12) • **Ecosystems Adaptation DPL (FY13)**

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

Figure 2: Timeline of the Bank engagement with the GoM in climate change



B. Sectoral and Institutional Context

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

6. In the 1990s, the Government started helping communities to manage their forest resources through a series of community-based incentives and advisory programs. At present, an estimated 2,380 communities use forest management plans, and about 50 are independently certified. In many cases, these public investments, combined with the low profitability of agriculture in remaining forest land and to some extent with rural out-migration, contribute to a decline in forest loss.[4] They also seem to succeed in building social capital, creating jobs and incomes, and promoting forest sustainability. However, one cannot assume that these trends will continue: the financial viability of the model is still uneven; over-regulation of community forestry remains an obstacle; and forest degradation is still high and has not been reversed. Although much remains to be done, Mexico's community forestry approach is increasingly recognized as a reference worldwide. This community forestry approach is seen by the Government as a central piece of its social development and poverty alleviation strategies in forested regions. It will also likely serve as a foundation of Mexico's strategy for Reducing Emissions from Deforestation and Degradation (REDD+).[5]

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[1] In Mexico, *"Comunidades*" (or "agrarian communities") are long-standing rural population centers that have been given formal ownership of their traditional or customary lands. Theoretically "agrarian communities" are entirely composed of indigenous peoples. *"Ejido*" refers to a portion of land that has been titled to a rural population nucleus that was formed more recently or relocated from another area. Most of them are non-indigenous *campesinos*. Both types of community property are governed by a similar structure, with an *"Asamblea"* of all *ejidatarios* or *comuneros*, a *"Comisariado Ejidal*" or *"Comisariado de Bienes Comunales"* and a *"Consejo de Vigilancia.*" It is estimated that 9,000 communities and *ejidos* have a forest area equal to or greater than 300 hectares, of which about 3,000 are engaged in forestry as their main activity, and about 50 are certified under the Forest Stewardship Council (FSC) scheme (717,424 hectares).

[2] Government estimates for annual deforestation and forest degradation rates are 0.25 percent and 0.45 percent, respectively (based on the Readiness Preparation Proposal–CONAFOR 2011, and relative to other tropical countries).

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

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

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

7. **Over the past decade forests have become a national priority for Mexico.** The National Forestry Commission (*Comisión Nacional Forestal*, CONAFOR) was established in 2001 to assist communities and small private owners in developing management plans, restoring degraded areas, planting trees, using non-timber products, and protecting environmental services. CONAFOR operates a range of thematic, community-based incentive programs, collectively known as *ProÁrbol*. The scope of these programs increased rapidly since 2001. CONAFOR's budget increased from US$27 million in 2001 to US$486 million in 2011 and its portfolio has reached a total of about 12,000 transactions annually.

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

C. Higher-Level Objectives to which the Project Contributes

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

II. PROJECT DEVELOPMENT OBJECTIVE

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

11. The project would help consolidate and improve CONAFOR's incentive programs for community forestry and environmental services, and utilize them as key elements of the National

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

REDD+ Strategy. It would also help strengthen CONAFOR as a world-class forest agency, promote the alignment of rural development polices and programs, and pilot innovative REDD+ approaches in Early Action Areas.[7]

12. **Project Beneficiaries.** The key beneficiaries of the five-year project would be an estimated 4,000 *ejidos* and communities that would participate in demand-driven incentive and advisory programs supported by the project at the national level and in REDD+ Early Action Areas.

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

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

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

a) Increase in forest area under improved management and reduced carbon emissions practices (number of hectares, or percentage increase);
b) Increase in number of communities building social organization and generating income from sustainable production of forest goods and services (number of communities, or percentage increase) including REDD+;
c) Reduction of net deforestation and forest degradation rate in selected landscapes within REDD+ Early Action Areas (equivalent CO_2 emissions).

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

[7] Initial Early Action Areas have been identified for their REDD+, learning, implementation, and replication potential, and were included in Mexico's FIP Forest Investment Plan. The project will support piloting of new approaches for REDD+ initially in two of those areas (State of Jalisco and the Yucatán Peninsula). Expansion to other areas will be considered based on project progress, lessons learned and opportunities for further learning and implementation.

III. PROJECT DESCRIPTION

A. Project Components (see Annex 2)

17. **Component 1. Policy Design and Institutional Strengthening.** (IBRD US$30m, FIP US$11.66m grant, and Government US$50m).

18. *Subcomponent 1.1. Monitoring and Evaluation.* (IBRD US$5m, FIP US$2m grant, and Government US$10m). This subcomponent will provide technical assistance and financing of operating costs to: (i) strengthen CONAFOR's monitoring and evaluation systems by revamping databases, strengthening CONAFOR's remote sensing and geographic information capacities, and strengthening CONAFOR's technical capacity to better measure the outcomes of CONAFOR's investments in the field; (ii) design and pilot a comprehensive REDD+ monitoring, reporting and verification system by: (A) developing tools to monitor the environmental, social and economic impacts of REDD+ Early Action Areas Subprojects; (B) analyzing community-based monitoring techniques, and (C) designing an impact evaluation strategy, all for the activities to be carried out under Subcomponent 3.3 of the Project; and (iii) monitor results and carry out strategic evaluations of the Forest Investment Plan.

19. *Subcomponent 1.2. Policy Design, Participatory Processes, and Knowledge Sharing.* (IBRD US$12.5m, FIP US$5m grant, and Government US$15m). This subcomponent will provide technical assistance and financing of operating costs to carry out analytical work and workshops to improve public policies and public programs on forest management and forest conservation issues by: (i) carrying out studies and workshops to draw lessons from ongoing environmental services and community forestry programs in the Borrower's territory, and propose adjustments to CONAFOR Rules to achieve, inter alia, greater integration and synergies amongst said environmental services and community forestry programs; (ii) carrying out studies related to policies and programs related to forestry, agriculture, livestock, and other economic activities in rural landscapes to achieve, *inter alia*, greater integration and synergies amongst said policies and programs in rural landscapes; (iii) carrying out studies and workshops to design innovative REDD+ institutional arrangements to pilot in REDD+ Early Action Areas under Component 3 of the Project; (iv) carrying out workshops, communication and outreach activities to facilitate the successful implementation of the Project (including on social and environmental safeguards issues); (v) disseminating information and carrying out consultations with indigenous peoples and other forest communities on REDD+, sustainable forest management, and related issues; (vi) carrying out workshops for indigenous peoples, local communities and other stakeholders involved in the management of forest landscapes in REDD+ Early Action Areas under Component 3 of the Project; and (vii) carrying out local and international learning activities, including South-South learning initiatives, and disseminating and exchanging lessons and experiences on REDD+ and on the implementation of the Forest Investment Plan.

20. *Subcomponent 1.3. Strengthening of CONAFOR and Cross-Sector Coordination.* (IBRD US$12.5m, FIP US$1.66m grant, and Government US$15m). This subcomponent will provide goods and technical assistance (including training) and financing of operating costs to: (i) modernize CONAFOR's administration and advisory capacity, and promote the sharing of good practices and technologies; (ii) support the overall management of the Project, including the

carrying out of coordination, reporting, fiduciary and safeguards related activities; and (iii) foster cross-sector coordination between CONAFOR and other agencies of the Borrower involved in rural development at the federal level (such as, inter alia, SEMARNAT and SAGARPA) by creating joint databases with SAGARPA and SEMARNAT, and streamlining the administrative framework for community-based forest management.

21. *Subcomponent 1.4. Improvement of Private Advisory Services to Communities.* (FIP US$3m grant, and Government US$10m). This subcomponent will provide technical assistance (including training) and financing of operating costs to: (i) train a roster (*padrón*) of qualified professionals to be hired by Communities and/or *Ejidos* (following the procedures set forth in Section III of the Schedule to the Project Agreement) to advise said Communities and/or *Ejidos* in the preparation and implementation of the activities under Components 2 and 3.3 of the Project; and (ii) design and implement a service provider quality accreditation and certification scheme for the qualified professionals referred in Subcomponent 1.4 of the Project.

22. **Component 2. Consolidation of Priority Community-Based Programs at National Level.** (IBRD US$320m, and Government US$265m). This subcomponent will provide support to Communities and/or *Ejidos* to help them combine sustainable forest management with socio-economic development, enhance the contribution of forests to climate change mitigation and adaptation, and generate additional income opportunities for Communities and/or *Ejidos*, making sustainable management more economically attractive, through:

23. *Silvicultura Comunitaria (Programa de Desarrollo Forestal Comunitario):* (i) the carrying out of activities to promote, strengthen, and consolidate community institutions and local development processes for the collective and sustainable management of forest resources including, *inter alia:* (a) the carrying out of participatory rural appraisals, (b) the elaboration of land-use zoning plans (*ordenamientos territoriales comunitarios*), (c) the development and strengthening of community statutes to regulate the use of collective forest resources, (d) the carrying out of community-to-community seminars and other knowledge sharing activities among Communities and/or *Ejidos* at different levels of organization: (e) the provision of support (in a manner acceptable to the Bank) to participatory community surveillance committees to ensure compliance with management plans, community statutes, and social and environmental safeguards, and (f) the carrying out of workshops and training courses for Community and/or *Ejido* members and staff of community forestry enterprises on technical aspects of forest management, silviculture, environmental sustainability, business administration, and transformation and marketing of forest products and services.

24. *PRODEFOR (Programa de Desarrollo Forestal*): (ii) the carrying out of activities to support forest Communities and/or *Ejidos* strengthen their capacities to manage productive forests sustainably including, *inter alia*: (a) studies to prepare environmental impact assessments and forest management plans based on official regulations needed to obtain the Borrower's permits for extraction of timber and non-timber forest products; (b) silvicultural activities aimed at ensuring forest regeneration and improvement of forest productivity and carbon sequestration; (c) activities to improve and modernize forestry technologies used by community forestry enterprises to increase their efficiency, competitiveness and add value to their timber and non-timber products; and (d) technical assistance activities to assess compliance with environmental

and social safeguards, and to conduct evaluations to certify the environmental and social sustainability of forestry interventions based on national and international standards.

25. *Cadenas Productivas (Programa de Integración de Cadenas Productivas):* (iii) the carrying out of activities to promote and strengthen forest value chains established by community forest enterprises to add value to their timber and non timber forest products, expand access to markets, and improve competitiveness including, *inter alia*: (a) legal registration of community forest enterprises and inter-community value chains; (b) studies to prepare strategic business plans, process engineering, and investment feasibility assessments; (c) purchasing of processing equipment to integrate community forest enterprises into value chains; (d) purchasing of office equipment for community forestry enterprises; and (e) activities to improve marketing of timber and non timber forest products and services, and to strengthen the growth of community forestry enterprises.

26. *PSAB (Programa de Servicios Ambientales del Bosque*): (iv) the provision of payments to Communities and/or *Ejidos* in exchange for the provision of environmental services which benefit people other than the land users in the PSAB Areas, which services include, *inter alia*: (a) services generated by forest ecosystems in the provision of water and the prevention of disasters; (b) services generated by forest ecosystems in the conservation of biodiversity; and (c) services generated by forest ecosystems in the capture of carbon.

27. *Programas Especiales:* (v) the provision of technical assistance and payments to Communities and/or *Ejidos* for (a) the carrying out of activities to restore ecosystems in degraded areas including, *inter alia*, reforestation, soil conservation, agroforestry, and forest fire prevention activities; and (b) the carrying out of activities to restore and conserve ecosystems in coastal watersheds and other areas with high deforestation rates including, *inter alia*, forest conservation, sustainable forest management, reforestation, agroforestry, and forest fire prevention activities.

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

29. **Component 3. Innovation for REDD+ in Early Action Areas.** (FIP US$30.34m, of which US$14m grant and US$16.34m loan, and Government US$18m).

30. *Subcomponent 3.1. Policy Innovation and Cross-Sector Harmonization* (for information, costs covered under Component 1.2). This subcomponent will provide technical assistance and financing of operating costs to design innovative REDD+ approaches to be piloted in REDD+ Early Action Areas under Subcomponents 3.2 and 3.3 of the Project, including, *inter alia*: (i) the alignment of forestry, agriculture and livestock policies and incentive programs managed by CONAFOR and SAGARPA and improvement of the overall carbon balance in rural landscapes in the Borrower's territory; (ii) the tailoring or customization of CONAFOR's forestry incentive programs and adjustment of the eligibility criteria and procedures of said programs to promote

REDD+ practices at the community and landscape level; (iii) the supporting of the emergence of new local governance agents such as local technical agents (ATL[8]) and local development agents (ADL[9]) allowing for a broader spatial integration at the municipal, watershed or landscape level; and (iv) the development of specific operational rules for the implementation of Subcomponent 3.3 of the Project.

31. *Subcomponent 3.2. Building Capacities for Landscape-Based Management in REDD+ Early Action Areas.* (FIP US$7m grant). This subcomponent will provide technical assistance (including training), goods and financing of operating costs to: (i) strengthen the capacities of ADLs and ATLs, (ii) assist Communities and/or *Ejidos* and other local stakeholders in the REDD+ Early Action Areas to identify and implement innovative REDD+ Early Action Subprojects; (iii) establish coordination mechanisms to effectively develop and implement participatory regional land-use plans and identify landscape level strategies for REDD+; (iv) enable integrated cross-sector action in support of sustainable economic activities in forest landscapes; (v) assist Communities and/or *Ejidos* and *Ejidos* to implement REDD+ Early Action Subprojects; (vi) coordinate efforts for monitoring and evaluation of REDD+ activities; and (vii) identify and disseminate lessons learned in REDD+ Early Action Areas for potential future scaling up of REDD+ landscape initiatives to other regions in the Borrower's territory.

32. *Subcomponent 3.3. Community Investments in REDD+ Early Action Areas*. (FIP US$7m grant, FIP US$16.34m loan, Government US$18m). This scomponent will provide financing to Communities and/or *Ejidos to* carry out REDD+ Subprojects, defined as subprojects for activities for reducing emissions from deforestation and forest degradation such as, inter alia, sustainable forest management, protection of environmental services, enhancement of carbon stocks in forest landscapes, agroforestry, sustainable use of non-timber products, and promotion of alternative low carbon sustainable community-based activities, all of this to be carried out in REDD+ Early Action Areas and in accordance with the criteria and procedures set forth in the specific operational rules developed under Subcomponent 3.3. (See further details in Annex 2 on Project Description and Annex 10 on the Forest Investment Program).

B. Project Financing

33. **Lending Instrument.** The proposed operation is designed as a Specific Investment Loan in the amount of US$392 million, which includes US$350 million from the IBRD (loan) and US$42 million from the Forest Investment Program (US$25.66 million as grant, and US$16.34 million as loan). Including the Government's contribution of US$333 million, the total project amount is US$725 million.

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

[8] ATL means a local technical agent (*agente tecnico local*), i.e. any of the local public agencies with a mandate in integrated rural development, including intermunicipal associations, which will provide support to ADL and to Communities and/or *Ejidos* under Component 3.2 of the Project.

[9] ADL means a local development agent (*agente de desarollo local*), which may be a local NGO or civil society organization, which will provide technical assistance to Communities and/or *Ejidos* under component 3.2 of the Project

Table 1: Financing Plan

Project Components	Project Cost	CONAFOR budget	IBRD	FIP loan	FIP grant	% financing
Component 1. Policy Design and Institutional Strengthening	91.66	50	30	0	11.66	45.5%
Component 2. Consolidation of Existing CONAFOR Programs	585	265	320	0	0	54.7%
Component 3. Innovation for REDD+ in Early Action Areas	48.34	18	0	16.34	14.00	62.8%
Total financing required	725	**333**	**350**	**16.34**	**25.66**	

35. The proposed IBRD-FIP project is closely coordinated with the following operations: (i) the forestry pillar of the proposed IBRD US$300 million Social Resilience to Climate Change DPL (P120170); (ii) the €300 million[10] budget support operation from the French Development Agency which uses the same forestry policy matrix as the Bank's Social Resilience to Climate Change DPL; (iii) the US$3.6 million Readiness Grant from the Forest Carbon Partnership Facility (P120417) and a potential future FCPF Carbon Fund Emissions Reduction Payment Agreement; (iv) the Sustainable Production Systems and Biodiversity Global Environmental Facility Project (P121116 currently under preparation, GEF US$11.7 million); (v) the proposed US$18 million Innovative Financing Instruments Project to be funded under the FIP and implemented by Financiera Rural with the Inter-American Development Bank; and (vi) the NOK90 million[11] grant from Norway for the MRV system to be implemented with UNDP and FAO.

C. Lessons Learned and Reflected in the Project Design

36. The proposed project builds upon two decades of Bank operations and policy dialogue on forests and climate change in Mexico, as illustrated in Figure 1. Most importantly, it capitalizes on the strategies, instruments and methodologies generated under the previous Bank-supported PROCYMAF, COINBIO and PES projects. These operations have succeeded in strengthening social and human capital and preparing the ground for further investments. The initial support and guidance offered to communities to conduct participatory rural evaluations and design community zoning plans and community bylaws proved to be necessary for the subsequent implementation of most of the ProÁrbol programs. Communities reaching this level of development would also be suitable candidates to implement REDD+ activities in the Early Action Areas under Component 3 of this new project. Specific lessons learned from the PROCYMAF, COINBIO and PES projects are presented in Annex 9 and relate to: (i) engaging with indigenous and other forest-dependent communities; (ii) building social capital and monitoring local decision-making processes; and (iii) the importance of high-level government buy-in, cross-sector coordination, and monitoring and evaluation.

[10] Equivalent to US$390 million as of December 16, 2011
[11] Equivalent to US$15.16 million as of December 16, 2011

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

38. The proposed project also takes into account the emerging body of knowledge and experience in REDD+ worldwide. This experience highlights: (i) the importance of early stakeholder engagement, participatory policy making and multi-sectoriality; (ii) the central nature of land and resource rights, and the combination of technical and political timings; (iii) the building of national systems based on subnational work; (iv) the learning and iterative process of design and adjustment; and (v) the limits of financial incentives when compared to opportunity costs, partnerships and specific methodological issues related to defining baselines and MRV systems. These lessons are further discussed in Annex 9.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

39. The detailed institutional arrangements are presented in Annex 3. CONAFOR has a robust implementation capacity and long-standing experience with Bank-financed operations. To the extent possible, the project will be implemented through existing CONAFOR structures, and it will strengthen existing channels and venues of civil society participation and cross-sector coordination. A Steering Committee and an Operational Committee will be created within CONAFOR. Higher-level government coordination will take place in the context of the existing Intersecretarial Commission for Sustainable Rural Development and the Intersecretarial Commission on Climate Change. At local level, day-to-day implementation and monitoring of Components 2 and 3 will be undertaken by the CONAFOR field offices in collaboration with state governments in line with their regular mandate. The participation of civil society will be sought through various mechanisms including the national CTC-REDD and the local CTCs in the Early Action Areas. The inter-institutional collaboration arrangements with SEMARNAT, SAGARPA, CDI, CONEVAL, INMUJERES, CONABIO and Intermunicipal Associations (as technical agents, ATLs) are described in Annex 3, Section A.

B. Results Monitoring and Evaluation

40. The detailed monitoring and evaluation strategy is presented in Annex 6. The modernization of CONAFOR's monitoring and evaluation systems and capacities is a key objective of the project. Component 1 would help develop a reliable, transparent monitoring system for the five incentive programs supported under Component 2. It would also help build a

reliable MRV system—an essential piece in the REDD+ scheme—for piloting in the Early Action Areas under Component 3. These activities would be supported by IBRD and FIP resources and would complement the Norwegian grant for MRV. The project will also help develop an impact evaluation strategy with relevant statistical methodologies as an attempt to assess the impacts of REDD+ activities in Early Action Areas under Component 3. The National Council for the Evaluation of Social Development Policy (*Consejo Nacional de Evaluación de la Política de Desarrollo Social*, CONEVAL) would assist in that effort. The baseline for Components 2 and 3 will be prepared by the time of effectiveness.

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

C. Sustainability

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

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

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Rating Summary

Stakeholder Risk	**Moderate**
Implementing Agency Risk	
- Capacity	**Moderate**
- Governance	**Moderate**
Project Risk	
- Design	**Moderate**
- Social and Environmental	**Substantial**
- Program and Donor	**Moderate**
- Delivery Monitoring and Sustainability	**Substantial**
Overall Implementation Risk	**Substantial**

B. Risk Description

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

45. **Scope of the project: Monitoring and Evaluation.** The proposed project is broad in geographical coverage, number of subprojects, and potential beneficiaries. Although most resources will go to existing CONAFOR programs and will scale up previous successful engagement with the Bank, the project will also help design new policy tools focused on REDD+ and will include a large number of pilot projects in Early Action Areas. Monitoring all activities and measuring impacts may prove a challenge. To address this risk, Component 1 would help modernize CONAFOR's monitoring and evaluation systems and capacities with a focus on measuring outcomes.

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

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

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

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

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

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

51. Component 3 will invest US$37 million to pilot the use of PES and other tools to reduce emission reductions. Currently, PES only generates average emission reductions of about 3 tCO_2/enrolled ha, or about US$12/ha at a price of US$4/tCO_2 (net of transaction costs). In areas where deforestation was actually reduced, however, actual emissions reductions were 170 tCO_2/ha. Thus, there is very considerable scope to increase emission reductions. For PES alone, an improvement in targeting, in which 1 in 40 enrolled hectares achieved average emissions reductions of 170 tCO_2/ha, would be sufficient to justify the FIP investment. This is a conservative estimate since it only counts REDD+ benefits and not the other benefits that improved targeting would also generate.

B. Technical

52. The proposed project would build upon the successful experience of the previous Community Forestry and Payments for Environmental Services Projects. It supports a second generation of interventions to assist forest-dependent communities in building social organization, take full ownership of forest management, and optimize local and global benefits from forests. Component 1 logically focuses on improving CONAFOR's capacity to monitor and evaluate the impacts of its growing programs, on promoting cross-sector coordination, and on improving the quality of technical assistance services available to communities. Component 2 moves toward the consolidation of a priority subset of CONAFOR's community-based programs, ensuring the continuity of these programs over time and allowing for iterative improvements and greater harmonization among them. The PES program underwent a continuous process of improvement, for example through the introduction of a point system to prioritize the applications with the highest potential value. This process of gradual improvement would continue with the support of Component 1.2, and its results would be integrated into Component 2 for implementation at scale.

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

completely new ones, the proposed project increases cost effectiveness (criterion c) and has a strong implementation potential (criterion d).

54. The proposed SIL/FIP operation is designed in a manner that allows for a two-way, iterative process of communication and learning between community investments, policy making, and REDD+ Early Actions, thus ensuring full alignment of the SIL/FIP with the content of the National REDD+ Strategy. In addition, once the approval process of the National REDD+ Strategy is concluded, a specific analysis will be conducted to ensure coherence and consistency of the direction of the SIL/FIP with the content of the National REDD+ Strategy. The complementarities between the proposed operation and other Bank instruments in support of Mexico's Forest and Climate Change agenda, namely the Social Resilience DPL (P120170) and the Forest Carbon Partnership Facility (P120417), are further discussed in Annex 2, Section F.

C. Financial Management

55. The Bank conducted a financial management (FM) assessment in accordance with OP/BP 10.02 *Financial Management* and the FM Practice Manual.[12] The overall conclusion of the assessment is that the FM arrangements as set out for this project are adequate.

56. The project is complex in terms of FM, and the overall FM risk is considered Substantial, mainly because Components 2 and 3 will involve several payments to multiple beneficiaries, which imply a considerable level of complexity in terms of operational control.

57. The project will be implemented by CONAFOR, which has adequate capacity to carry out the FM tasks due to its long-standing experience in executing projects financed with Bank resources. It also has a sound internal control environment supported by the following mitigating measures: (i) strong country public FM arrangements, which will be applicable to this project because it will be integrated into the national budget; (ii) manuals of policies and procedures, including a set of operational rules applicable to the payments related to Component 2 of the project; (iii) a well-integrated information technology platform to perform all the budgeting, accounting and payments functions related to the project; (iv) a suitable organizational structure, in which the General Administrative Coordination Unit *(Coordinación General de Administración*)[13] will perform most FM project activities, and will be reinforced through the creation of a Project Technical Unit (Project Unit), which will include an FM specialist who will undertake specific tasks stemming from project implementation. A more detailed explanation of the functions of these units is included in the FM staffing arrangements section of Annex 3 of this document.

58. In addition to the above mitigating controls, and to mitigate the FM risks of the project, (i) CONAFOR has prepared an operational manual that document the FM procedures agreed for the project; and (ii) specific TORs will be prepared for the external audit of the project, requesting the auditor's opinion on the adequate application of the key operational and financial controls of the program.

[12] The FM Manual was issued by the FM Sector Board on March 1, 2010.

[13] This department exists within CONAFOR's organizational structure and is in charge of all institutional FM activities.

59. At this stage, the FM action plan consists of: (i) hiring the FM specialist under the Project Unit; and (ii) preparing the TOR for the external audit as mentioned above.

D. Procurement

60. CONAFOR has demonstrated sound capacity in implementing World Bank procurement policies and procedures. Implementation of the Second Community Project was deemed fully satisfactory with regard to procurement policies. Procurement for this operation as well for the FCPF will be executed at the central level by same staff as that of the current Environmental Services Project (P087038). This procurement team has sound knowledge of the Bank's procurement policies and guidelines. In addition, CONAFOR has a suitable management team, with different departments charged with the responsibility of implementing specific components.

61. CONAFOR has proposed a structure for the implementation of this project, in which the activities will be enhanced through the inclusion of staff in each of the five CONAFOR units responsible for implementing the technical side of the project, and will lease with the Project Unit responsible for procurement and FM activities. This structure has not yet been created and the consultants have not yet been retained. CONAFOR has indicated that in the early stages of the project, procurement implementation could be carried out by CONAFOR staff familiar with Bank procurement. In addition, it is expected that CONAFOR will receive close first-line support from Nacional Financiera (NAFIN), the fiduciary agent.

62. Finally, the community programs (Component 2 and Subcomponent 3.3) will encompass a wide range of activities with diverse actors, sometimes in remote locations with poor communications, among a large number of small, simple subprojects that are geographically dispersed, and implemented by rural communities. These communities have no experience in implementing World Bank procedures. However, CONAFOR will develop instruments to ensure universal participation by the targeted beneficiaries, and arrangements for horizontal fiduciary.

63. Overall Risk Assessment. The procurement activities to be carried out by CONAFOR are not complex and have a limited number of contracts. However, in view of (a) the large number of activities to be carried out by communities in rural and distant places, and (b) the fact that the implementation structure has not been yet created, the overall procurement risk for this operation is therefore Substantial. Mitigation actions are described in Annex 3, Section C.

E. Social (including safeguards)

64. CONAFOR carried out a Social Assessment in order to provide a comprehensive view and knowledge of the demographic, ethnic and cultural characterisitics of the project beneficiaries as well as the overall context of the proposed project areas. Some of the key findings of the Social Assessment involve: (i) the role of women in forest management; (ii) identification of indigenous peoples in the context of the project; (iii) broad stakeholder participation; (iv) out-migration; and (v) potential social conflicts (see details in Annex 3, Section F). These findings will help enhance CONAFOR's programs and operations in terms of

providing support to indigenous peoples and other local communities in a socially and culturally appropriate manner.

65. Currently, CONAFOR incentive programs assign extra qualifying points for proposals submitted by women. In the project context, the consultation process will use a gender-inclusive approach, and the project will develop specific mechanisms to ensure the participation of women in project activities and directly benefit from them. Project indicators also include the following up and monitoring of women participation in the project (See Annex 1 and Annex 6).

66. A number of information dissemination efforts were carried out during project preparation at the national, regional and local levels with a wide range of stakeholder groups (indigenous and other local communities, regional organizations and state governments, among others). Specifically, six regional workshops were carried out in the States of Jalisco (Mascota, Ciudad Guzmán and Autlan), Campeche (Campeche), Quintana Roo (Chetumal) and Yucatán (Mérida) between August and September of 2011 in order to seek feedback and comments from these stakeholders on the national REDD+ process as well as on the FIP Investment Plan.. A comprehensive multi-level communication and information dissemination strategy is being developed. The plan will coordinate the information among the various mechanisms (FCPF, SIL and FIP) and create the basis for a process of consultation with a wide range of stakeholder groups, including indigenous peoples and other local communities as well as small private land owners (*pequeños propietarios*). In addition, CONAFOR presented the entire Forest and Climate Change Package at the meeting of the National CTC-REDD+ (composed of civil society, indigenous peoples and *campesino* organizations) on October 13, 2011 to seek stakeholders' feedback and inputs. Due to the large size of the country, institutional capacity and coordination to roll out, upscale and maintain the information dissemination flow will be strengthened.

67. During project implementation CONAFOR will continue carrying out, expanding and adjusting as needed the project's ongoing communication, dialogue, and consultation strategy, with a specific calendar. To ensure synergies and effective interventions, the communication, dialogue, and consultation strategy will be applicable across the three mechanisms (SIL, FIP and FCPF) to guide information dissemination and consultations with stakeholders, as needed. The communication, dialogue, and consultation strategy will include specific activities, timeline, budget, and staffing. In addition, CONAFOR will prepare a Practical Guide for documenting consultation processes and activities as well as dissemination protocols that are socially and culturally adequate. This will ensure consistency in terms of approach, engagement and information dissemination.

68. With regard to social safeguards, the Indigenous Peoples Policy (OP4.10) and the Involuntary Resettlement Policy (OP4.12) have been triggered to tailor project benefits and/or address potential impacts on indigenous peoples and to manage potential restriction of access to natural resources, respectively. In compliance with the Indigenous Peoples policy (OP4.10), a comprehensive Social Assessment and a Indigenous Peoples Planning Framework (IPPF) were prepared, and disclosed in-country on October 27 and October 31, 2011, respectively. No physical resettlement or land acquisition is expected under the project. The project will not finance any community roads. However, in compliance with the Involuntary Resettlement policy (OP4.12, a Process Framework (PF) was prepared to guide possible restriction of access to natural resources. The draft PF was disclosed in-country on October 31, 2011. The draft IPPF

and PF were subsequently revised to reflect comments by the Bank and comments made by participants of a focus group meeting held on November 10, 2011. The final versions of the PF and IPPF, satisfactory to the Bank, were disclosed on the CONAFOR's website and at the World Bank's website on November 17, and November 29, 2011, respectively.

69. CONAFOR has extensive experience in working with indigenous peoples and other local communities. CONAFOR's Social Technical Team located in the Office of Coordination and Consensus *(Gerencia de Coordinación y Concertación)* will lead the implementation of social aspects and social safeguards across all programs. The Social Technical Team will be integrated in the project's Operations Committee and will be provided commensurate resources through the annual budgeting. This unit has an ongoing engagement with indigenous peoples, women and youth in the context of the CONAFOR programs while cooperating with other federal agencies such as the National Commission for the Development of Indigenous Peoples (*Comisión Nacional para el Desarrollo de los Pueblos Indígenas*, CDI) and other state governments. See Annex 3, Section E for further discussion on social issues.

F. Environment (including safeguards)

70. No long-term or large-scale negative environmental impacts are anticipated. Therefore, the project is classified as Environmental Safeguards Category B. The project will help reduce forest degradation and deforestation through the incorporation of new forest areas under sustainable forest management, the expansion of the number of certified forest communities; and the increase in the area under payments for environmental services.

71. Two decades of Bank operations in the forestry sector in Mexico have contributed to good environmental practices in the proposed areas of intervention. Project activities include community-based land-use planning and forest management including the harvesting, processing and marketing of timber and non-timber products, as well as the protection of and payments for environmental services. The project does not include commercial plantations, agricultural and livestock expansion, or road building or maintenance.

72. Environmental Assessment (OP/BP 4.01). The Environmental Assessment (EA) Report and the Environmental Management Framework (EMF) were submitted to the Bank and disclosed on the Web. The safeguards triggered are: Environmental Assessment (OP/BP4.01), Natural Habitats (OP/BP4.04), Forests (OP/BP4.36), Pest Management (OP4.09) and Physical Cultural Resources (OP/BP4.11). Based on the EA, the EMF focuses on mainstreaming good environmental practices in Component 2 and enabling the institutional arrangements within CONAFOR for screening and scoping of community investments. The subcategories that will be financed under Component 3 will be any of the ones currently financed by the five community-based programs supported by the SIL under Component 2. The Operational Manual details the procedure/criteria to define the incorporation in the abovementioned subcategory list/catalog, of any new activity identified during implementation, as long as it is not included in the negative list of the Environmental Framework and allowing for the environmental screening/scoping described for new activities in said Framework.

73. Natural Habitats (OP 4.04) is triggered to guide the implementation arrangements proposed in the EMF in order to anticipate the possible impacts of activities supported by the

project on Natural Protected Areas or any other relevant natural habitats identified in the Terrestrial Priority Regions and Gap Analysis reports of the National Commission for Biodiversity (*Comisión Nacional para el Conocimiento y Uso de la Biodiversidad*, CONABIO). Natural habitat protection measures are included in the EMF to incorporate criteria in the call for and evaluation of proposals (no activities that would imply conversion of natural habitats, especially forests, will be supported by the project) and through the implementation of a coordination mechanism with the Natural Protected Areas Commission to ensure that any activity developed in the buffer zone of a protected area is consistent with the respective Area Management Plan, and is monitored by the Protected Area administration, the Federal Attorney for the Environment (PROFEPA), SEMARNAT and CONAFOR.

74. Forests (OP/BP 4.36). The project is consistent with the Bank Forest Policy OP4.36. It will only support community-based forest management, and all activities will need to comply with the national legislation and good practices on sustainable forest management plan. Some of the community forestry operations in Mexico are already certified under the FSC or equivalent standards, and the project will assist more communities to reach certification standards. According to the EMF, community forestry operations will be eligible for project support only once the community forest management plan has been approved by SEMARNAT, which requires baseline information and good management practices. SEMARNAT does not issue approval for forest operations in Natural Protected Areas core areas and requires CONANP and/or CONABIO's assessment prior to authorizing activities in the buffer zone of Natural Protected Areas or critical habitats. Additionally, the project will promote the adoption of best forest management practices through the technical manuals developed under the previous Community Forestry projects, and the creation of incentives and support to further advance third-party certification and markets for certified products. The Bank-supported projects in Mexico have contributed to the development of these regulations and capacity in the Government, civil society, landowners and technical service providers since the creation of the Forest Stewardship Council and the launching of the Community Forestry Project in the mid-1990s.

75. Pest Management (OP 4.09). A Pest Management Plan that includes Pest Management Practices, Legal and Institutional Framework, Procurement of Pesticides, Improving Capacity and Practices, Monitoring and Evaluation in the EMF, which present detailed guidelines to screen the proposed products and practices to be supported by the project for forestry treatments, insect and disease pest management for timber production, agroforestry and other activities, including processes within the processing facilities that may use chemical products—including fungicides—for the treatment of timber. Procurement of pesticides or other agricultural chemicals under the project will follow Bank guidelines. If these are included, the use of pesticides will be guided by an Integrated Pest Management Plan and health and safety provisions, as required under the policy. In addition, the EMF includes the legal framework and provisions to ensure good practices in health and safety issues in the sector.

76. Physical Cultural Resources (OP/BP 4.11). No large infrastructure works will be financed by the project, but some remodeling or new facilities for the forest communities may require relatively small works and there is a possibility of chance finds at any construction site. The EMF, based on the respective law *(Ley de Monumentos y Sitios Arqueológicos)* will guide the project team to follow the appropriate conduct in reporting and following up on any such case.

CONAFOR should contact the state delegation of the National Institute of Anthropology and History (*Instituto Nacional de Antropología e Historia,* INAH), which has designated personnel to explore and determine possible monuments or archeological sites discovered during civil works in the field. See Annex 3 sectionD for further discussion on environmental issues.

G. Readiness for Implementation

77. The Mexico FIP Investment Plan and the activities proposed for FIP financing under Components 1 and 3 of the project were approved by the FIP Subcommittee of the Climate Investment Fund on October 31 and November 4, 2011, respectively. The financial management and procurement arrangements were reviewed and finalized during appraisal. The social and environmental safeguards instruments (Environmental Management Framework, Process Framework, and Indigenous Peoples Planning Framework) were reviewed and discussed during appraisal, and updated accordingly. The final versions of the EMF, PF and IPPF, satisfactory to the Bank, were disclosed in-country and at the Infoshop, on November 16, November 17, and November 29, 2011, respectively. The procurement plan for the first 18 months of the project and the Operational Manual were reviewed and cleared by the Bank on November 29, and December 20, 2011, respectively. The baseline and the annual work plan for the first year of the project will be finalized by the time of effectiveness. The collaboration agreements with SEMARNAT and with SAGARPA for Component 1.3 of the Project were approved on November 7, 2011, and November 9, 2011, respectively. It was agreed that: (i) the agreements with the applicable parties to the CONABIO Trust and with each ATL for Component 3.2 of the Project will be approved before implementing Component 3.2; and (ii) additional staff for safeguards and fiduciary functions as discussed in relevant sections of Annex 3 will be hired before implementing Components 2 and 3.3 of the Project.

Annex 1: Results Framework (see Annex 6 for description of Indicators and Monitoring)

Project Development Objective (PDO): *to support rural communities in Mexico to sustainably manage their forests, build social organization, and generate additional income from forest products and services including the Reduction of Emissions from Deforestation and Degradation (REDD+).*											
PDO Level Results Indicators*	**Core**	**Unit of Measure**	**Baseline**	**Cumulative Target Values****					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**
				YR 1	**YR 2**	**YR3**	**YR 4**	**YR5**			
Indicator One: Increase in forest area under improved management and reduced carbon emissions practices	☐	Percentage (increase)	16.353 million hectares (0%)	2%	4%	6%	8%	10%	Annual	CONAFOR, independent survey	CONAFOR
Indicator Two: Increase in number of communities building social organization and generating income from sustainable production of forest goods and services, including REDD+	☐	Percentage (increase)	4,000 communities (0%)	4%	8%	12%	16%	20%	Annual	CONAFOR, independent survey	CONAFOR
Indicator Three: Reduction of net deforestation and forest degradation in selected landscapes within REDD+ Early Action Areas compared to baseline (number of hectares, or equivalent net CO_2 emissions)	☐	Equivalent net CO_2 emissions (percentage)	Baseline for two REDD+ Early Action Areas	N/A	N/A	0%	5%	10%	Annual	CONAFOR with MRV Project	CONAFOR
INTERMEDIATE RESULTS											
Intermediate Result (Component One): CONAFOR has developed adequate systems and capacity to manage its growing portfolio and has established efficient cross-sector coordination mechanisms**.**											
Indicator 1: Improved monitoring and evaluation system for CONAFOR-supported programs (including MRV) is operational	☐	Yes/No	No	No	No	Yes	Yes	Yes	Annual	External audit of CONAFOR M&E system	CONAFOR
Indicator 2: Number of CONAFOR field offices rehabilitated, equipped, staffed and trained	☐	Number	0	0	10	20	30	32	Annual	CONAFOR reports	CONAFOR
Indicator 3: Percentage of community forest management permits and special permits approved within the legal span	☐	Percentage	91%	91%	95%	100%	100%	100%	Annual	*Sistema de Gestión Forestal*	*DG Gestión Forestal*
Indicator 4: An integrated database of CONAFOR/SAGARPA/DGF is operational	☐	Yes/No	No	No	No	Yes	Yes	Yes	Annual	CONAFOR, SAGARPA, DGF reports	CONAFOR, SAGARPA, DGF
Indicator 5: Number of certified private technical service providers	☐	Number	0	0	200	400	600	800	Annual	Reports from accreditation	CONAFOR
Indicator 6: Knowledge assets on REDD+ created and shared		Number	0	0	2	4	6	10			

Intermediate Result (Component Two): The five CONAFOR demand-driven programs on community forestry and payments for environmental services help improve the social and economic situation of participating communities and maintain forest cover/reduce forest vulnerability.											
Indicator 1:[14] Increase in Social Organization Index in communities that participate in demand-driven programs on community forestry and payments for environmental services	☐	Percentage of Index	Results from initial survey	N/A	N/A	0.10	N/A	0.20	Biannual		CONAFOR, independent survey
Indicator 2:[12] Increase in Economic Development Index in communities that participate in demand-driven programs on community forestry and payments for environmental services	☐	Percentage of Index	Results from initial survey	N/A	N/A	0.10	N/A	0.20	Biannual		CONAFOR, independent survey
Indicator 3: Reduction of loss of forest cover (net deforestation rate) nationwide, compared to initial value	☐	Percentages (hectares)	First measuremt in 2012	0%	2%	4%	6%	8%	Annual		
Intermediate Result (Component Three): Innovation efforts in two REDD+ Early Action Areas lead to reduced net deforestation and forest degradation, and to identification of replicable low-emissions landscape management models.											
Indicator 1: Percentage of participating communities receiving support from innovative Landscape Management Agents (ATLs/ADLs) in REDD+ Early Action Areas	☐	Percentage of participating communities	0	0	33	67	100	100	Annual		CONAFOR
Indicator 2: Number of operational agreements among CONAFOR, SAGARPA, and States in support of REDD+	☐	Number of agreements	0	0	2	4	4	4	Annual		CONAFOR, SAGARPA, States
Indicator 3: Number of new community-based, economically viable, REDD+ focussed initiatives with demonstrated potential for replication at scale	☐	Number of new initiatives	0	0	2	4	10	18	Annual		CONAFOR
Indicator 4: Increase in the proportion of CONAFOR and SAGARPA investments mobilized through the new REDD+ integrated landscape mechanisms in REDD+ Early Action Areas	☐	Percentage of initial value	9%	10%	20%	30%	40%	50%	Annual		CONAFOR

[14] Indicators 1 and 2 for Component 2 are gender differentiated. Component 2 represents 81 percent of project resources with an estimated 4,000 beneficiary communities over the life of the project. See paragraphs 2, 12, 13, and 19-21 in Annex 6.

Annex 2: Detailed Project Description

A. Statement of Project Development Objective (PDO)

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

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

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

4. **Project Beneficiaries.** The key beneficiaries of the five-year project would be an estimated 4,000 *ejidos* and communities[15] that would participate in demand-driven incentive and advisory programs supported by the project at the national level and in REDD+ Early Action Areas.

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

6. CONAFOR carried out a Social Assessment in order to provide a comprehensive view and knowledge of the sociocultural context of the proposed project areas. Key findings include: (i) the identification of indigenous peoples; (ii) the role of women in forest management; (iii) broad beneficiary and stakeholder participation.

[15] As CONAFOR programs operate at the level of communities and *ejidos*, existing databases do not make it possible to accurately estimate the number of beneficiaries at the level of individuals or families. Based on available data, it is estimated that the 4,000 beneficiary communities and *ejidos* would include an estimated 368,000 *ejidatarios* and *comuneros* and their families (an average of 92 per community or *ejido*). *Ejidatarios* and *comunero*s hold the legal ownership rights on forests, and are considered direct beneficiaries of CONAFOR programs. CONAFOR programs also benefit other stakeholder groups such as *posesionarios* and *avecindados* and their families who would be considered indirect beneficiaries of the project.

B. Project Components

7. **Component 1. Policy Design and Institutional Strengthening.** (IBRD US$30m, and FIP US$11.66m grant, Government US$50m) This component would aim to strengthen CONAFOR as a leading forest agency worldwide, foster cross-sector collaboration among public agencies, and improve the quality of private technical assistance available to communities.

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

9. ***Subcomponent 1.1. Monitoring and Evaluation***. (IBRD US$5m, and FIP US$2m grant, and Government US$10m) This component will provide technical assistance and financing of operating costs to support the three sets of activities indicated in paragraphs 9-11 below:

10. First, this Subcomponent will help strengthen CONAFOR's monitoring and evaluation (M&E) systems by revamping databases, strengthening CONAFOR's remote sensing and geographic information capacities, and strengthening CONAFOR's technical capacity to better measure the outcomes of CONAFOR's investments in the field. The system would be transparent, foster accountability, and be subject to independent external reviews. This subcomponent would help develop and implement new monitoring tools such as the Forestry Register *(Cartilla Forestal)* and the Monitoring Scorecard. The M&E system would meet a series of characteristics:

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

11. Second, this Subcomponent will help design and pilot a comprehensive REDD+ monitoring, reporting and verification system by: (A) developing tools to monitor the environmental, social and economic impacts of REDD+ Early Action Areas Subprojects , and to design and pilot a comprehensive REDD+ MRV system; (B) analyzing community-based monitoring techniques, and (C) designing an impact evaluation strategy, all for the activities to be carried out under Component 3.3 of the Project, with the assistance of CONEVAL.[16]

12. Third, this Subcomponent will help monitor results and carry out strategic evaluations of the Forest Investment Plan with the FIP logic model presented in Annex 10. Mexico has significant experience with impact assessments that could be useful for the FIP's replication and scalability. Information systems exist both in monitoring mechanisms and in the assessment of policies. These include monitoring work at the national level through the National Forest Inventory, management and monitoring mechanisms for programs, as well as periodic assessment by CONEVAL.

13. This Subcomponent would complement the current engagement between CONAFOR and the Government of Norway. Some of the complementarities with the Norwegian project are: (i) the Norwegian Project includes the design and implementation of a transparent, complete, comparable and accurate MRV System to estimate greenhouse gas (GHG) emissions by sources and removals of forest sinks, forests carbon stocks and changes in forest area changes. This project would support the design and implementation of MRV systems at subnational level in the Early Action Areas, and would include the exploration of innovative community monitoring systems. While the MRV project would focus on designing methodologies for establishing a baseline and verification system starting with the Early Action Areas, it is envisaged that the SIL–FIP project would support training and other capacity-building activities to enable local communities and other local stakeholders to activitely participate in the MRV efforts; and (iii) the Norwegian Project includes the design of regional cooperation and South–South capacity building on MRV systems and REDD+ implementation. This project would also support South–South knowledge sharing in other complementary areas. It would support monitoring and evaluation of the results at national level and in the Early Action Areas; these data would be useful to create solid study cases and knowledge sharing.

14. ***Subcomponent 1.2. Policy Design, Participatory Processes, and Knowledge Sharing***. (IBRD US$12.5m and FIP US$5m grant, and Government US$15m.) This Subcomponent will provide technical assistance and financing of operating costs to carry out analytical work and workshops to improve public policies and public programs on forest management and forest conservation issues to support the four sets of activities indicated in paragraphs 79-82 below:

15. First, carrying out studies and workshops to draw lessons from five ongoing programs: Forestry Development (PRODEFOR), Community Forestry (*PROCYMAF*), Payment of Environmental Services (PSAB), development of forest value chains (*Cadena Productiva Forestal*), and Special Programs (*Programas Especiales*), and propose

[16] *Consejo Nacional de Evaluación de la Política de Desarrollo.*

adjustments to their operating rules for subsequent implementation under Component 2. I would propose adjustments to CONAFOR Rules to achieve, inter alia, greater integration and synergies amongst said environmental services and community forestry programs.

16. Second, carrying out studies and workshops to design innovative REDD+ institutional arrangements to pilot in REDD+ Early Action Areas under Component 3 of the Project.

- *PSAB.* The subcomponent would support: (a) continued efforts to revise program rules so as to improve their efficiency, with an emphasis on improvements to prioritization criteria (*criterios de prelación*), eligible areas, and differentiation of payments and management requirements to better conform to regional conditions; (b) targeted efforts to evaluate the impact of the PES program on recipient behavior and on the generation of environmental services; (c) ongoing and expanded efforts to support the development of local payment mechanisms, using the matching funds *(Fondos Concurrentes)* program and other tools; and (d) development of new modalities to address the problem of forest degradation and to better coordinate with other forestry programs (see below).
- *Silvicultura Comunitaria.* The subcomponent would support: (a) efforts to continue the design and improvement of participatory instruments to assist communities in strengthening governance, social organization, and participatory land-use planning for sustainable forest management; and (b) the mainstreaming of these instruments with other CONAFOR programs to strengthen technical and managerial capacities and prepare communities to be eligible and maximize benefits from these programs.
- *PRODEFOR and Cadena Productiva Forestal.* The subcomponent would support efforts to continue to focus assistance on Community Forestry Enterprises (CFE) to improve forestry production and productivity, competitiveness and access to emerging markets.
- *Programas Especiales*. The subcomponent would support studies to define new areas in which Special Programs would be established and the activities to be supported there.
- *Integrating the forestry programs.* The subcomponent would also support efforts to better integrate the different forestry programs. This would include: (a) moving to a single application process rather than separate applications for each program; (b) unifying technical assistance processes across programs; (c) developing and implementing a land-use planning framework under which the programs would operate; and (d) consideration of mixed programs such as a PES modality for sustainable forest management.[17]

17. Third, carrying out studies related to policies and programs related to forestry, agriculture, livestock, and other economic activities in rural landscapes to achieve, *inter alia*, greater integration and synergies amongst said policies and programs in rural landscapes. Third, carrying out studies and workshops to design innovative REDD+ institutional arrangements to pilot in REDD+ Early Action Areas under Component 3 of the Project t. For example, it would support analytical studies to (i) integrate SAGARPA and CONAFOR programs, and adjust existing Operating Rules *(Reglas de Operación)* and

[17] The *Programas Especiales* provide a model for the integration of the national programs, as they already use a mixture of instruments in a coordinated manner, with a single application.

create new Special Guidelines *(Lineamentos Especiales)*; and (ii) support integration with SEMARNAT, including the improvement of arrangements related to forest management. It would also support rigorous impact evaluation efforts of the Early Action pilots to ensure that their effectiveness is properly assessed and allow an effective scaled-up REDD strategy to be developed.

18. Fourth, this Subcomponent would help carrying out workshops, communication, outreach and learning activities to facilitate the successful implementation of the Project, including on social and environmental safeguards issues. Among others, such activities would include: disseminating information and carrying out consultations with indigenous peoples and other forest communities on REDD+, sustainable forest management, and related issues; carrying out workshops for indigenous peoples, local communities and other stakeholders involved in the management of forest landscapes in REDD+ Early Action Areas under Component 3 of the Project; including a collaborative program with CDI[18] to disseminate information and receive feedback from indigenous communities. ; efforts to help poorer and marginal communities participate in CONAFOR's forestry programs; carrying out local and international learning activities, including South-South learning initiatives, and disseminating and exchanging lessons and experiences on REDD+ and on the implementation of the Forest Investment Plan.

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

20. ***Subcomponent 1.3. Strengthening of CONAFOR and Cross-Sector Coordination***. (IBRD US$12.5m and FIP US$1.66m grant, and Government US$15m) This Subcomponent will provide goods and technical assistance (including training) and financing of Operating Costs to support the three sets of activities indicated in paragraphs 86-88 below.

21. First, modernize CONAFOR's administration and advisory capacity, and promote the sharing of good practices and technologies. This subcomponent would support the provision of training and acquisition of equipment for CONAFOR's staff and offices at central and state level (32 state offices totaling 3,592 agents) to modernize CONAFOR's administrative and advisory capacities and promote the sharing of good practices and new technologies. Training for state offices would focus on sustainable rural development, REDD+ and climate change, issues related to gender, indigenous peoples, and other vulnerable groups, and cross-sector approaches including landscape management, while equipment acquisition would primarily cover vehicles and computer equipment in order to improve their ability to conduct their monitoring function.

[18] *Comisión Nacional para el Desarrollo de los Pueblos Indígenas.*

22. Second, support the overall management of the Project, including the carrying out of coordination, reporting, fiduciary and safeguards related activities.

23. Third, foster cross-sector coordination between CONAFOR and other agencies of the Borrower involved in rural development at the federal level (such as, inter alia, SEMARNAT and SAGARPA) by creating joint databases with SAGARPA and SEMARNAT, and streamlining the administrative framework for community-based forest management. Specifically, it would support the implementation of two policy measures included in recent Climate Change DPLs: (i) the creation of joint databases and monitoring systems with SAGARPA and SEMARNAT, and (ii) the streamlining of the administrative framework for community-based forest management. It would also promote policy and program harmonization at local level in REDD+ Early Action Areas (see relationship with Subcomponents 1.2 and 3.1).

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

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

26. ***Subcomponent 1.4. Improvement of Private Advisory Services to Communities*** (FIP US$3m grant, and Government US$10m) This component will provide technical assistance (including training) and financing of Operating Costs to support the two sets of activities indicated in paragraphs 91-92 below.

27. First, this Subcomponent will support the training of a roster (*pardón*) of qualified professionals (an estimated 1,174 private technical service providers nationwide) to be hired by Communities and/or *Ejidos* (following the procedures set forth in Section III of the Schedule to the Project Agreement) to advise said Communities and/or *Ejidos* in the preparation and implementation of the activities under Components 2 and 3.3 of the Project. The training modules would cover technical, business, marketing and social issues such as gender and indigenous peoples' participation, among others. The delivery of the training would be outsourced to a qualified and experienced private firm.

28. Second, this Subcomponent will help to design and implement a service provider quality accreditation and certification scheme for the qualified professionals referred in Subcomponents 1.4 of the Project. The operation of the accreditation scheme would involve collaboration with CENEVAL, the National Center of Evaluation. The training and accreditation system would be prioritized in the Early Action Areas in line with building capacity for community-based forest management as outlined in Project 1 of the Mexico FIP investment plan.

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

30. The quality accreditation and certification scheme will build upon experience gained in the previous PROCYMAF project and will mainstream and scale up the measures developed under PROCYMAF into the other CONAFOR programs nationwide, consistent with the replication objective of the FIP.[19]

31. **Component 2. Consolidation of Priority Community-Based Programs at National Level.** (IBRD US$320m, and Government US$265m) This Subcomponent will provide support to Communities and/or *Ejidos* to help them combine sustainable forest management with socio-economic development, enhance the contribution of forests to climate change mitigation and adaptation, and generate additional income opportunities for Communities and/or *Ejidos*, making sustainable management more economically attractive.

32. This component would continue and scale up previous successful Bank engagement in community forestry and payments for environmental services with Mexico. It would support demand-driven, community-based subprojects related to social organization, capacity-building and land-use planning, as well as the protection, sustainable management, harvesting, processing and marketing of forest goods and services. Support to selected communities would be provided in the form of grants following existing CONAFOR procedures (*Reglas de Operación* and *Lineamienos Especiales*), which are reviewed and updated annually. This component would support five programs (or windows) that CONAFOR has identified as a priority package for the achievement of its overall mandate: (i) payment for environmental services (PES), (ii) community forestry (*Silvicultura Comunitaria*), (iii) forestry development (PRODEFOR), (iv) development of productive

[19] The *Silvicultura Comunitaria* program uses "social forums" as a social control measure, in which communities can share best practices with each other and compare the quality of their private service providers. The previous PROCYMAF project used evaluation surveys in which the beneficiaries assessed the performance of their service providers.

forestry chains (*Cadena Productiva Forestal*), and (iv) Special Programs (*Programas Especiales*).

33. Taken together, in 2011 these five programs represent an annual disbursement of about US$117 million, which is 24 percent of CONAFOR's total annual budget for all its programs (US$486 million in 2011). With an average of US$64 million annually, the IBRD contribution would represent about 54.7 percent of the annual cost of the five key programs to be supported by the project. It is estimated that, taken together over five years, these five programs would support about 4,000 communites.

34. The minimum and maximum amount of a community subproject ("*apoyo*" or transaction) under each program is indicated in Table 1 below. Subprojects often include a combination of technical assistance, equipment, operating costs, and community labor, depending on the program. It is estimated that most subprojects supported under Component 2 will be below US$40,000. It should be noted that as part of Component 3 (Innovation for REDD+ in Early Action Areas), CONAFOR intends to promote and pilot a landscape management approach in which subprojects are prepared, submitted and implemented by legally established associations of communities, instead of individual communities. This may lead to subprojects larger than the average amounts reported for the five regular programs supported under Component 2. In any case, the maximum amount of Bank financing for a subproject will be US$200,000. Subprojects are subject to a matching requirement as provided for in CONAFOR's Operating Rules (see paragraph 29 below).

35. The tentative allocation of IBRD resources per year and per program would be as follows:[20]

- PES: US$27 million (37.5 percent of CONAFOR's annual budget for new contracts signed under this program)[21]
- *Silvicultura Comunitaria*: US$9 million (100 percent of CONAFOR's annual budget for this program)
- PRODEFOR: US$12 million (64.4 percent of CONAFOR's annual budget for this program)
- *Cadena Productiva*: US$1 million (28 percent of CONAFOR's annual budget for this program)
- Special Programs: US$15 million (81 percent of CONAFOR's annual budget for this program).

[20] The projections are based on CONAFOR's approved budget for 2011.

[21] Under the multiannual PES and Special Programs, Bank resources will finance only new contracts signed after the start of the project, and these contracts will be financed only up to 2016. In order to keep the disbursement amounts reasonably stable between years, it was agreed that the proportion of payments made against Bank resources would decline over the course of the project.

Table 1: Minimum and maximum amount of community subprojects supported by the five Programs of Component 2 (based on 2011 data)

Program	Minimum amount (US$)	Maximum amount (US$)
PSA*	6,900	1,080,000
Silvicultura Comunitaria	1,300	21,600
PRODEFOR	200	59,300
Cadena Productiva	400	99,500
Special Programs*	0	127,000

*The amounts for PSA and Special Programs are for subprojects with a duration of five years.

36. The selection process and the eligibility criteria will follow CONAFOR's standard Operating Rules and Special Guidelines, as applicable, summarized in Sections D and E of this Annex. These procedures are updated annually and are based on demands from forest communities. The Operating Rules and Special Guidelines require a contribution from the community, in cash or in kind, ranging from 5 to 50 percent depending on the specific program or concept and on the amount of the proposal. Although the CONAFOR programs are also accessible to small private landowners, World Bank resources would only support community initiatives. Communities may apply to one or several CONAFOR programs at the same time. Support to communities with unclear or disputed land tenure will be limited to capacity building and technical assistance. In order to promote women's participation, the selection criteria and scoring system for some of the programs offer a scoring advantage to proposals prepared by and/or with the participation of women.

37. ***Silvicultura Comunitaria*, PRODEFOR, and *Cadena Productiva Forestal***. Taken together, these three programs support a comprehensive palette of activities in support of community-based forest management, including capacity building, participatory assessments, planning, and in the most advanced cases harvesting, processing and marketing of forest products, and certification. In doing so, they help communities advance through a sequence of development phases toward sustainable self-management of their forests.

38. *Silvicultura Comunitaria*. The community forestry program (based on the Bank-supported PROCYMAF) carries out activities to promote, strengthen, and consolidate community institutions and local development processes for the collective and sustainable management of forest resources including, *inter alia:* (a) the carrying out of participatory rural appraisals, (b) the elaboration of land-use zoning plans (*ordenamientos territoriales comunitarios*), (c) the development and strengthening of community statutes to regulate the use of collective forest resources, (d) the carrying out of community-to-community seminars and other knowledge sharing activities among Communities and/or *Ejidos* at different levels of organization: (e) the provision of support (in a manner acceptable to the Bank) to participatory community surveillance committees to ensure compliance with management plans, community statutes, and social and environmental safeguards, and (f) the carrying out of workshops and training courses for Community and/or *Ejido* members and staff of Community Forestry Enterprises (CFEs) on technical aspects of forest

management, silviculture, environmental sustainability, business administration, and transformation and marketing of forest products and services.

39. *PRODEFOR.* The Forestry Development Program aims to support forest communities in strengthening their capacities to sustainably manage productive forests. It carries out activities to support forest Communities and/or *Ejidos* strengthen their capacities to manage productive forests sustainably including, *inter alia*: (a) studies to prepare environmental impact assessments and forest management plans based on official regulations needed to obtain the Borrower's permits for extraction of timber and non-timber forest products; (b) silvicultural activities aimed at ensuring forest regeneration and improvement of forest productivity and carbon sequestration; (c) activities to improve and modernize forestry technologies used by CFEs to increase their efficiency, competitiveness and add value to their timber and non-timber products; (d) technical assistance activities to assess compliance with environmental and social safeguards, and to conduct evaluations to certify the environmental and social sustainability of forestry interventions based on national and international standards.

40. *Cadena Productiva Forestal.* This program aims to promote and strengthen forest value chains established by CFEs to add value to their timber and non-timber forest products, expand access to markets, and improve competitiveness. The program carries out activities to promote and strengthen forest value chains established by community forest enterprises to add value to their timber and non timber forest products, expand access to markets, and improve competitiveness including, *inter alia*: (a) legal registration of community forest enterprises and inter-community value chains; (b) studies to prepare strategic business plans, process engineering, and investment feasibility assessments; (c) purchasing of processing equipment to integrate community forest enterprises into value chains; (d) purchasing of office equipment for community forestry enterprises; and (e) activities to improve marketing of timber and non timber forest products and services, and to strengthen the growth of CFEs.

41. ***Payment for Environmental Services (PSAB)***. The PSAB program provides financial transfers t to interested Communities and/or *Ejidos* in exchange for the provision of environmental services which benefit people other than the land users in the PSAB Areas, which services include, *inter alia*: (a) services generated by forest ecosystems in the provision of water and the prevention of disasters; (b) services generated by forest ecosystems in the conservation of biodiversity; and (c) services generated by forest ecosystems in the capture of carbon.. The services sought are primarily protection of hydrological services, and to a lesser extent conservation of biodiversity. PSAB operates in priority areas selected for their environmental, hydrological and biodiversity value. These are located throughout the country; the 2.2 million hectares currently enrolled in the PSAB program are distributed across 32 states. The average size of contracts with forest communities in 2010 was about 1,000 hectares. Participants receive a flat-rate payment per hectare of enrolled forest, depending on the type of forest ecosystem and the risk of deforestation, ranging from about US$20 per hectare per year (for most dry forests) to about US$80 per hectare per year (for cloud forests at high risk of deforestation). The eligible areas, the supported activities, and the payments offered are detailed in the Operating Rules published annually, and applications are accepted through an annual call.

Applications are ranked according to their score in the prioritization criteria (*criterios de prelación*, including deforestation risk, location in hydrologically or biologically important areas, poverty of applicants) and are accepted according to their score until the available budget is exhausted. After the first year, payments are conditional on having maintained the enrolled forest area to the prescribed standard, which is verified primarily through the use of remote sensing, complemented by ground verification in some cases.[22] In addition to not deforesting, participants must implement a set of good practices (specified either in a management plan they develop—for which they can receive financial support from CONAFOR—or in detailed guidelines developed by CONAFOR for some regions); these generally focus on activities aimed at preventing forest fires, as well as activities such as fencing to prevent entry of livestock. Contracts are for five years and are renewable. At present, renewal is conditioned only on receiving sufficient points under the *criterios de prelación* in force in the renewal year, but in the future they would also be conditioned on having a land-use plan.

42. In addition to the main national program, PSAB also works in cooperation with local service users. Under the matching funds arrangement (*Fondos Concurrentes)*, CONAFOR pays up to 50 percent of the costs of conservation in areas that are important for local service delivery. These agreements currently increase the net area under conservation by the PSAB by about 50,000 hectares , but are expected to increase substantially. The contracts are generally similar to those of the national PSAB program but may differ in terms of length of contract, specific activities covered, and prioritization criteria, to be better adapted to local conditions.

43. ***Programas Especiales*.** These programs provide technical assistance and payments to Communities and/or *Ejidos* for two groups of areas[23]:

44. (a) the carrying out of activities to restore ecosystems in degraded areas including, *inter alia*, reforestation, soil conservation, agroforestry, and forest fire prevention activities along the central volcanic arc (Cutzamala, Patzcuaro-Zirahuén, Cofre de Perote, Lerma-Chapala, Nevado de Toluca, Pico de Orizaba, Izta Popo, Chichinautzin). Participating communities receive payments to plant trees, for example (partly in advance to help finance the activity, and partly upon completion and verification), as well as a payment to compensate for the opportunity costs of the foregone activity.

45. (b) the carrying out of activities to restore and conserve ecosystems in coastal watersheds and other areas with high deforestation rates (which only include the coastal watersheds in Jalisco at present). Activities under these programs include, *inter alia*, forest conservation, sustainable forest management, reforestation, agroforestry, and forest fire prevention activities. Participating communities receive direct payments to undertake supported activities, and payments to compensate them for opportunity costs.

[22] Any deliberate actions by PES recipients that reduce forest cover would result in their contracts being terminated. Any loss of forest cover due to circumstances beyond their control (such as hurricanes or forest fires), if reported promptly to CONAFOR, would result in payments being reduced in proportion to the loss of cover, but payments on the remaining forest area would continue.

[23] Additional regions may be considered in the future.

46. Each *Programa Especial* has its own rules (set out in Guidelines prepared annually), according to the requirements of the area, and is administered separately from the other CONAFOR programs but incorporates aspects of many of them and coordinates with the programs of other agencies, such as SAGARPA. The component would disburse against payments made to participating communities under nine of the current *Programas Especiales* (listed above), as well as new ones that might potentially be created at a later stage.

47. The project will promote greater integration of the PES program with the productive community forestry programs (*Silvicultura Comunitaria*, PRODEFOR, *Cadena Productiva Forestal*). An example of the integration between PES and community forestry programs is that, in order to renew PES benefits, a community will be required to have a comprehensive community-based land-use zoning plan (*Ordenamiento Territorial Comunitario*). A second example is that, under Component 3 in Early Action Areas, the project would help design and test a PES system for forest areas under productive sustainable management.

Box 1: Typology of beneficiaries under the CONAFOR programs supported by the Project

1. **Type I. Potential producers:** Owners of commercially viable forest resources but lacking authorized Forest Management Plans (FMPs).
2. **Type II. Producers who sell standing trees**: Owners of forest resources who practice forestry through concessions to third parties without participating in forest management activities.
3. **Type III. Producers of raw forest products**: Owners of forest resources with authorized FMPs involved in one or more phases of forest management, and who sell unprocessed forest products.
4. **Type IV. Producers with manufacturing and commercialization capacity**: Owners of forest resources who add value to forest products and market them directly.

48. **Component 3. Innovation for REDD+ in Early Action Areas.** (FIP US$14m grant, FIP 16.34m loan, and Government US$18m) This component will promote the design and piloting of new approaches for REDD+, initially in two Early Action Areas located in the State of Jalisco and in the Yucatán Peninsula, selected for their learning and replication potential. It will contribute to the alignment of forest, agricultural and livestock policies and programs for integrated landscape management. (see also Annex 10 on the Forest Investment Program and Mexico's FIP Investment Plan). This Component will be also coordinated with Mexico's participation in the Forest Carbon Partnership Facility.

49. The REDD+ Early Action Areas considered for project support in an initial phase are located in the State of Jalisco and the three states of the Yucatán Peninsula (Campeche, Quintana Roo, and Yucatán). These were selected for their learning, implementation and replication potential (see Section C below: Early Action Areas). Other REDD+ Early Action Areas might also be identified for project support at a later stage, depending on progress, lessons learned and institutional opportunities.

50. ***Subcomponent 3.1. Policy Innovation and Cross-Sector Harmonization for REDD+.*** (For information, see costs covered under subcomponent 1.2.) This component will provide technical assistance, participatory processes and financing of operating costs to design innovative REDD+ approaches to be piloted in REDD+ Early Action Areas under

Subcomponents 3.2 and 3.3 of the Project. Here the project would support the design of a comprehensive package of incentives to be applied at a regional scale (e.g., groups of municipalities, watersheds or other landscape units), which would combine, among other things, improved forest management, sustainable agricultural and livestock activities, soil protection and restoration, and watershed protection. It would help assess and combine various policy options such as community production of timber and non-timber forest products, payments for environmental services (PES), biodiversity conservation, and investments outside the forest sector. Environmental impact and social evaluations would also be prepared for these REDD+ Early Action Areas. The Subcomponent would include, *inter alia*: (i) the alignment of forestry, agriculture and livestock policies and incentive programs managed by CONAFOR and SAGARPA and improvement of the overall carbon balance in rural landscapes in the Borrower's territory; (ii) the tailoring or customization of CONAFOR's forestry incentive programs and adjustment of the eligibility criteria and procedures of said programs to promote REDD+ practices at the community and landscape level; (iii) the supporting of the emergence of new local governance agents such as local technical agents (ATLs[24]) and local development agents (ADLs[25]) allowing for a broader spatial integration at the municipal, watershed or landscape level; and (iv) the development of specific operational rules for the implementation of Subcomponent 3.3 of the Project.In this context, CONAFOR would pursue the following three lines of innovation:

51. *Line of Innovation 1: Alignment of forestry and agriculture policies and programs*. CONAFOR would work closely with SAGARPA to ensure greater harmonization and remove discrepancies with the agricultural and livestock policies and incentive programs, and improve the overall carbon balance in rural landscapes. CONAFOR would work with SAGARPA under a regional approach to jointly design incentive programs by both institutions to promote sustainable, low-carbon rural landscapes. For example, a group of communities that traditionally deforests several hectares of lowland forest to introduce subsistence crops (e.g., corn and rice) and cattle, for which it may receive support from SAGARPA's programs (e.g., PROGAN), could design, together with the assistance of existing ADLs and ATLs and technical services providers, an incentive package that would be consistent with a participatory land-use plan prepared at a landscape or intermunicipal scale. This package could finance a variety of subprojects aimed at reducing emissions from deforestation and degradation to assist forest communities in: (i) improving the efficiency of subsistence and commercial crop production (financed by SAGARPA's programs); (ii) restoring and reforesting degraded areas and improving forest management (financed by CONAFOR's programs); and (iii) receiving payments for environmental services (financed through CONAFOR's PSAB program and/or the private sector). This innovative approach, which promotes the alignment and harmonization of CONAFOR's programs with those of SAGARPA and other rural development government agencies, would also offer the opportunity to assist communities in reducing their current opportunity cost to invest in new REDD+ activities and technologies.

[24] ATL means a local technical agent (*agente tecnico local*), i.e. any of the local public agencies with a mandate in integrated rural development, including intermunicipal associations, which will provide support to ADL and to Communities and/or *Ejidos* under Component 3.2 of the Project.

[25] ADL means a local development agent (*agente de desarollo local*), which may be a local NGO or civil society organization, which will provide technical assistance to Communities and/or *Ejidos* under component 3.2 of the Project

52. *Line of Innovation 2: Tailoring of CONAFOR programs for REDD+*. CONAFOR would tailor its own programs and adjust the eligibility criteria of its Operating Rules and Special Guidelines to promote low-carbon approaches both at community and landscape levels. For example, the project could help design and test PES payment schemes for areas under sustainable forest management to increase forest productivity, reforest and restore degraded areas (i.e., carbon sequestration); and conserve areas of high biodiversity value (i.e., avoided deforestation). This scheme would be targeted to areas with a high risk of deforestation and forest degradation.

53. The alignment of CONAFOR's programs could be done through the review and modification of priority criteria in the Operating Rules and Special Guidelines to harmonize CONAFOR programs and promote REDD+ activities. For example, forest communities that have been supported to strengthen governance and social organization and to develop a community-based land-use zoning plan (*Ordenamiento Territorial Comunitario*)—through *Silvicultura Comunitaria*—and/or prepare a sustainable forest management plan would have higher priority to receive support for sustainable forest management and PES. In addition, communities that have been certified for forest management best practices by a third party could also have higher priority to access support by other government programs (e.g., CONAFOR, SAGARPA and others); and (ii) comprehensive investment plans targeted to finance sustainable forest management and conservation activities with high REDD+ potential. Site-specific Special Guidelines will be designed for each Early Action Area based on a thorough evaluation of local underlying causes of deforestation and forest degradation (e.g., perverse or inconsistent incentives caused by different sectoral government programs) that lead to the identification of promising REDD+ activities, and the evaluation of the opportunity cost of their implementation. REDD+ interventions will piloted to support SFM activities with a high replicability potential, which not only provide robust mitigation/adaptation benefits, but also enhance ecosystem services, contribute toward maintaining biological diversity, and improve local livelihoods.

54. *Line of Innovation 3: Promotion of integrated landscape management agents*. CONAFOR would provide support to establish and strengthen local development agents (ADLs) and local technical agents (ATLs) that include REDD+ in their dialogue and work programs with communities, local authorities and other stakeholders. ATLs are local public agencies with a mandate for integrated rural development. In the context of this project, CONAFOR would collaborate with two types of ATLs: (i) CONABIO in the Yucatán Peninsula; and (ii) an estimated six intermunicipal associations in the State of Jalisco and in the Yucatán Peninsula (see Box 1). ADLs are civil society organizations that support and help implement one or several CONAFOR programs in specific regions. Collaborating with ATLs and ADLs would allow for a broader spatial integration at the regional level, which is found to be important for successful REDD+ initiatives, instead of merely responding to individual community demands.

55. ***Subcomponent 3.2. Building Capacities for Landscape-Based Management in REDD+ Early Action Areas.*** (FIP US$7m grant) This component will provide technical assistance (including training), goods and financing of Operating Costs to: (i) strengthen the capacities of ADLs and ATLs as a new category of regional level development agents.

It is expected that such entities will develop innovative and unique capacities to plan, guide and assist groups of communities in landscape-based management, and will help harmonize government interventions in the rural sector. ATLs and ADLs would help groups of communities design and implement REDD+ initiatives and low-carbon approaches to forest management, agriculture and livestock at landscape level.

56. Important functions and roles expected from ATLs and ADLs as regional technical and development agents include: (i) addressing environmental issues at the regional level and going beyond the boundaries of forest communities and municipalities; (ii) providing continuity in the implementation of regional strategies for REDD+ and SFM during political transitions and changes of governments; (iii) negotiating additional funds to complement CONAFOR's investments with state governments, other federal agencies, and national and international donors and NGOs; (iv) developing technical capacities and expertise to assess and monitor forest carbon emissions; (v) facilitating intergovernmental collaboration through their participation in administrative boards at different levels of government, and improving the comprehensiveness of public policies at regional and local scales; (vi) generating agreements with research institutions to assess and find solutions to different regional problems affecting SFM; and (vii) contributing toward the development of local institutions for more participatory, transparent and democratic rural development at the municipal and intermunicipal levels.

57. This subcomponent would finance studies, technical assistance, consultant services, training, office equipment and operating costs to strengthen the capacities of ADLs and ATLs and to cover the costs of: (i) assist Communities and/or *Ejidos* and other local stakeholders in the REDD+ Early Action Areas to identify and implement innovative REDD+ Early Action Subprojects; (ii) establish coordination mechanisms to effectively develop and implement participatory regional land-use plans and identify landscape level strategies for REDD+; (iii) enable integrated cross-sector action in support of sustainable economic activities in forest landscapes; (iv) assist Communities and *Ejidos* and/or associations of communities/*Ejidos* to implement REDD+ Early Action Subprojects; (v) coordinate efforts for monitoring and evaluation of REDD+ activities; and (vi) identify and disseminate lessons learned in REDD+ Early Action Areas for potential future scaling up of REDD+ landscape initiatives to other regions in the Borrower's territory.

58. The subcomponent would help CONAFOR to promote the establishment and/or strengthening of an estimated six intermunicipal associations (ATLs) and twenty civil society organizations (ADLs), in addition to fostering collaboration with CONABIO. A special agreement (*convenio*) will be established between CONAFOR and CONABIO[26] to use the experience and capacity of the Mexico Mesoamerican Biological Corridor Program (*Corredor Biólogico Mesoamericano)*[27] to perform the functions of an ATL in the Early Action Area of the Yucatán Peninsula. *Convenios* will also be established with intermunicipal associations, and technical assistance contracts will be signed with civil society organizations, following competitive selection processes. *Convenios* and contracts

[26] *CONABIO: Comisión Nacional para el Conocimiento y Uso de la Biodiversidad.*

[27] The Mexico Mesoamerican Biological Corridor Program has been financed with GEF funds since 2000 (TF0243721). A second phase of this program is currently being prepared with a GEF Bock B grant.

would have a multi-annual duration of three to five years. From the US$7 million allocated to the subcomponent, US$2.0 million will be transferred to CONABIO; US$2.5 million will be used to support an estimated six ATLs and US$2.5 million to support an estimated twenty ADLs.

Box 2: Two promising examples of Local Technical Agents for piloting REDD+ approaches at landscape level in the REDD+ Early Action Areas

Junta Intermunicipal del Río Ayuquila (JIRA). *JIRA is an Intermunicipal Decentralized Public Agency created in 2007 comprising 10 municipalities along the Ayuquila River. JIRA's main objective is to offer technical and managerial assistance on environmental policies and programs. It serves as a local governance model, with the interaction of federal, state and municipal governments, as well as research institutions and civil society organizations. JIRA's environmental agenda includes environmental education, social participation and waste management. The incorporation of REDD+ in the JIRA agenda has been selected as a Prior Action of the Social Resilience to Climate Change DPL.*

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

The Mexico Mesoamerican Biological Corridor Program. *This Bank-supported GEF program has operated since 2000. In 2009, it was integrated with CONABIO. It aims to promote conservation and economic alternatives based on the sustainable use of biodiversity in five biological corridors of the Southeast region. A new project is currently under preparation by CONABIO in the Biological Corridor. Benefits of the Biological Corridor model include: (i) local-level management of geographic boundaries, with integrated regional territorial development; (ii) as part of CONABIO, it is based on cross-sector coordination by SEMARNAT and nine other federal ministries represented in the Commission; and (iii) it uses an independent trust fund, with the flexibility to operate with internal rules.*

59. ***Subcomponent 3.3. Community Investments in REDD+ Early Action Areas***. (FIP US$7m grant, FIP US$16.34m loan, and Government US$18m) This scomponent will provide financing to Communities and/or *Ejidos to* carry out REDD+ Subprojects, defined as community subprojects for activities for reducing emissions from deforestation and forest degradation such as, inter alia, sustainable forest management, protection of environmental services, enhancement of carbon stocks in forest landscapes, agroforestry, sustainable use of non-timber products, and promotion of alternative low carbon sustainable community-based activities, all of this to be carried out in REDD+ Early Action Areas and in accordance with the criteria and procedures set forth in the specific operational rules developed under Subcomponent 3.3. In many cases, beneficiaires would be legally established associations of communities and/or *Ejidos* that want to engage in a joint landscape-level REDD+ initiative. REDD+ subprojects would be prepared and implemented with the technical assistance of ATLs and ADLs provided under Subcomponent 3.2, and with the supportof private technical advisers registered in CONAFOR's roste and supported by Subcomponent 1.4. Eligibility criteria and procedures to access these funds would be defined in the new Special Guidelines developed by

CONAFOR under Subcomponent 3.1. REDD+ subprojects would need to be consistent with landscape-level strategies and with individual community land-use zoning plans (*Ordenamientos Territoriales Comunitarios*). Investments could be financed by CONAFOR's programs and by programs of other government agencies involved in rural development (e.g., SAGARPA, Ministry of Economy, Ministry for the Agrarian Reform and Ministry of Social Development), however investments in activities from programs other than CONAFOR's would be financed by the corresponding government agency. Overall, this subcomponent would support an estimated 800 communities,with an average cost of US$50,000 per community, in the two Early Action Areas of Jalisco and the Yucatán Peninsula.

60. Subprojects under this subcomponent would be used to finance studies, technical assistance, equipment, small works, and operating costs related to activities such as: (i) low-carbon productive investments (e.g., sustainable forest management, biodiversity conservation, low-carbon agriculture and livestock practices); (ii) market studies for certified timber and non-timber forest products; (iii) restoration and reconversion of low-productivity crop areas by introducing perennial crops (e.g., fruit orchards, fuelwood plantations), and crop diversification through agro- and silvo-pastoral systems; (iv) fire and pest prevention; (v) soil conservation and erosion control; and (vi) payments to compensate communities for opportunity costs of mitigation and adaptation activities.

61. The following are five examples of potential REDD+ approaches initially identified for potential projects under this component:

a. Reducing emissions from deforestation and forest degradation using SFM as an instrument for stabilizing the agricultural and livestock frontiers. By improving forestry operations through promotion of the use of low-carbon sustainable logging practices and improved, cost-effective SFM, emission targets are expected to be met. Furthermore, the use of lowemission silvo-cultural operations aimed at increasing biomass productivity will enhance the uptake of CO_2, making forest management more attractive than land conversion.

b. Reducing emissions from forest fires by changing the patterns of land use away from slash-and-burn agriculture and pasture burning, which have a negative impact on primary and mature secondary forests in tropical moist and dry forest ecosystems such as those in the Yucatán Peninsula.

c. Restoring forest cover and enhancing the carbon balance in productive rural landscapes. The toolkit of sustainable rural production systems includes silvo-pastoral techniques, grazing rotation, conservation tillage (zero tillage), agro-ecology, afforestation and reforestation.

d. Reducing emissions from forest degradation caused by over-harvesting of firewood through encouragement of the use of firewood from local woodlot plantations, cultivating energy-efficient species, sustainable firewood and logging debris collections in production forests, improving the efficiency of firewood use, and

promoting the formalization and registration of commercial firewood collectors and traders.

e. Reducing emissions from forest land conversion and stabilization of the agricultural and livestock frontier by increasing agricultural productivity and gradually mainstreaming livestock and agro-technical practices with more environmentally sound and efficient practices. Promoting sustainable forest management and forest certification to stabilize migratory and commercial agriculture and grazing frontiers and mitigate the pressure on primary forests in tropical moist forests and temperate forests.

C. REDD+ Early Action Areas

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

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

64. *Socioeconomic and environmental characteristics*. The region is characterized by a wide variety of natural ecosystems and a high level of biodiversity. It provides water to the State of Colima and for tourism development on Jalisco's Costa Alegre, including the city of Puerto Vallarta. The area involves 45 municipalities encompassing an area of about 3.5 million hectares, with a total population of 868,000 inhabitants; 1 percent is inhabited by

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

indigenous populations; 16 municipalities have average levels of marginalization and 6 have high levels of marginalization. Around 47 percent corresponds to *ejidos*, 6.5 percent to indigenous communities and 46 percent to small landowners.

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

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

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

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

69. *Factors of deforestation on the Yucatán Peninsula and mitigation actions*. At present, two large groups are recognized. These are considered the agents of deforestation

in tropical forests, the proximal forces (human actions and immediate actions), and the underlying driving forces (social processes such as population dynamics or agricultural policies). Various studies conducted in the southeast report that the most dominant process of change is the deforestation of forests for grasslands (cattle ranching), followed by changes to agriculture. Also recognized are the major natural disturbances that occur in the region.

D. Overview of all CONAFOR Programs

70. Table 2 below gives an overview of all CONAFOR programs, with a focus on those supported by the project (shaded). The programs not supported by the project are non-shaded and in *italic*.

Table 2: Overview of all CONAFOR programs with a focus on those supported by the Project

Shaded: Five CONAFOR programs supported by the project
Non-shaded and Italic: Other CONAFOR programs not supported by the project

PROGRAMS (A), SUBPROGRAMS (A.1), and CONCEPTS (A.1.1)
A. FORESTRY DEVELOPMENT (PRODEFOR)
A1. FORESTRY STUDIES
A1.1 Environmental Impact Statement
A1.2 Forest management program for timber
A1.3 Technical studies for the use of non-timber forest resources and for obtaining forest germ plasm
A1.4 Wildlife management plan
A2. FORESTRY
A2.1 Forest cultivation under timber uses
A2.2 Management practices for non-timber and wildlife uses
A2.3 Support for sustainable management of resin extraction zones
A2.4 Improvement of forestry technology
A2.5 Forest roads
A3. CERTIFICATION
A3.1 Preventive technical auditing
A3.2 National and international forest certification
A3.3 Other certifications
A4. COMMERCIAL FORESTRY PLANTATIONS
Support aimed at the initial establishment and maintenance of commercial forestry plantations, as well as technical assistance
B. CONSERVATION AND RESTORATION
B1. REFORESTATION AND SOILS
B1.1 Reforestation
B1.2 Maintenance of reforested areas

B1.3 Protection of reforested areas
B1.4 Conservation and restoration of soils
B1.5 Maintenance of soil conservation works and practices
B2. ENVIRONMENTAL SERVICES (PSAB)
B2.1 Hydrological
B2.2 Biodiversity
C. COMMUNITY FORESTRY DEVELOPMENT (*Silvicultura Comunitaria*)
C1.1 Participatory evaluations
C1.2 Workshops for the development and strengthening of internal regulations and community statutes
C1.3 Studies of community land-use planning
C1.4 Participatory surveillance committees
C1.5 Sharing of experiences and workshops from community to community
C1.6 Community, regional and local forestry promoters
C1.7 Training workshops and courses for forest producers
C1.8 Workshops on environmental education
C1.9 Participatory workshops on environmental services
C1.10. Specialized technical studies
C1.11. Advisory services for the strengthening of community forestry enterprises
D. DEVELOPMENT OF FORESTRY PRODUCTIVE CHAIN *(Cadena Productiva)*
D.1 Fairs or expositions
D.2 Record for legal creation
D.3 Technical studies on re-engineering of processes, feasibility and business plan
D.4 Support for industrialization
D.5 Administrative equipment
D.6 Special projects of strategic interest
D.7 Certification of chain of custody and controlled timber
E. FOREST PEST MANAGEMENT
Support for pest management andsilvicultural treatment activities in ecosystems and forest plantations
F. PROGRAMAS ESPECIALES
Addressing priority areas with major environmental importance, in an efficient and focused manner. This may include components such as conservation, restoration, reconversion and sustainable use.

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

71. CONAFOR disseminates Operating Rules, Special Guidelines and their notices on its Internet page and in regional forums for promotion and dissemination, general assemblies, and work meetings with agrarian representatives and managers of community enterprises. This dissemination workshop takes place once a year (usually in January and February) and is nationwide. Communities and *ejidos* that own or possess forest lands voluntarily request support from CONAFOR, submitting to CONAFOR's state office the

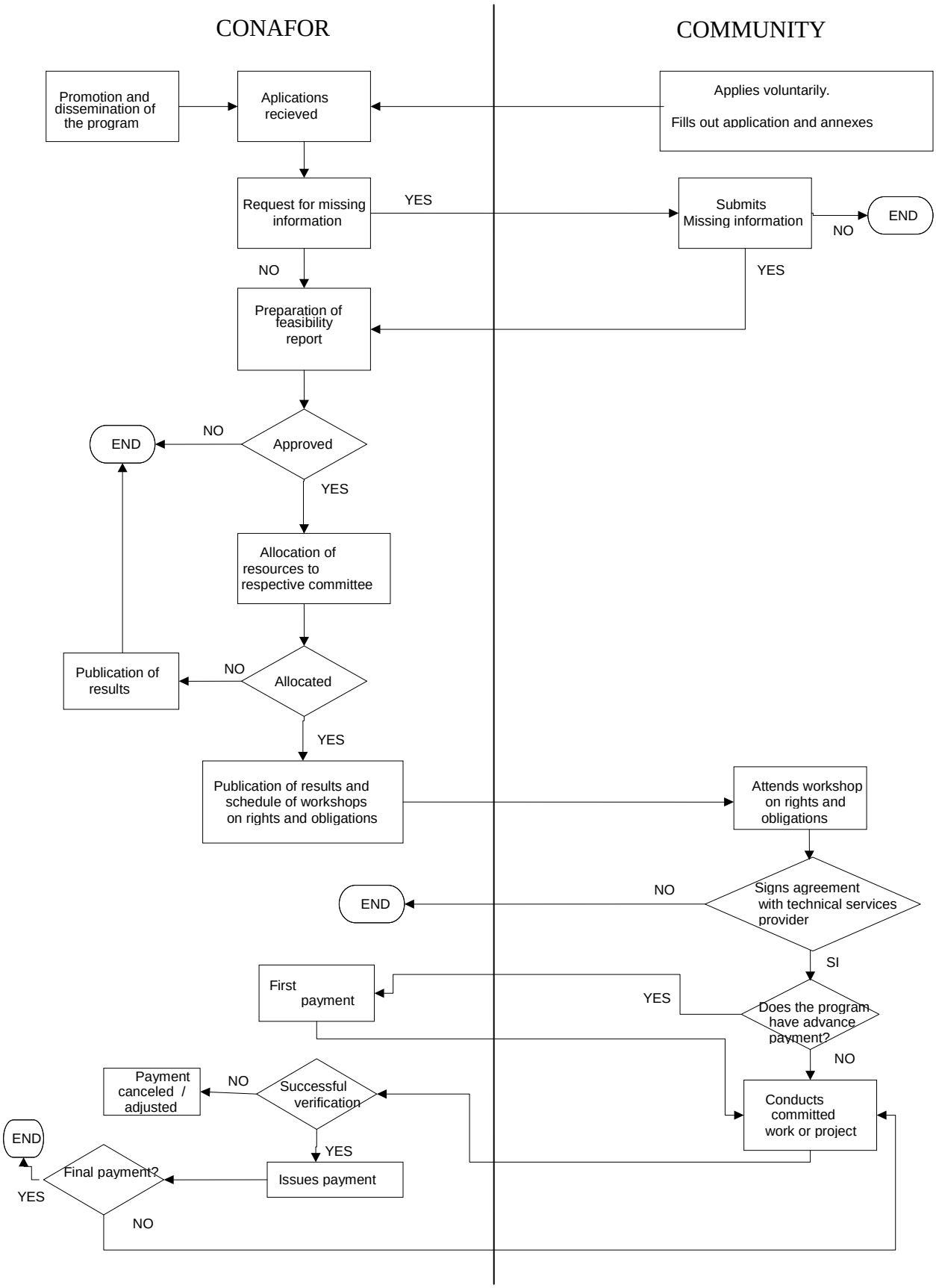
application, technical proposal, annexes and legal information. The application must be supported by an agreement by the assembly of *ejidatarios*. Requesters must accompany the application with a technical proposal for each type of support requested. If CONAFOR detects the lack of any data or requirement within the period established for the receipt of requests, it will notify the interested party so that, in a maximum period of five working days, the requirement can be met. If not, the application will be rejected.

72. The evaluation committees appointed for each program prepare an opinion regarding feasibility. The allocation of support will be subject to priority, according to the corresponding committee's review and opinion. The committee will allocate support to requests with a favorable feasibility opinion, in decreasing order, according to the score obtained and to the available budget. Results are disseminated on CONAFOR's website and in state offices, together with the schedule of workshops on rights and obligations. The representative of the beneficiary community or *ejido* must appear at the place designated by CONAFOR to sign the *Carta de Adhesion* and receive, on a one-time basis and at no charge, training on the rights and obligations he acquires as a beneficiary, as indicated in the operating rules. In addition, the beneficiary signs an agreement with the technical service provider of his choice, which may be an individual or a firm and needs to be duly registered in CONAFOR's roster. If the program issues advance payments (such as PRODEFOR, Special Programs, *Cadena Productiva*, and *Silvicultura Comunitaria*), the first payment is issued.

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

74. In the case of PES, support will be allocated for up to five consecutive years. The first payment is in accordance with the general diagram for the granting of support. The second payment is subject to the preparation, in accordance with terms of reference published by CONAFOR, of a program of management best practices or the verification of compliance, corresponding to areas of differentiated payment. Subsequent payments will be subject to a program for the verification of work compliance (see Figure 1).

Figure 1: Subproject Cycle used in CONAFOR Programs (Project Components 2 and 3)



Stage	Selection Committees	Evaluation Criteria
PRODEFOR		
Pre-Opinion: review of application documentation to ensure that it is complete and fulfills the operational regulations issued by CONAFOR	**CONAFOR** (State Bureau, Forestry Development Department)	In all cases priority is given to: • Ejidos and communities that have not previously received support • Requests from zones with a high/very high index of marginalization • Municipality with a majority indigenous population • A female requester • With a forest management plan or forest certification • A larger land area to support • The requester is an ejido or community For the preparation of studies, priority is given to: • Ejidos/communities with a participatory rural evaluation and land-use planning • Property not used for over 5 years In the case of forestry, priority is given to • Use that generates income for producers For certification, priority is given to the following ecosystems: • Tropical forest, followed by temperate cold
Technical evaluation and allocation: evaluation of requests and allocation of support based on priority criteria	**State Technical Committee** formed by: State Government CONAFOR Social Sector Industrial Sector Academic Sector	
PES		
Pre-opinion: review of application documentation to ensure that it is complete and fulfills the operational regulations issued by CONAFOR	**CONAFOR** State Bureaus and Forest Environmental Services Office (GSAB)	In all cases, priority is given to polygons: • Ejidos and communities that have not previously received support • Requests from zones with a high/very high index of marginalization • In a Natural Protected Area, preferably in a hub area • In a microcatchment where there are other polygons with payment for environmental services • Zone considered to be at high risk of deforestation • Land with approved land-use planning • Zone considered to be at high risk of natural disasters • Ejido or community with a participatory environmental surveillance committee In the case of payment for hydrological services, priority is given to: • Polygon in an overexploited aquifer or in a basin with limited water availability In the case of payment for biodiversity services, priority is given to polygons: • Within a bird conservation area or Ramsar site • In an area where there is a distribution of endangered species • Within CONABIO Biological Corridors • A property that has an agroforestry crop system using shade
Geographic Review: verification with zones of eligibility. Satellite review and review of the application of qualification criteria with geographic coverage	**CONAFOR** Sub-Bureau of GSAB Operations	
Allocation: allocation of support based on priority criteria	**National Technical Committee** formed by: 1 representative from academic sector, 1 from social sector, 1 from industrial sector, 1 from professional sector, 3 CONAFOR representatives, and 1 SEMARNAT representative	
Silviculatura Comunitaria		
Pre-opinion. Review of application documentation to ensure that it is complete and fulfills the operational regulations issued by CONAFOR	**CONAFOR**	In all cases, priority is given to: • Ejidos and communities that begin or consolidate development processes based

Social validation: State Bureaus will coordinate social validation process	**Social validation forums.** Opportunities for social participation by communities/ejidos that have requested support	on the use of their forest resources • Requests from zones with a high/very high index of marginalization • Those with a community action plan • Technical proposal in support of the request • Quality and experience of the private technical adviser
Technical evaluation: evaluation according to criteria of priority and social acceptance	**State Technical Evaluation Committee** which should be composed of a representative of CONAFOR, SEMARNAT, the State Government, and as invitees CDI, CONANP, the Office of the Federal Agricultural Attorney, PROFEPA	
Allocation: allocation of support based on priority criteria	**State Allocation Committee:** 1 representative from CONAFOR, 1 from SEMARNAT, 1 from State Government and 3 representatives of the social sector elected in social validation forums	
Cadenas Productivas		
Pre-Opinion: review of application documentation to ensure that it is complete and fulfills the operational regulations issued by CONAFOR	**CONAFOR:** State Bureau technician, Deputy Manager of Production and Productivity or State Manager	In all cases, priority is given to: • Ejidos and communities that have not previously received support • Requests from zones with a high/very high index of marginalization • Includes community forestry enterprise • Is in a municipality of Industrial Forestry Basins • The type of chain includes timber products • Market coverage is international or national • Has certification processes
Evaluation and allocation: evaluation of requests and allocation of support based on priority criteria	**Technical Committee for Productive Chains (CTCP)** formed by General Coordinator of Production and Productivity, Manager of Productive Chain Integration, Manager of Forestry Development, Manager of Community Forestry, Manager of Forest Plantations, Internal Controls Unit, Legal Affairs Unit	
Programas Especiales		
Pre-Opinion: review of application documentation to ensure that it is complete and fulfills Operational Guidelines issued by CONAFOR	**CONAFOR** State Bureau, Project Operations Department and Soils Bureau/Basin Conservation and Restoration Department	In all cases, priority will be given to: • Rainfed farming with slopes of 10 to 20 percent • Tree thickness less than 20 percent. • Type of laminar erosion and in *canalillos* • Degree of moderate and severe erosion • Location in upper part of microcatchment • Land area greater than 10 compact hectares • Priority will be given to riparian zones
Technical evaluation and allocation: opinion on feasibility in the field of requests and allocation of support based on criteria of priority and availability of resources	**Technical Council** formed by: CONAFOR, State Government, SAGARPA, CONANP, professional sector, and invitees	

F. Links with Related Bank-supported Operations

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

Instrument	Description
Forest Investment Program (FIP) P124988	The FIP is a targeted program of the Climate Investment Funds (CIF) to support developing countries' efforts to reduce deforestation and forest degradation (REDD) and promote sustainable forest management. Mexico is one of eight pilot countries worldwide. Mexico's base allocation is US$60 million (grant and concessional credits). In addition to the base allocations, there is also an unallocated amount of US$150 million. The FIP will also establish a Dedicated Grant Mechanism for direct access by indigenous and other forest-dependent communities. FIP resources under CONAFOR's responsibility (US$42 million) would be combined with the proposed IBRD SIL (Component 3 of the proposed operation, and parts of Component 1).
Forest and Climate Change IBRD SIL P123760	The SIL will support the Government of Mexico in two main areas; (i) Multi-Scale Institutional Strengthening (Component 1 of the proposed operation jointly with FIP) and (ii) Incentive Programs for Communities (Component 2 of the proposed operation). Amount: US$350 million
Social Resilience and Climate Change DPL P120170	Forestry is one of three pillars in the Social Resilience and Climate Change DPL (US$300 million). The forestry pillar supports three policy actions: (i) the launching of a new collaboration among CONAFOR, SAGARPA and SEMARNAT; (ii) the creation of one national and three state-level REDD+ civil society Consultative Groups (CTC–REDD+); and (iii) the inclusion of climate change programs in the first intermunicipal initiative. The same policy matrix is also supported by the French Development Agency with a budget support operation of €300 million. **Status**: Expected Board presentation March 2012.
Forest Carbon Partnership Facility (FCPF) P120417	Mexico is eligible for a grant of US$3.6 million from the FCPF for Readiness Preparation (studies and consultations). The readiness activities would culminate in a Readiness Package consisting of four main elements: (i) a National REDD+ Strategy, (ii) a national forest reference level, (iii) a forest monitoring and verification system, and (iv) a system for addressing environmental and social safeguards. The FCPF also operates a Carbon Fund to pay pilot countries for demonstrable results in REDD+. Mexico intends to submit an Emissions Reduction Program Idea Note (ER-PIN) for pipeline entry in the Carbon Fund. It is envisaged that Carbon Fund transactions could amount to US$40 million per pilot country. **Status**: FCPF Preparation Grant Agreement negotiated in December 2011.
Sustainable Production Systems and Biodiversity (GEF) P121116	This GEF-financed operation to be implemented by CONABIO would aim to conserve and protect nationally and globally significant biodiversity in Mexico by improving and mainstreaming sustainable management practices in the productive landscape in priority ecological corridors. It would focus on seven economic activities related to timber and non-timber products in the States of Chiapas, Oaxaca, Yucatán, Quintana-Roo, Tabasco and Campeche. **Status**: In preparation. Proposed GEF US$11.7 million.
Program on Forests (PROFOR)	The Bank mobilized three PROFOR grants to support CONAFOR in: (i) redesigning the Mexican Forest Fund (US$100,000); (ii) assessing Mexico's community forestry enterprises' competitiveness in local and global markets (US$150,000); and (iii) conducting a South-South collaboration on REDD+ and Payments for Environmental Services with Costa Rica and Ecuador (US$150,000).
Forest Bond	The Government of Mexico is currently exploring the possibility of piloting a Forest Bond with the Bank's Treasury Department.

76. The proposed IBRD and FIP investment operation (SIL) complements other Bank instruments in support of Mexico's community-based forest and REDD+ agenda: (i) the forestry pillar of the Social Resilience and Climate Change Development Policy Loan (DPL), and (ii) the Forest Carbon Partnership Facility (FCPF).

77. The DPL supports three policy areas identified as priorities in Mexico's REDD+ Vision: cross-sector coordination, social participation, and landscape management. Although the DPL supports these areas at policy level, the SIL will help implement them in the field through its technical assistance and community investments. In that regard, both operations are fully aligned and mutually reinforcing.

78. The proposed SIL also complements Mexico's REDD+ readiness phase, which includes the development of the National REDD+ Strategy and will be supported by the FCPF Readiness grant. The SIL is designed in a manner that allows for a two-way, iterative process of communication and learning between: (i) the design of the National REDD+ Strategy and related policy-making and participatory processes supported under Component 1 and the FCPF grant, and (ii) investments and capacity building on the ground through the community-based, demand-driven programs under Components 2 and 3. Component 1 of the SIL and the FCPF grant would contribute to the design of the National REDD+ Strategy while taking into account experiences from Early Action Areas supported under Component 3 (financed by FIP). Component 2 (financed by IBRD) allows for the scaling-up of successful approaches into CONAFOR's nationwide programs. Reversely, the analytical works and participatory processes supported under Component 1 and under the FCPF grant would inform the design of REDD+ approaches to be piloted in Early Action Areas under Component 3, thus ensuring the full alignment of the SIL with the content of the National REDD+ Strategy. Component 3 promotes a community-driven, bottom-up design of REDD+ pilots that can in turn inform the design of the National REDD+ strategy. The linkage between the FCPF and FIP resources is also consistent with the widely recognized three-phase REDD+ financing sequence: (i) Readiness with FCPF support, among others, (ii) capacity-building and pilots with FIP and IBRD resources, among others; and (iii) potential, future performance-based payments (under the FCPF Carbon Fund or Forest Bond, or any similar instrument).

79. The proposed IBRD–FIP operation is also consistent with the GEF-financed operation, which is being prepared with CONABIO on sustainable production systems and biodiversity. The GEF project is expected to become effective in the second half of 2012 with a total cost of US$30.9 million (US$11.7m from GEF). The project objective would be to conserve and protect nationally and globally significant biodiversity in Mexico by improving and mainstreaming sustainable management practices in the productive landscape in priority ecological corridors. This GEF project would focus on seven economic activities related to timber and non-timber products, engaging with producer groups and associations. It would be implemented in six southern states of Mexico: Chiapas, Oaxaca, Yucatán, Quintana Roo, Tabasco and Campeche.

Annex 3: Implementation Arrangements

A. Project Institutional and Implementation Arrangements

1. CONAFOR will be the entity responsible for project execution. At the federal level, the project will be led by the General Coordination Office for Production and Productivity, and the General Coordination Office for Restoration and Conservation. The project will be led through the Production and Productivity Unit at the state level. The organizational chart is described schematically in Figure 1.

2. **Steering Committee.** The project will be managed by a Steering Committee composed of CONAFOR's General Director, the General Coordinators of Production and Productivity; Conservation and Restoration; Planning and Information; General Administrative Coordination Office; Coordination and Social Participation; the responsible staff from the Communications Unit; and the International Affairs and Financing Unit. The Steering Committee will monitor project execution, supervise overall project strategy and make strategic decisions for implementation, in addition to functioning as the conflict-resolution authority for the project. The Steering Committee will validate the general rules for project implementation, considering sectoral policy, national regulations, and those of the World Bank.

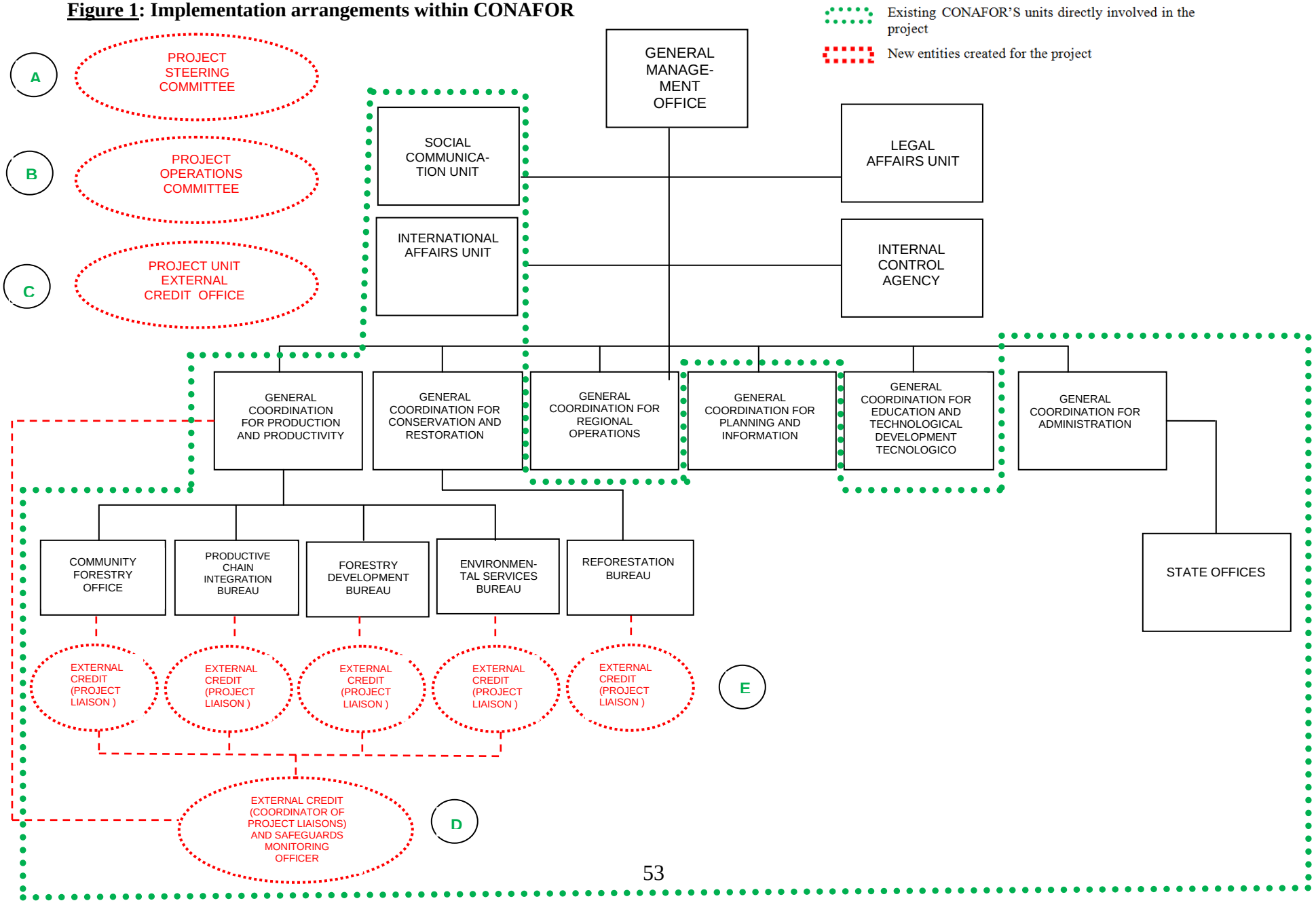
3. **Operations Committee.** Project implementation will be managed by an Operations Committee. This committee will be composed of a representative from each of the following areas: i) Community Forestry; ii) Environmental Services; iii) Forestry Development; iv) Integration of Productive Chains; v) Conservation and Restoration; vi) Coordination and Social Participation; (vii) Communication; viii) Financial Resources; and vii) Planning and Evaluation. Its objective will be to facilitate the day-to-day implementation of the project.

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

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

6. The specific responsibilities allocated to each authority will be described in the Operational Manual. It is likely that 11 specialists will be hired to implement the following functions: External Credit (Project) Management Unit (3); Social and Environmental Safeguards Experts (2); External Financing (Project) Liaisons (5); and Coordinator of External Financing (Project) Liaisons (1).

Figure 1: Implementation arrangements within CONAFOR



7. **Annual work plan.** CONAFOR will prepare the first annual work plan (for calendar year 2012) by January 31, 2012, as an addendum to CONAFOR's regular *Plan Anual de Trabajo*. For subsequent years, the project's annual work plan will be integrated with CONAFOR's regular *Plan Anual de Trabajo* (prepared in December of the preceding year)

8. **Collaboration with other public agencies**. Project implementation will require effective collaboration with several public and private entities at various levels of government. In designing and implementing specific collaborations, different arrangements will be considered, as outlined in the following paragraphs.

9. The following collaborations are considered critical and specific agreements will be established with partner agencies for specific project activities:

- With SEMARNAT and SAGARPA: collaboration with these agencies represents a key and strategic aspect for project implementation. In this sense, CONAFOR will sign bilateral collaboration agreements *(convenios de colaboración bilateral)* for the establishment of joint databases and to share information and experiences regarding monitoring systems (SEMARNAT and SAGARPA, Subcomponent 1.3), and the streamlining of procedures for community-based forest management (SEMARNAT, Subcomponent 1.3).

- With CONABIO/Biological Corridor as a local governance body with demonstrated experience in financial management and procurement: CONAFOR will sign a collaboration agreement *(convenio de colaboración)* to support community-based REDD+ activities in Early Action Areas (Component 3).

- With Local Technical Agents (*Agentes Técnicos Locales*, ATLs) and Local Development Agents (*Agentes de Desarollo Locales*, ADLs): Collaboration agreement for their capacity building and for advising communities (Component 3). ADLs and ATLs are intermunicipal associations[29] (an estimated 6 under the project) and local nongovernmental organizations (an estimated 20 under the project). This is considered under Special Guidelines *(Lineamientos Especiales)* and the specific agreements will depend on local conditions and arrangements.

10. The following collaborations will be formalized through a presidential mandate to the different institutions to collaborate with CONAFOR:

- With CONEVAL: the collaboration consists of methodological advice for the design of an impact evaluation strategy (CONEVAL, Subcomponent 1.1).

- With CDI: the collaboration relates to the dissemination of information and consultations with indigenous peoples (CDI, Subcomponent 1.2).

[29] The intermunicipal associations will be created under the Decentralized Public Agency *(Organismo Público Descentralizado)* concept, such as the Ayuquila River Intermunicipal Council *(Junta Intermunicipal del Río Ayuquila,* JIRA) in Jalisco. Payments will be made directly from CONAFOR to communities.

- With INMUJERES: the collaboration relates to the participation of women in the project, including the monitoring of women's participation in social organization and economic development as part of the Results Framework.

11. The draft agreements with SEMARNAT, SAGARPA and CONABIO will be attached to the Operational Manual. The Operational Manual will also include a template for the agreement with ATLs and ADLs. The abovementioned partner agencies would not participate in project management. None of the collaboration agreements would involve any transfer of funds for the purposes of providing subsidies, but only to cover their operational costs. All community investments will be made directly by CONAFOR to providers and to beneficiaries.

12. Higher-level, cross-sector coordination will be achieved through the Inter-institutional Comission for Climate Change (*Comité Interinstitucional para Cambio Climático*, CICC)[30] and the Intersecretarial Commission for Sustainable Rural Development (*Comisión Intersecretarial para el Desarrollo Rural Sustentable*, CIDRS).[31]

13. **Overall institutional framework related to forests and REDD+ in Mexico**. At federal level, the Ministry of Environment and Natural Resources of Mexico (*Secretaría de Medio Ambiente y Recursos Naturales*, SEMARNAT) is the government agency responsible for natural resources, including forests. By law, SEMARNAT is responsible for "*formulating and implementing the national policy for sustainable forest development, and for ensuring its consistency with the nation's natural and environmental resources, as well as with the policies for rural development*". SEMARNAT is also responsible for sectoral planning and maintains control over the formulation of forest management plans.

14. CONAFOR is an entity of the Federal Public Administration that pertains to SEMARNAT. Its objective is to develop, promote and drive forest-related productive, protection, conservation and restoration activities, as well as the application of national policy instruments related to forests. CONAFOR operates the umbrella program ProÁrbol, which is the main federal program providing support to the forest sector. ProÁrbol coordinates and organizes, under one scheme, the provision of incentives to owners of forested land to carry out actions aimed at protecting, conserving, restoring and managing Mexico's forest, jungle and arid areas in a sustainable manner. CONAFOR has 4,415 people on its payroll, 648 of whom are based in CONAFOR's headquarters and 3,767 are based in 32 state offices. CONAFOR's preliminary budget for 2012 has a ceiling of 6.7 billion pesos[32], 65 percent of which will be allocated to direct subsidies for owners of forest resources, 11.4 percent to service providers, 9.6 percent as inputs, and 12 percent for personal services.

[30] Composed of the Ministries of: External Affairs (Secretaría de Relaciones Exteriores); Social Development (Desarrollo Social); SEMARNAT; Energy (Energía); Economía; SAGARPA; Communications and Transport (Comunicaciones y Transporte); and, as guests, , the Misistries of: Health (Salud); Finance and Public Credit (Finanzas y Crédito Público); and Government (Gobernación) (According to the Official National Gazette, 2005).

[31] Composed of the Ministries of: SAGARPA; Economics (Economía); SEMARNAT; Communications and Transport Comunicaciones y Transporte); Healt (Salud); Social Development (Desarrollo Social); Agrarian Reform (Reforma Agraria); Public Education (Educación Pública); and Energy (Energía) (According to the Official National Gazette, 2001).

[32] Equivalent to US$485 million as of December 16, 2011

15. The Federal Attorney for Environmental Protection (*Procuradoría Federal de Protección al Ambiente,* PROFEPA) is a decentralized agency of SEMARNAT, and is in charge of inspection, surveillance and sanctions in forest production and natural protected areas.

16. The Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (*Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación,* SAGARPA) also plays an important role in forest lands through various programs (PROGAN, PROCAMPO) and components specifically focused on rural development. Under the framework of the Special Climate Change Program, SAGARPA has implemented measures aimed at reducing pressure on forests, such as the installation of efficient wood stoves and the promotion of planned grazing and reforestation in marginal cornfed production areas.

17. There are cross-sectoral coordination platforms. The need for coordination between sectors to address climate change and to foster sustainable rural development led to the establishment of two high-level coordination agencies: CICC[33] and CIDRS.[34] Progress made in this context includes the design of a National Strategy for Climate Change, the Special Climate Change Program 2009–2012, and the Special Concurrent Program (*Programa Especial Concurrente,* PEC) for Sustainable Rural Development, aimed at achieving horizontal integration of public policies in order to combat climate change and to achieve sustainability in rural areas.

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

B. Financial Management and Disbursements

19. **Summary.** The project is complex in terms of FM arrangements and the FM overall risk is considered Substantial. Components 2 and 3 will involve several payments to multiple beneficiaries. This implies a considerable level of complexity in terms of the project's operational control.

[33] Composed of the Ministries of: Esternal Affaires (Relaciones Exteriores); Social Development (Desarrollo Social); SEMARNAT; Energy (Energía); Economics (Economía); SAGARPA; Commuications and Transport (Comunicaciones y Transporte); and, as guests, Ministries of: Health (Salud); Finance and Public Credit (Finanzas y Crédito Público); and Government (Gobernación) (According to the Official National Gazette, 2005).

[34] Composed of Ministries of: SAGARPA; Economics (Economía); SEMARNAT; Finance and Public Credit (Finanzas y Crédito Público); Commuications and Public Transport (Comunicaciones y Transporte); Health (Salud); Social Development (Desarrollo Social); Agrarian Reform (Reforma Agraria); Public Education (Educación Pública); and Energy (Energía) (According to the Official National Gazette, 2001).

20. **FM institutional arrangements and program description from the FM perspective.** CONAFOR is a decentralized public agency created on April 4, 2001, with legal and administrative autonomy, under the Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*). Institutional FM arrangements under each component are described below:

- Arrangements under Component 1 are relatively simple since all related payments will be operated directly by CONAFOR.
- Regarding Component 2, payments will be made to the beneficiaries of the programs implemented by CONAFOR under defined Operational Rules after the fulfillment of the conditions established in each program. Resources will first be deposited into the Mexican Forestry Fund (*Fondo Forestal Mexicano*, FFM), a trust fund managed by NAFIN, following the same scheme as in previous projects. For the operational control of the programs, CONAFOR uses its SIGA system *(Sistema de Gestión de Apoyos)*, which is a suitable IT platform with the capacity to control all the processes related to CONAFOR's programs, from the inclusion of beneficiaries until payments are made to them.
- Institutional arrangements under Component 3 will also imply payments to multiple beneficiaries, including organizations such as ADLs and ATLs[35] and CONABIO,[36] which will carry out diverse types of subprojects, based on inter-institutional agreements that will be agreed and signed with CONAFOR. These arrangements should also be reflected appropriately in the project's Operational Manual.

21. Nacional Financiera, SNC (NAFIN) will be the financial agent for this project. Among other functions, this entails managing the loan disbursement processes, administering the project's bank account, and providing implementation support and oversight to CONAFOR.

22. **Staffing arrangements.** CONAFOR has considerable experience in managing Bank-financed projects. More recently it implemented the Environmental Services Project (LN7375 and TF56321), which closed on June 30, 2011. As noted earlier, FM tasks under the project will be performed by CONAFOR as follows: (i) Technical matters will be carried out by five different units *(subgerencias)*, which are under the following two divisions: the General Coordination Office for Production and Productivity *(Coordinación General de Producción y Productividad)*, and the General Coordination Office for Conservation and Restoration *(Coordinación General de Conservación y Restauración)*; (ii) Institutional FM tasks related to the project, such as accounting, payments to providers of goods and services, and bank reconciliations, will be performed by the General Administrative Coordination Office; (iii) the project's specific FM tasks, such as the preparation of financial and disbursement reports required by the Bank, will be performed by an FM specialist who will be hired under the Project Unit. It is also important to mention that the coordination of project activities will be enhanced through the inclusion of administrative staff in each of the five units that will implement the

[35] Regarding the payments to ADLs and ATLs, CONAFOR indicated that subject to confirmation, they will also be made through the FFM. This will be confirmed.

[36] The National Inter-Secretarial Commission for Knowledge and Use of Biodiversity (*Comisión Nacional Intersecretarial para el Conocimiento y Uso de la Biodiversidad*, CONABIO) is composed of the heads of several ministries. It promotes, coordinates, supports and carries out activities for a better understanding of Mexican biological diversity, as well as its conservation and sustainable use.

project from a technical perspective; these staff members will liaise with the Project Unit for the project's FM tasks.

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

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

25. **Periodic financial reporting.** CONAFOR will prepare consolidated semi-annual unaudited Project Interim Financial Reports (IFRs) and the annual audited project financial statements. These reports will be prepared on a cash basis, in local currency (i.e., Mexican pesos), using the standard formats agreed with the SFP for the Mexico portfolio. After loan effectiveness, the following financial reports will be submitted to the World Bank:

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

26. **External audit.** Annual audits of project financial statements and eligibility of expenditures will be performed by an independent audit firm selected by SFP and acceptable to the Bank in accordance with Bank policy, as reflected in the audit terms of reference and memorandum of understanding (MOU) agreed between the Bank and SFP. CONAFOR is also subject to the audit scope of the Federal Supreme Audit Institution (*Auditoría Superior de la Federación*, ASF), which regularly conducts a number of performance, financial and compliance audits. The results of these audits are made public in the annual audit reports on Federal Public Accounts. These external checks provide additional assurances about the program's operation and financial management.[37]

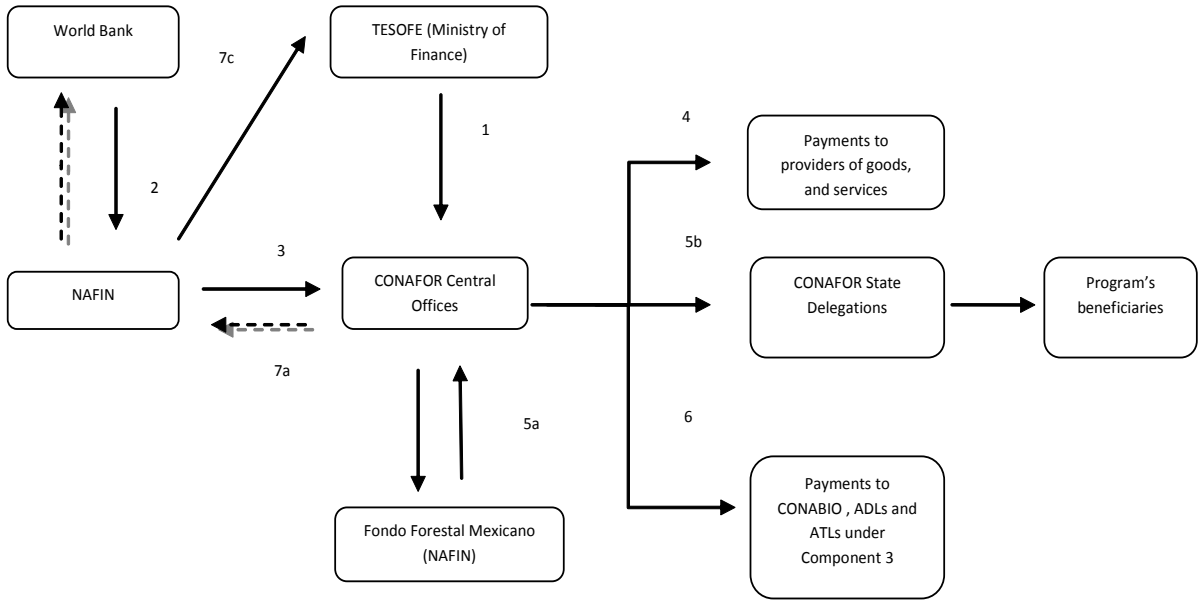
27. Given the nature of this project, specific TORs will be prepared, taking into account the standard TORs already agreed with the SFP with the objective of requiring the auditors to review

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

a sample of files of the program's beneficiaries and the payments made to them, in order to assess compliance with the operational rules in the following matters: (i) adequate eligibility of the selected beneficiaries, (ii) adequate integration of the documentation required from the beneficiaries, and (iii) ensuring that payments were made according to the requirements established in the Operating Rules.

28. The audit reports for the projects currently under implementation were delivered on time, were awarded an unqualified opinion, and were acceptable to the Bank.

29. **General flow of funds and information.** The primary disbursement method for the resources executed under the project will be the reimbursement of eligible expenditures, by which the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público,* SHCP) will prefinance the total project spending passing through the standard budget of CONAFOR. In addition, for the expenditures executed with FIP resources, the Government will require the advance method. The description of the funds flow is presented in the following diagram, where the solid lines represent the flow of money and the dotted lines represent the flow of information:



(1) The National Treasury (*Tesorería de la Federación* [TESOFE], an under-secretariat of SHCP) will transfer funds to CONAFOR in local currency (Mexican pesos) through its standard budget.

(2) Funds from the FIP may be also advanced to a designated account opened by NAFIN.

(3) NAFIN will transfer the resources advanced to CONAFOR's treasury

(4) CONAFOR will pay directly to suppliers of goods and services for the implementation of the project's components related to consultancies, training and goods.

(5) CONAFOR's central office will transfer resources to the FFM managed by NAFIN; once the funds are assigned to the beneficiaries of programs financed by CONAFOR under

Component 2 and the respective contracts are signed, the FFM will transfer the resources back to CONAFOR's central office; which in turn will transfer the resources to its state delegations, which will make the payments to the program's beneficiaries. The recognition of expenditures will be after the payments have been made.

(6) CONAFOR will make payments to CONABIO, ADLs and ATLs under Component 3, which in turn will execute the activities agreed with CONAFOR.

(7) CONAFOR will report to NAFIN on the expenditures incurred through the periodic submission of Statements of Expenditures (SOEs); NAFIN will retransmit the SOEs and financial reports to the Bank, which in turn will reimburse the funds in US dollars into a commercial banking account opened by NAFIN, which will be used to reimburse the resources to TESOFE.

30. **Disbursement arrangements.** The project disbursement arrangements[38] are summarized below:

Disbursement method	For IBRD resources the disbursement method for the project will be the reimbursement of eligible expenditures prefinanced by the Government. For FIP resources there will be two disbursement methods: advance and reimbursement.
Supporting documentation	SOEs,[39] which for Components 2 and 3 will be customized to the nature of the project's arrangements.
Limits	For the Designated Account the proposed ceiling is US$2,000,000. Different aspects such as the minimum value of applications for direct payments, and thresholds to deliver SOEs versus records, will be determined and agreed with CONAFOR and laid out in the Disbursement Letter prepared by LOA.
Retroactive expenditures	The Bank will finance retroactive expenditures under the project, which must fulfill the following conditions: (i) eligible expenditures that do not exceed 20 percent of the loan amount; (ii) incurred by the Borrower after the date of negotiations; (iii) the retroactive expenditures will be subject to the same systems, controls and eligibility filters. These expenditures will also be subject to the regular project external audit.

31. **Disbursement Tables**

Table A: IBRD loan

Category	Amount of the Loan Allocated (US$)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services and Operating Costs for Parts 1.1, 1.2. and 1.3 of the Project	30,000,000	100%
(2) PSAB Payments; *Programas Especiales* Payments; and Goods, works, non-consulting services, consultants'	319,125,000	100%

[38] For details, see the Disbursement Letters.

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

services and Operating Costs for Parts 2(i), 2(ii), and 2(iii) of the Project		
(3) Good, works, non-consulting services, consultants' services and Operating Costs for Parts 1.4, 3.1 and 3.2 of the Project	0	100%
(4) Goods, works, non-consulting services, consultants' services and Operating Costs for Part 3.3 of the Project	0	100%
(5) Front-end Fee	875,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(6) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 2.07(c) of this Agreement
TOTAL AMOUNT	350,000,000	

Table B: FIP Loan

Category	Amount of the Loan Allocated (US$)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services and Operating Costs for Parts 1, 3.1 and 3.2 of the Project	0	100%
(2) Goods, works, non-consulting services, consultants' services and Operating Costs for Part 3.3 of the Project	16,340,000	100%
TOTAL AMOUNT	16,340,000	

Table C: FIP Grant

Category	Amount of the Grant Allocated (US$)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services and Operating Costs for Parts 1, 3.1 and 3.2 of the Project	18,660,000	100%
(2) Goods, works, non-consulting services, consultants' services and Operating Costs for Part 3.3 of the Project	7,000,000	100%
TOTAL AMOUNT	25,660,000	

C. Procurement

C.1 Generalities

32. **General Provisions** Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011; and "Guidelines: Selection and Employment of Consultants by

World Bank Borrowers" dated January 2011, and the provisions stipulated in the Loan Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the loan, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

33. **Procurement Summary**: CONAFOR will be the sole implementing agency for this project, and will observe Bank procurement procedures and guidelines.

34. Under Components 1 and 3, the project will strengthen CONAFOR as a world-class forest agency, promote the alignment of rural development policies and programs, and pilot innovative REDD+ approaches in Early Action Areas.

35. Under Components 2 and 3, the project will help consolidate and improve five CONAFOR programs for community forestry and environmental services, and utilize them as key elements of the National REDD+ Strategy. The key beneficiaries of the five-year project would be an estimated 4,000 *ejidos* and communities that would participate in demand-driven incentive and advisory programs supported by the project at the national level and in REDD+ Early Action Areas. About a quarter of the total beneficiaries would be indigenous peoples. All these programs will be directly implemented by these rural communities and *ejidos,* financing a large number of small, simple activities (technical assistance, goods) that are geographically dispersed. Therefore, procedures for these community programs will be suitably adapted to reflect the nature of these activities, the environment in which they will be implemented, and the conditions and capacity of the communities, provided that these procedures are efficient and acceptable to the Bank. Procedures for the community programs are described below and further explained in the Operational Manual.

36. Under Component 3, specific technical assistance will be also provided to beneficiaries through public and private entities. These entities will not manage project funds. In the case of public entities, CONAFOR will enter into institutional arrangements *(convenios)* with CONABIO and ATLs. Private entities (ADLs) will be selected by CONAFOR, following competitive processes agreed with the Bank and further detailed in the Operational Manual.

37. Under Components 2 and 3, the project will also finance transfers to interested communities as an incentive for environmental conservation and restoration programs under the PES program and the Special Programs *(costo de oportunidad de tierra diferenciado*-differentied opportunity cost by land use). These activities are not procurable transactions; therefore, they are not further discussed in this section.

C.2 Procurement Methods

C.2.1 CONAFOR

38. *Procurement of Works*. No civil works carried out by CONAFOR will be financed under this project.

39. *Procurement of Goods and Non-consulting Services.* Goods to be procured under this project include the acquisition of databases and equipment, including those to support CONAFOR's monitoring and evaluation systems and environmental safeguards, as well as computers, etc. In addition, the project will finance non-consulting services, such as training, communication and outreach. The procurement will be carried out using Standardized Bidding Documents (SBD) agreed between the Government of Mexico and the Bank for International Competitive Bidding (ICB) for activities equivalent to US$3,000,000. National Competitive Bidding (NCB) will be used for activities costing less than US$3,000,000. Contracts for small purchases of goods and non-consulting services for individual contracts costing less than US$100,000 could be procured by CONAFOR through shopping procedures. Direct contracting could be used on an exception basis, under the circumstances explained in paragraph 3.7 of the Procurement Guidelines.

40. *Selection of Consultants*. The project will require the services of consultants to carry out a variety of consultant services under Components 1 and 3, including those related to policy design, institutional strengthening, policy innovation and cross-sector harmonization. These activities will be selected by CONAFOR, in some specific cases, with the support of other relevant federal, regional and local agencies, under institutional agreements agreed with the World Bank. These entities will not manage funds.

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

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

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

C.2.2 Community and Investment Subprojects

44. *Profile of Communities–Ejidos*. 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 legal status 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$200,000 equivalent of a mix of inputs. Communities would be responsible for deciding on the goods and services that they need.

45. This project will finance five CONAFOR programs (*Silvicultura Comunitaria*, PRODEFOR, *Cadena Productiva*, Special Programs and PES) through a range of supports *(apoyos)* to communities and *ejidos*. These programs have been designed to help local communities combine sustainable forest management with socioeconomic development, and to enhance the contribution of forests to climate change mitigation and adaptation.

46. *Silvicultura Comunitaria*, PRODEFOR and *Cadena Productiva* support a palette of activities such as capacity building, participatory assessments, planning, and in the most advanced cases harvesting, processing and marketing of forest products, and certification. In doing so, they help communities advance through a sequence of development phases toward sustainable self-management of their forests. In addition, the Special Programs support projects related to hydrological conservation and soil erosion prevention in specific regions/areas.

47. *Type of Activities*. Participating communities will prepare technical assistance activities or productive investment subprojects, or both. The selection of service providers, goods and related services, and consulting services would be the responsibility of the communities/*ejidos*. They will implement these activities or subprojects, supported by an broad range of implementation tools and instruments, tailored to project-specific situations, while remaining consistent with Bank procurement policies. The procurement methods for contracting that the communities/*ejidos* will use should be simplified. These procedures are described below and further explained in the Operational Manual.

48. **Technical assistance for community and investment subprojects.** Communities or *ejidos* would identify their needs for technical assistance. These communities will be selected by CONAFOR through open processes, in accordance with technical criteria established by CONAFOR and agreed with the World Bank. Interested communities would sign an umbrella agreement (*Convenio de Adhesión*) with CONAFOR. Under these agreements, the communities could seek assistance for social organization strengthening activities such as drafting of community bylaws, participatory rural appraisal, community-to-community seminars, land-use zoning, and design of productive activities.

49. Due to the demand-driven nature and impacts of the community programs, technical assistance will be provided through a range of firms or individuals certified on the basis of their merits. These service providers will be drawn from a roster of qualified consultants (CONAFOR's *padrón*) maintained by CONAFOR. Admission to the roster would be conditional upon presentation of technical qualifications and participation in a training course provided by CONAFOR and in the near future by universities and or academic institutions selected by CONAFOR. These providers would be subject to a satisfactory evaluation of their technical performance, drive for results, and working relationships with the communities.

50. In addition, these programs will contribute to CONAFOR's agenda for promoting good governance and increasing public participation in order to improve public service delivery at the community level. In particular, CONAFOR will continue scaling up good governance and social accountability programs by promoting fair treatment and competition in the implementation of community programs, including the selection of technical assistance providers.

51. Firms and individuals with the best qualifications and references among those on the roster *(padrón)* will be selected on fixed-budget basis (paragraph 3.5 of Guidelines), in accordance with CONAFOR's Operating Rules, as stated in the Loan Agreement and further explained in the Operational Manual. These processes should be documented and recorded under the terms stipulated in the Operational Manual. The selection of these technical assistance providers from the roster is in complaince with Bank procurement policies and guidelines, including the comparison of three CVs (for individual consultants) and Consultant Qualifications (for firms). In exceptional cases, this technical assistance could be selected under the sole source modality, for example when only one firm is qualified or has experience of exceptional worth for the assignment.

52. Payments will be on a lump-sum basis. Fees for these services will be paid by CONAFOR according to the standard compensation table, depending on 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$40,000. Any higher value of these services will require a positive concept from the World Bank. These communities will then enter into private agreements with said individual or consulting firm; these agreements will kept up to five years for auditing purposes. The Operational Manual will detail the task descriptions, minimum qualifications for each type of service provided, the selection procedure, etc. The level of effort of these consultants and the quality of their service will be monitored by CONAFOR.

53. **Goods, non-consulting services for community and investments subprojects.** Non-consulting services and goods such as machinery, purchase of materials, tools, and minor field equipment estimated to cost less than US$50,000 could be contracted by the communities/*ejidos* under CONAFOR supervision under simple shopping procedures through the comparison of at least three quotes. Comparison of two quotes is justified only when there is satisfactory evidence that there are only two reliable sources of supply: in exceptional circumstances, for example, when the required good is obtainable only from one source.

54. **Community participation in procurement.** Some of the program activities could be procured under the modality of community participation (paragraph 3.19 of the Procurement Guidelines, 2011). This method is appropriate for some of CONAFOR's community programs considering they: (a) call for the participation of local communities and *ejidos* in civil works and the delivery of non-consulting services, (b) promote the utilization of local know-how, goods and materials, and/or (c) finance and employ labor-intensive and other appropriate technologies, procurement procedures, specifications. The Bank will finance community participation up to US$40,000 per proposal.

55. Given the nature of these community programs, as reported by CONAFOR, a large percentage of the funds will be used to finance community labor. In addition, they could also

finance small civil works and small-value goods. For these goods, under this method the communities could purchase up to an aggregated amount of US$10,000.

56. Although community participation is a driven and cost-effective method that injects funds into the community, there are major drawbacks for potential abuse due to the vulnerability of community members, including the misallocation of funds and the difficulty of estimating and controlling costs. Therefore, it is expected that, when possible, these procedures will promote competition and equal opportunities among consultants and providers, enhance the perception of fairness and achieve economy in the use of the funds. A list of mitigation measures is attached in Table 1 of this subsection.

57. Due to the demand-driven nature of these projects, it may not always be practical to prepare detailed procurement plans at the time of negotiations, as is traditionally required, especially when the procurement of activities or the activities themselves are carried out directly by the community. Simplified procurement plans may be prepared, if practical, based on an indicative list of eligible activities to be implemented.

58. The Project Operational Manual will contain a section that defines the project procurement arrangements, including the organization, procedures and review threshold for all these procurement methods.

59. **Supervision of community programs**. CONAFOR's operational procedures for the community programs have established tested internal instruments targeting 100 percent supervision of these programs.

Table 1: Activities, procurement methods and thresholds and special provisions–Community and Investment Subprojects

ACTIVITIES	PROCUREMENT METHOD	PROCUREMENT THRESHOLDS	SPECIAL PROVISIONS
Technical assistance	Certified consultants will be recruited by communities from CONAFOR's roster. Consultants will be selected on a fixed-budget basis. The selection of these technical assistance providers from the roster is in compliance with Bank policies and guidelines, including, for example, the comparison of 3 CVs (for individual consultants) and Consultant Qualifications (for firms). Sole source as an exceptional method, for example when only one firm is qualified or has experience of exceptional worth for the assignment.	Up to US$40,000 per *apoyo*	Processes should be documented and kept (by the communities) for five years. Close supervision by CONAFOR. The Bank's supervision of the community programs may consist of reviewing reports of procurement post reviews carried out by CONAFOR according to procedures acceptable by the Bank and should be done in addition to technical and financial reviews and audits.

Goods/non-consulting services	Simple Shopping: 3 quotes. Comparison of two is justified only when there is satisfactory evidence. Direct contracts as an exceptional method, for example when the required good is obtainable only from one source.	Up to US$50,000 per *apoyo*	Processes should be documented and kept (by the communities) for five years. Close supervision by CONAFOR.
Community participation procurement	Community participation (payment of communities' own-labor resources). Small civil works and small-value goods.	Up to US$40,000 per community participation Up to an aggregated total of US$10,000 per *apoyo*	Processes should be documented and kept (by the communities) for five years. Close supervision by CONAFOR, targeting community members.

C.3. Assessment of the Implementing Entities' Capacity to Implement Procurement

60. CONAFOR has demonstrated sound capacity in implementing World Bank procurement policies and procedures. Implementation of the Second Community Project was deemed fully satisfactory with regard to procurement policies. Procurement for this operation as well for the FCPF will be executed at the central level by the same staff as that of the current Environmental Services Project (P087038). This procurement team has sound knowledge of Bank procurement policies and guidelines. In addition, CONAFOR has a suitable management team, with different departments charged with the responsibility of implementing specific components.

61. The project's specific procurement activities will be performed by procurement specialists that will be hired under the Project Unit. This structure has not yet been created and the consultants have not yet been retained. CONAFOR has indicated that in the early stages of the project, procurement implementation could be carried out by CONAFOR staff familiar with Bank procurement (i.e. the CONAFOR staff in charge of procurement under the previous PROCYMAF and PES projects). In addition, it is expected that CONAFOR will receive close first-line support from NAFIN, the fiduciary agent.

62. The community programs (Component 2 and Subcomponent 3.3) will encompass a large range of activities *(apoyos*), with diverse actors, sometimes in remote locations with poor communications, among a large number of small, simple subprojects that are geographically dispersed and implemented by rural communities. These communities have no experience in implementing World Bank procedures. However, CONAFOR will develop instruments to ensure that these communities will implement these programs observing agreed procedures.

63. **Overall Risk Assessment**. The procurement activities to be carried out by CONAFOR are not complex and have a limited number of contracts. However, in view of (a) the large number of activities to be carried out by communities in rural and distant places, and (b) the fact that the implementation structure has yet not been created, the Overall Procurement Risk for this operation is Substantial. Other specific mitigation measures, as needed, would be developed at

later stages during project implementation, in particular for Component 2 and Subcomponent 3.3.

Table 2: Procurement Action Plan

Risks	Mitigation Actions	Agency Responsible	When
New implementation unit has not been created	Specific TORs will be prepared for staff to be responsible for procurement. These TORs should be agreed with the Bank by effectiveness.	CONAFOR	By effectiveness
	For activities to be implemented in the early stages of the project, skilled CONAFOR staff should assist in procurement, with close first-line supervision/support from NAFIN, the fiduciary agent.	CONAFOR	During project implementation
Large number of parties and transactions involved, small value and multiplicity of contracts, and scattered locations of community program activities	Supervision and internal/external audits are defined as part of the CONAFOR's operational procedures. Other forms of accountability should be built at the community level. For example, successful internal control requires that the beneficiaries and other stakeholders be kept well informed at all times and at all levels about their entitlements, rights, obligations, and the project's costs and benefits.	CONAFOR	During project implementation
Community groups may lack the necessary capacity	Procurement procedures should be simple enough as to be understood and implemented by community staff. In addition, they should be sufficiently transparent to permit real competition among suppliers and to facilitate control in the selection of contracts and use of funds. These procedures should be clearly defined in the Operational Manual. These processes will be further disseminated, and appropriate capacity will be provided.	CONAFOR	During project implementation

C.4. Procurement Plan

64. The Procurement Plan, prepared by CONAFOR and dated November 29, 2011, provides the basis for the procurement methods. This plan will be available in the project's database and on the Bank's external website. It will also be available in SEPA. The procurement plan will be updated in agreement with the Bank annually or as required to reflect actual project implementation needs and improvements in institutional capacity. For the community programs, a report of the selected communities, activities and amounts will be provided annually to the Bank.

65. *Goods, non-consulting services*. There is no expected ICB or direct contracting under the project. There is no expected contract with international short list and sole source.

66. Consulting Services:

1) List of consulting assignments with short list of international firms.
2) Consultancy services estimated to cost above $200,000 per contract, as well as all single-source selections of consultants (firms and individuals), will be subject to prior review by the Bank.
3) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US$500,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
4) Selection of key personnel.

C.5. Others

67. *Operating Costs*. The project will finance the Implementation Team's operating costs: the incremental expenses incurred due to project implementation, including supplies, operation and maintenance, communication and insurance costs, office administration costs, leasing of real estate, utilities, travel, per diems and supervision costs. They are typically small-value expenditures for goods and services that are periodically incurred and consumed in a short period of time, are necessary for the project's operation and maintenance, and usually continue beyond the life of the project. If the term "operating costs" is defined to include only items that are typically non-procurable (e.g., utilities, per diems for field supervision) but also includes items such as equipment, office supplies and other goods/non-consulting services, they may need to be treated as "procurable" like any other small-value goods and non-consulting services. Furthermore, these procurable activities should be listed in the procurement plan and will be procured by CONAFOR in accordance with the procurement procedures described in this section.

68. *Retroactive financing.* CONAFOR has requested to use up to 20 percent of project funds to retroactively finance some payments relating to a number of contracts awarded before this operation has been declared effective. To that end, the following conditions should be observed in all retroactive financing:

a. Payments must be for expenditures that are eligible under the Loan/Grant Agreements. Procedures for procurement and the use of consultants and for processing and clearances are subject to the Bank's Procurement and Consultant Guidelines as agreed for this operation.
b. Documentation requirements for expenditures claimed under retroactive financing are the same as those for disbursement against payments made after the Loan Agreement is signed.

69. *Project Operational Manual*. The Project Operational Manual covers the relevant procurement processes, including detailed institutional procedures, accountabilities, composition of technical and administrative evaluation committees, time frames for approvals, etc. The Operational Manual also covers topics related to conflicts of interest, fraud and corruption. With regard to community programs, the Operational Manual contains sample formats for submitting subproject proposals.

70. *Notification of Business Opportunities.* A General Procurement Notice will be published in the United Nations Development Business (UNDB), informing prospective bidders about the upcoming ICBs under the project. The World Bank will arrange for its publication in the UNDB online and on the Bank's website. All procurement notices published in UNDB online will be also published in at least one newspaper of national circulation in the Borrower's country. The Borrower is encouraged to develop instruments for public access to all procurement activities to be financed under the loan, as described above.

71. *Bank supervision.* Bank procurement staff will undertake at least two missions in the first two years after the project has been declared effective to monitor and review compliance with procurement policies. The Bank's supervision of community programs may consist of reviewing reports on procurement post reviews carried out by CONAFOR according to procedures acceptable to the Bank and should be done in addition to technical and financial reviews and audits.

72. *Other support and control systems.* CONAFOR is subject to regular financial (prior and ex post) audits, internal or external, as detailed in the SFP statutes and CONAFOR's Organic Law *(Ley Orgánica)*. CONAFOR has also made provisions to ensure that the technical units will work closely in implementing/supervising this project. Furthermore, NAFIN should enforce additional control mechanisms under its project activity supervision role. Furthermore, CONAFOR 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.

D. Safeguards triggered by the project

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

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

E. Environmental (including Safeguards)

73. CONAFOR has commissioned an Environmental Assessment (EA) that describes the legal framework, institutional design and performance, capacity and track record and field conditions relevant to the project's compliance with safeguard policies. The Environmental Management Framework (EMF) builds on nearly two decades of CONAFOR's experience in the implementation of good environmental practices in prior IBRD and GEF operations. These operations have contributed to build capacity in the institution and have produced a series of manuals to promote good management of forest, soil and biodiversity conservation practices, both at the government level and in the communities.

74. CONAFOR updates the Operational Rules of the participating program each year based on inputs from its technical committees as well as from the different consultative bodies. Operational Rules incorporate criteria such as land-use planning, integrated watershed management to promote effective incentives for good management practices, and local/regional initiatives to better manage landscapes, protected areas and productive mosaics.

75. The project will be coordinated by an Operational Committee composed of managers responsible for community forestry, environmental services, sustainable forest management promotion, productive chains, forest and soil restoration, planning, evaluation and financial management. This committee will appoint designated liaisons to oversee fiduciary aspects and safeguards.

76. No negative environmental impacts are expected from the activities included in the design of the current operation. The EMF incorporates a recommendation to include health and safety principles in the training curricula for technical service providers. As in the current operations, SEMARNAT –responsible for environmental impact assessment and permits at the federal level–will continue to participate regularly in the technical committees. SEMARNAT is responsible for screening and scoping both the program design and the particular proposals from the communities to ensure that any activity in the buffer zone of a protected natural area is consistent with the relevant management plan for that area, and it will inform the National Commission for Protected Areas so that any such activities can be monitored.

77. Component 1 focuses on capacity building and offers the opportunity to mainstream environmental concerns in CONAFOR and in training programs for technical service providers. Component 2 will finance existing programs such as Community Forestry and Payment for Environmental Services that have been financed by the Bank since they were launched in 1997 and 2003, respectively. Stemming from these experiences, the EMF incorporates additional provisions for the new programs: Productive Chains and Special Programs, which focus on landscape management, including productive landscapes, and which trigger the environmental safeguards to guide forest management, activities around protected areas, the potential use of pesticides and any chance finding of physical cultural resources.

78. The EMF was disseminated to relevant consultative bodies including the National Forestry Council (*Consejo Nacional Forestal*), the Technical Consultative Council (*Consejo Técnico Consultivo*), and the Sustainable Development Council (*Consejo de Desarrollo*

Sustentable). It was discussed at a meeting convened by CONAFOR on November 9, 2011, to receive feedback from academia and civil society organizations.

79. No long-term or large-scale negative environmental impacts are anticipated. The project is classified as Environmental Risk Category B. Due to the complexity of the project, the Bank's Safeguards Advisory Team will retain review and clearance authority over safeguards for this project throughout preparation and implementation.

80. The main indicator of the project's environmental impact will be the reduction of deforestation and forest degradation through the incorporation of new forest areas under sustainable forest management. Two decades of Bank operations in the forestry sector in Mexico have contributed to improving environmental practices in the proposed areas of intervention. Project activities include community-based land-use planning and forest management, including the harvesting, processing and marketing of timber and non-timber products, as well as the protection of and payments for environmental services. The project does not include commercial plantations, agricultural and livestock expansion, or road building or maintenance.

81. Environmental Assessment (OP/BP 4.01). The Environmental Assessment (EA) Report and the Environmental Management Framework (EMF) were submitted to the Bank and disclosed on the Web. The safeguards triggered are: Environmental Assessment (OP/BP4.01), Natural Habitats (OP/BP4.04), Forests (OP/BP4.36), Pest Management (OP4.09) and Physical Cultural Resources (OP/BP4.11). Based on the EA, the EMF focuses on mainstreaming good environmental practices in Component 2 and enabling the institutional arrangements within CONAFOR for screening and scoping of community investments. The subcategories that will be financed under Component 3 will be any of the ones currently financed by the different promotion programs supported by the SIL under Component 2. The Operational Manual will detail the procedure/criteria to define the incorporation in the abovementioned subcategory list/catalog, of any new activity identified during implementation, as long as it is not included in the negative list of the Environmental Framework and allowing for the environmental screening/scoping described for new activities, in said Framework.

82. Natural Habitats (OP 4.04) is triggered to guide the implementation arrangements proposed in the EMF in order to anticipate the possible impacts of activities supported by the project on Natural Protected Areas or any other relevant natural habitats identified in the National Commission for Biodiversity's (CONABIO) Terrestrial Priority Regions and Gap Analysis reports. Natural habitat protection measures are included in the EMF to incorporate criteria in the call for and evaluation of proposals (no activities that would imply conversion of natural habitats, especially forests, will be supported by the project) and through the implementation of a coordination mechanism with the Natural Protected Areas Commission to ensure that any activity developed in the buffer zone of a protected area is consistent with the respective Area Management Plan, and is monitored by the Protected Area Administration, the Federal Attorney for the Environment (PROFEPA), SEMARNAT and CONAFOR.

83. Forests (OP/BP 4.36). The project is consistent with the Bank's Forest Policy OP4.36. It will only support community-based forest management, and all activities will need to comply with national legislation and good practices for sustainable forest management planning. Some

of the community forestry operations in Mexico are already certified under the FSC or equivalent standards, and the project will assist more communities to reach certification standards. According to the EMF, community forestry operations will be eligible for project support only once the community forest management plan has been approved by SEMARNAT, which requires baseline information and good management practices. Bank projects in Mexico have contributed to the development of regulations and capacity both in the government and in civil society (landowners, technical service providers and CSOs) since the creation of the FSC and the launching of the Community Forestry Project in the mid-1990s. The project will aim to reduce forest degradation and deforestation through the incorporation of new forest areas in sustainable forest management and expansion of the number of certified forest communities, and to increase the area under payments for environmental services.

84. Pest Management (OP 4.09). A Pest Management Plan, including Pest Management Practices, Legal and Institutional Framework, Procurement of Pesticides, Improving Capacity and Practices, Monitoring and Evaluation in the EMF, which present detailed guidelines to screen the proposed products and practices to be supported by the project for silvicultural treatments, insect and pest management, the use chemical products for the treatment of timber. Procurement of pesticides or other agricultural chemicals under the project will follow Bank guidelines. If these are included, the use of pesticides will be guided by an Integrated Pest Management Plan and health and safety provisions, as required under the policy. In addition, the EMF includes the legal framework and provisions to ensure good practices in the sector's health and safety issues.

85. Physical Cultural Resources (OP/BP 4.11). No large infrastructure works will be financed by the project, but some remodeling or new facilities for forest communities may require relatively small works and there is a possibility of chance finds at any construction site. The EMF, based on the Law of Monuments and Archeological Sites *(Ley de Monumentos y Sitios Arqueológicos*), will guide the project team to use the appropriate conduct in reporting and following up on any such cases. CONAFOR should contact the state delegation of the National Institute of Anthropology and History (*Instituto Nacional de Antropología e Historia,* INAH) which has designated personnel to explore and determine possible monuments or archeological sites discovered during civil works in the field.

F. Social (including Safeguards)

86. A Social Assessment was carried out by CONAFOR in order to provide a comprehensive review and knowledge of the sociocultural context of the proposed project areas. The main beneficiaries of the project will be ejidos and comunidades that will participate by accessing the various CONAFOR incentive programs for sustainable resource management, community forestry, and payment for environmental services. According to INEGI (*Instituto Nacional de Estadistica y Geografia),* the total population of forest communities (indigenous and non-indigenous in forests) is estimated between 11 and 15 million partly influenced by out-migration. It is estimated that there are 8,420 forest communities, of which 28% speak an indigenous language. The general population in forest areas demonstrates one of the highest levels of marginalization and poverty in the country and over half of them live in conditions of extreme poverty.

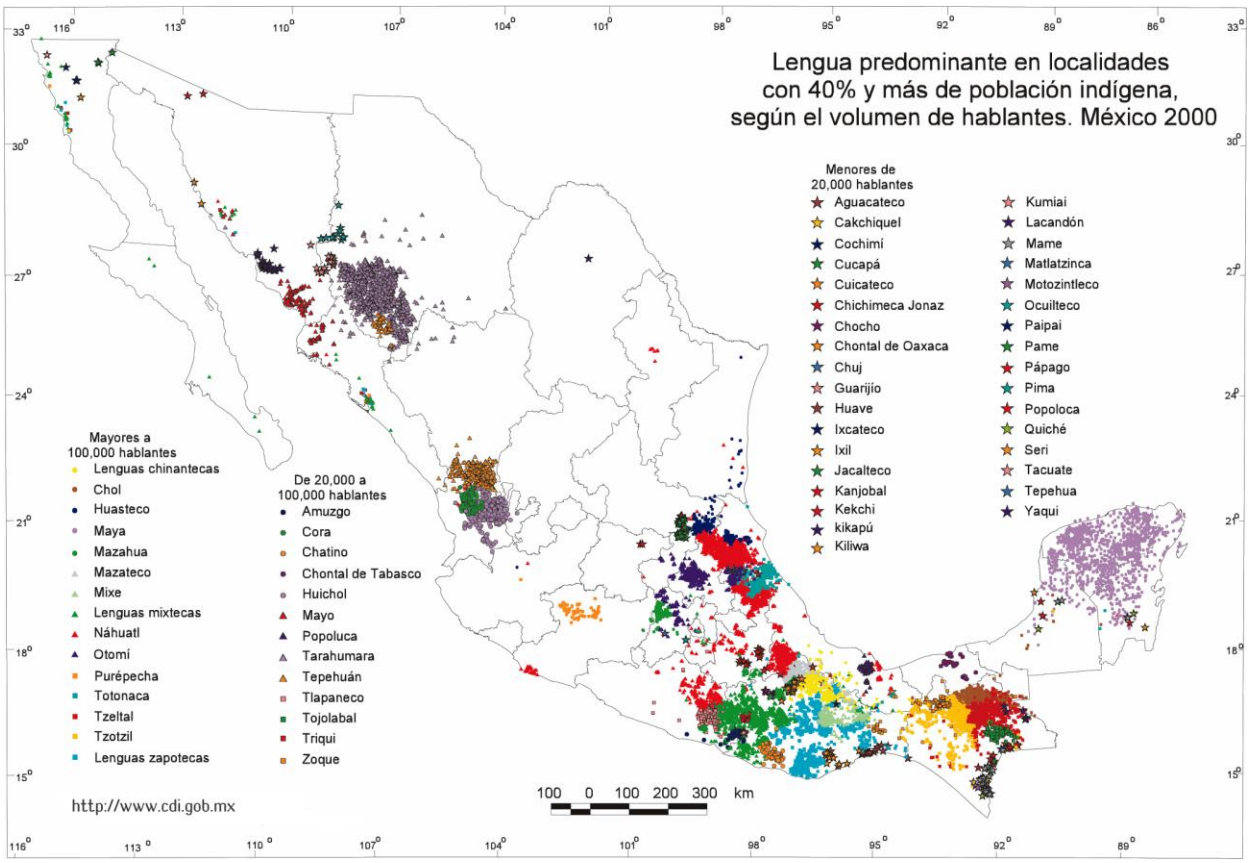
87. According to the latest National Census (2010), INEGI identified a total of 6,956,768 (6.7% of the total population) indigenous peoples in Mexico utilizing the sole criteria of speaking one of the indigenous languages, of which a total of 980,894 indigenous peoples do not speak Spanish. The figure rises to a total population of 16,102,646 (14.4%) when including the criteria of self-identification regardless of speaking an indigenous language or not. There about 82 indigenous languages in Mexico and the National Institute of Indigenous Languages (INALI-Instituto Nacional de Lenguas Indigenas) estimate the existence of 364 linguistic variations, 68 groupings and 11 linguistic families.

Criteria (Indigenous Language)	Population of age 5 and above	Self-identification as indigenous person	No self-identification as indigenous person
Speaks an indigenous language	6,956,768	6,556,548	400,220
Does not speak an indigenous language		9,145,878	

Source: INEGI, 2010.

88. A greater number of indigenous peoples speak náhuatl (23%) and maya (11.5%), while other languages are spoken by a smaller number of indigenous peoples: tzeltal (7%), mixteca (6.9%), tzotzil (6.5%), zapoteca (6.4%), otomí (4.2%), mazateco (3.5%), totonaca (3.3%), chol (3.1%), huasteco (2.5%) and chinanteco (2.1 %). These languages conform about 80% of the total population of indigenous peoples. Twenty-three indigenous peoples have been identified, for which their languages are at risk of extinction. In terms of geographical distribution, indigenous peoples can be found across the country with clear concentrations of the Mayan in the Yucatan peninsula, the Tarahumas in Chihuaha, the Zapotecas in Oaxaca, the Tzeltales and Tzotziles in Chiapas and the Huicholes and Coras in Nayarit as well as the Tepehuanos in the South of Durango and North of Nayarit.

89. In relation to the characteristics of land tenure, it is estimated that approximately 70% of forests are owned by ejidos and communities. The Mexican Agrarian Law (2008) stipulates the governance structure of ejidos and communities recognizing that the *Asamblea Ejidal* or *Asamblea Comunal* is the body for making decisions on the use, management and allocation of the land and resources. Each ejido or community have internal bylaws that regulate land and resource use in more detail and in accordance to their "usos y cotumbres." Within any given ejido, three types of land holdings can be found: (i) lands for common use (*tierras de uso común*); (ii) individual parceled lands (*tierras parceladas*); and (iii) lands for human settlement (*tierras para el asentamiento humano*). The National Agrarian Registry (*Registro Nacional Agrario*) certifies the rights on common use lands and also those that are individually parceled within an ejido. The Program on Certification of Ejido Rights and Titling of Urban Sites (PROCEDE) is a federal program addressing land ownership and regularization in ejido and community lands. As a result, land certificates are issued regarding ownership of common use lands and individual parceled lands.



Source: CDI (Comision Nacional para el Desarrollo de los Pueblos Indigenas)

90. The Agrarian Law also stipulates the rights of those who live in the ejidos and communities: (i) the *ejidatarios* or *comuneros* have land ownership and the right to participate in the decision-making process in the Assembly (*Asamblea*); (ii) the *posesionarios* can make use of parceled lands but do not have rights in the Asambly (*Asamblea*); and (iii) the *avecindados* live in the ejido or community without the right to use land nor to have a say in the Assembly. In communities, only common use lands (*tierras de uso común*) are recognized. In specific reference to the population living in ejidos and communities, it is estimated that around 60% are ejidatarios, 25% are *avecindados* and the rest are *posesionarios*.

91. There exists an intrinsic relationship between the use of natural resources and indigenous peoples as the large majority are located in areas of high biodivesity and important forest resources for Mexico. The use of forest resources by indigenous peoples is highly diversed and is defined by the specific cultural, historical, geographical, social, economic and political contexts that characterize indigenous peoples' socio-political forms of organization. While it is challenging to generalize the extensive diversity of indigenous peoples in Mexico, there are three main patterns that emerge in reference to indigenous peoples and their use and relationship with the forest: (i) experiences in sustainable community forestry; (ii) communities heavily dependent on natural resources for subsistence; and (iii) indigenous peoples as the "guardians of the forests.

92. In terms of experiences in sustainable community forestry, about 2,300 communities have permits for exploiting forest resources in a sustainable manner, of which 1,901 are ejidos and 433 are agrarian communities that operate their own sawmills and other types of wood processing. These experiences show how communities have been able to develop a viable income-generating activity based on sustainable forest management (traditional and non-traditional) as well as having benefited from the various public incentive programs. On the other hand, a large proportion of indigenous peoples in forest areas are also characterized by high levels of exclusion and poverty, hence, they are directly dependent on the natural resources to survive. Families depend on these natural resources as they provide basic family staples such as food, medicine, firewood, construction materials, etc.). Subsistence agriculture is the main economic activity as well as out-migration for better opportunities. Additionally, there are indigenous peoples who strongly maintain their traditional way of life, cultural identity and strong spiritual connection with forests. Focus is on their right to self-determination and protection of their basic rights, culture, traditions and their territory. Most do not have access to government program incentives.

93. Some of the key findings of the Social Assessment involve (i) the role of women in forest management; (ii) the identification of indigenous peoples in the project context; (iii) broad participation; (iv) out-migration; and (v) social conflicts. In terms of gender, women have little legal and social recognition as they lack the mechanisms for acquiring land rights in order to have access to credit, training and education, and benefit from the various government incentive programs.

94. According to statistics of the Office of the Federal Agricultural Attorney *(Procuraduría Agraria)*, approximately 600,000 women are registered in the Land Certification Program, accounting for about 15 percent of the land registered as *ejidos* (16 million hectares), compared to only 1 percent some 35 years ago. Women have increasingly become managers of their agricultural and forest lands by default through inheritance and absence of males. There is a tendency toward social exclusion and triple discrimination for being poor, women and indigenous peoples. Based on these numbers, women's participation in the *ejidos*' governance structure is still limited, and most often the decision-making process overlooks the specific socioeconomic and cultural importance of forest resources to women. It is estimated that there is an average of 20.6% *ejidatarias*, 25.8% are *posesionarias* and 34.6% are *avecindadas*. The States with the highest percentage of *ejidatarias* are Baja California (28.6%), Puebla (25.3%), Sonora (25.2%), Sinaloa (24.8%), Morelos (24%), Michoacán (23.8%) and Nayarit (23.8%), while only 12% of ejidatarias are found in Campeche and Yucataán. Currently, CONAFOR incentive programs assign extra qualifying points for proposals submitted by women. In the project context, the consultation process will use a gender-inclusive approach, and the project will develop specific mechanisms to ensure the participation of women in project activities and directly benefit from them (see additional details in Indigenous Peoples Planning Framework and Process Framework).

95. With regard to indigenous peoples, Mexico has strong domestic legislations for recognizing their distinctive rights. Mexico has ratified ILO Convention 169 on Indigenous and Tribal Peoples. However, operationally Mexico applies the concept of *ejidos* (community units that may often be composed of indigenous peoples and other local communities alike) and

communities on the ground. This is a reflection of Mexico's sociocultural context in which many *ejidos* and communities are not homogenous. In the project context, this poses an operational challenge on how to ensure the distinctive treatment of indigenous peoples with regard to CONAFOR's programs at the same time without excluding non-indigenous communities and *ejidos*. CONAFOR will mobilize the Social Technical Team (*Gerencia de Coordinación y Concertación*) to accord indigenous peoples distinctive attention that is consistent with ILO Convention 169. CONAFOR will coordinate closely with the National Commission for the Development of Indigenous Peoples (*Comisión Nacional para el Desarrollo de los Pueblos Indígenas, CDI*) to ensure that the consultations are carried out not only at the national and regional levels, but also at the local level, including traditional authorities, and to monitor project implementation. CONAFOR will put in place a mechanism to assess and verify the broad community support/consent of indigenous peoples for a proposed community-driven project. Pending in Congress is a Bill on Consultations with Indigenous Peoples *(Anteproyecto de Ley de Consulta),* which when passed will regulate culturally appropriate and adequate consultations with indigenous peoples. It is important both to recognize indigenous peoples as distinct groups, in compliance with OP4.10, and to ensure that such recognition will not exclude other non-indigenous communities and *ejidos.*

96. The project will seek broad participation from indigenous peoples and other local communities for accessing CONAFOR incentive programs and for sharing benefits. The Ejido Assembly *(Asamblea Ejidal),* composed of the owners of the land *(ejidatarios),* will provide an adequate platform of participation and decision making. In other cases, the *Asamblea Ejidal* may not necessarily have broad representation and may not include the participation in the decision-making process of other groups living in the *ejido*, i.e., the *avecindados* (persons who live in the territory without being *ejidatarios*) and *posesionados* (persons who have users' rights in the territory). CONAFOR will develop and prepare a consultation methodology that will be followed across the different mechanisms (SIL, FIP, FCPF) in order to seek broad participation of *ejidatarios* and *comuneros* as well as *posesionarios* and *avecindados* by exploring existing participation platforms and mechanisms that will ensure engagement with *posesionarios, avecindados,* as well as women and youth. CONAFOR will establish Practical Guidelines for systematically documenting consultations and disseminating information across all three mechanisms (SIL, FIP, FCPF) in a timely manner.

97. Out-migration from indigenous peoples' and other local community areas is a growing trend that has a number of social, political and economic implications. For example, it affects the *ejido* governance structure as the *ejidatarios* are migrating to other parts of the country and overseas in search of better economic opportunities. Youth often leave to seek education and other career opportunities and few of them return to their home communities to continue the traditional land occupation. As men who hold land rights *(ejidatarios)* migrate, women are left to shoulder the economic responsibility of working in the land without exercising the right.

98. The findings of the Social Assessment also indicates some areas of potential social conflicts within an ejido due to unclear demarcation of individual parcel lands (*parcelas individuales*) vis a vis the common use parcel lands (*tierras de uso comun*). Other conflicts may involve unclear demarcation of boundaries between geographically adjacent ejidos and/or communities. The Focus Group meeting carried out on November 10, 2011, raised the issue that

about 30% of agrarian communities are not registered with PROCEDE, have conflicts and are unable to access programs. Unclear boundaries within or between ejidos could have long-term regional implications as it is unclear who manages and uses forest resources in areas that are not clearly defined. Potential impacts and recommendations for their mitigation, as identified in the Social Assessment and are also described in the IPPF, are summarized in the table below.

Impacts	Recommendations for mitigating impacts	Responses
Participation		
Overall Positive Impact: Transparent and broad participation of indigenous peoples and local communities by seeking their feedback, strengthening their capacity, empowering their organizations and developing a focused engagement strategy. **Overall Negative Impact:** Lack of culturally adequate mechanisms for participation	- Studies and plans for harmonizing public policies related to regulating forest resources use and management need to take into account indigenous peoples traditional uses and knowledge. - Workshops and participatory processes that respect the cultural customs and traditions of indigenous peoples. - Disseminate and seek feedback in a culturally adequate manner on studies aimed at reviewing the operational rules of CONAFOR programs.	- Subcomponent 1.2 will support the design of platforms for participation. - Component 2 will support the replication and mainstreaming of the successful participatory processes of community forestry (PROCYMAF) and strengthening of capacity to the other three CONAFOR programs. - Specific training will be provided to prívate service providers, ADLs and ATLs to engage with communities and indigenous peoples in a culturally adequate manner.
Monitoring and Evaluation		
Overall Positive Impact: Community participatin in monitoring and evaluation and strengthening of their indigenous peoples and other local communities' capacities. **Overall Negative Impact:** Lack of Project follow up and lack of understanding of the processes for monitoring and evaluation.	– Participation of communities in the impact evaluation strategy supported under component 1.1. and disseminate its outcome broadly to the indigenous peoples and other local communities. –When working on community monitoring techniques, conduct previous consultations, include local practices and experiences.	- Workshops with indigenous peoples and local communities will seek their feedback on mechanisms for evaluating and monitoring CONAFOR programs, specifically in identifying social indicators.
Inter-Institutional Coordination		
Overall Positive Impact: Consistent approach in the management of social issues acrross CONAFOR programs, specifcally the mainstreaming of a distinctive strategy for indigenous peoples. **Overall Negative Impact:** Over-regulation of projects and lack of access to the benefits of the Project.	- Inter-institutional collaboration between CONAFOR and CDI (Comision Nacional para el Desarrollo de los Pueblos Indígenas) to integrate the aspects of indigenous peoples, gender and youth.	- Inter-institutional collaboration among the various federal agencies focusing on social issues and working with indigenous peoples and local communities such as CDI, SEMARNAT and SEDESOL).
Institutional Strengthening		
Overall Positive Impact: Access to the Project benefits by	- Strengthen the capacity of Gerencia de Coordinación y Concertación (technical	- Subcomponent 1.3 will explore the most effective institutional way for

indigenous peoples and local communities. **Overall Negative Impact:** Difficulty accessing Project benefits due to lack of awareness on how to engage indigenous peoples in a culturally and socially adequate manner by CONAFOR staff.	team in CONAFOR addressing social issues) and provide the institutional structure to mainstream social issues (indigenous peoples and local communities) across all CONAFOR programs. - Strengthen the knowledge and capacity on safeguards of CONAFOR staff.	Gerencia de Coordinación y Concertación to work across all CONAFOR programs. - Strengthening of capacity of CONAFOR staff will also include training on safeguards.
Private Service Providers		
Overall Positive Impact: Close and culturally adequate assistance to indigenous peoples and local communities. **Overall Negative Impact:** Lack of ownership in the process of developing the Project and empowerment of intermediary actores that do not represent the interest of the community.	- Include capacity building plans for prívate service providers that can engage in a culturally appropiate manner with indigenous peoples and local communities. - Include in the operational process the role of community promoters to develop projects closely with the community.	- Subcomponent 1.4 intends to support capacity building for the prívate service providers. - The project will explore the best way to include the community promoters in the operational process as it was done during the implementation of PROCYMAF.
REDD+		
Overall Positive Impact: - Community agreement on the protection and conservation of natural resources as well as indigenous peoples and local communities having access to the Project benefits. **Overall Negative Impact:** - Lack of knowledge of the process.	- REDD+ need to comply with the obligations of ILO Convention 169 and the Mexican delegation in respecting and projecting rights. - Broad participation and dissemination of the process regarding REDD+ readiness.	- All projects will be demand-driven and culturally adequate consultations will be carried out.

99. A number of information dissemination efforts were carried out during project preparation at the national, regional and local levels with a wide range of stakeholder groups (indigenous peoples and other local communities, regional organizations and state governments, among others). Specifically, six regional workshops were held in the States of Jalisco (Mascota, Ciudad Guzmán and Autlan), Campeche (Campeche), Quintana Roo (Chetumal) and Yucatán (Merida) in August and September of 2011 in order to seek feedback and comments from these stakeholders on the national REDD+ process as well as on the FIP (a summary of the workshops is found in CONAFOR's website). A comprehensive multi-level communication and information dissemination strategy is being developed. The plan will coordinate the information among the various mechanisms (FCPF, SIL and FIP) and create the basis for a process of consultation with a wide range of stakeholder groups, including indigenous peoples and other local communities as well as small private land owners *(pequeños propietarios)*. In addition, CONAFOR presented the entire forest and climate change package at the meeting of the National CTC-REDD (composed of civil society, indigenous peoples and *campesino* organizations) on October 13, 2011 to seek stakeholders' feedback and inputs. Due to the country's large size, institutional capacity and coordination to roll out, upscale and maintain the information dissemination flow will be strengthened.

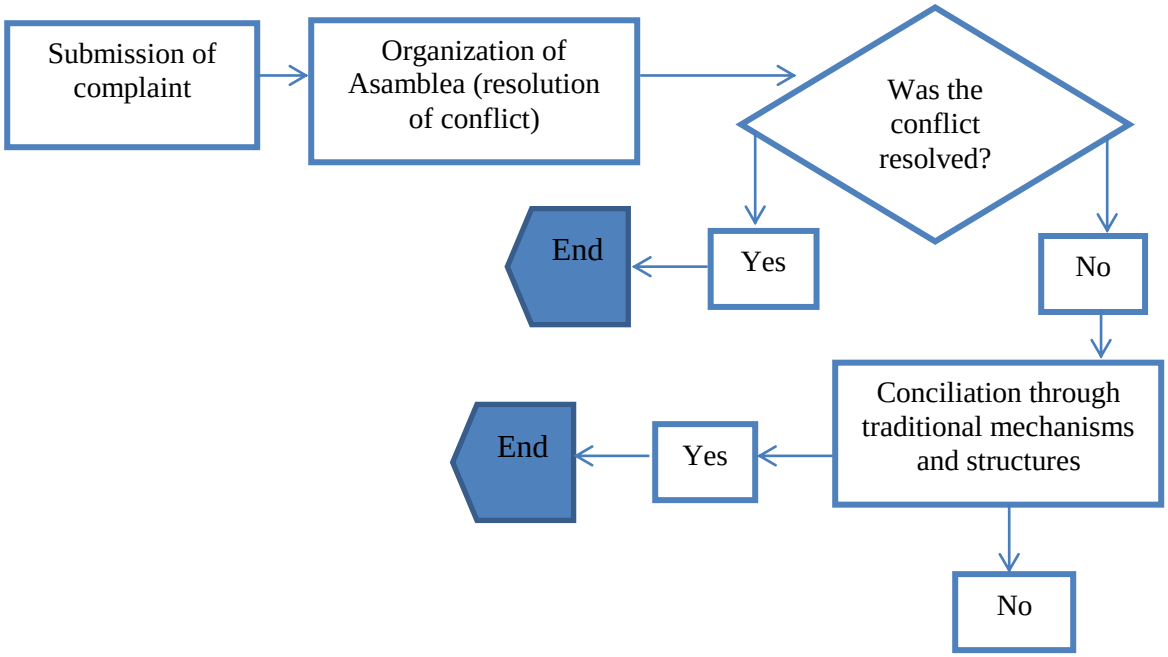
100. To ensure synergies and effective interventions, CONAFOR will prepare a comprehensive methodology applicable across the three mechanisms (SIL, FIP and FCPF) to guide information dissemination and consultations with stakeholders, when required. The methodology will include specific activities, timeline, budget, staffing, etc. In addition, CONAFOR will prepare Practical Guidelines for documenting consultation processes and activities as well as dissemination protocols that are socially and culturally adequate. In terms of direct engagement in specific issues, a Protocol for Dialogue will be prepared, in coordination with the Social Communications Unit, to manage and address specific concerns and issues of civil society and indigenous peoples' organizations in a systematic manner, across all three mechanisms (SIL, FIP and FCPF), that a consultation process alone may be unable to address.

101. As required by the FIP, CONAFOR prepared an Investment Plan, which corresponds to parts of Component 1 and all of Component 3 of the project. The Investment Plan was disclosed and discussed with CTC-REDD members and other external stakeholders on September 5, 2011 and is available on CONAFOR's website. It was also presented to CTC-REDD and was disseminated through a series of six regional workshops that were held in Jalisco, Campeche and Yucatán in August and September 2011 in order to seek feedback and comments from stakeholders on the national REDD+ process as well as on the FIP Investment Plan. The meetings included diverse topics such as analysis of causes of deforestation, strategic pillars of the REDD+ vision, input to the SESA matrix, and inputs on how to conduct consultations at the local level and on the FIP activities.

102. With regard to social safeguards, the Indigenous Peoples Policy (OP4.10) and the Involuntary Resettlement Policy (OP4.12) have been triggered to tailor project benefits and/or address potential impacts on indigenous peoples and to manage potential restriction of access to natural resources, respectively. In compliance with the Indigenous Peoples Policy (OP4.10), a comprehensive Social Assessment and the draft Indigenous Peoples Planning Framework (IPPF) were prepared and disclosed in-country on October 27 and October 31, 2011, respectively. No physical resettlement or land acquisition is expected under the project. The project will not finance community roads. However, in compliance with the Involuntary Resettlement Policy (OP4.12), a Process Framework (PF) was prepared to guide possible restriction of access to natural resources. The draft PF was disclosed in-country on October 31, 2011. A day-long focus group meeting was held on November 10, 2011, and covered the social safeguard instruments (SA, IPPF and PF). The draft IPPF and PF were subsequently revised to reflect the comments made by participants in the focus group meeting and the comments from the Bank. All three social safeguard instruments (SA, IPPF and PF) are available on CONAFOR's website and in the World Bank's Infoshop. The final version of the Process Framework (PF) was disclosed in country through CONAFOR's website on November 16, 2011 and disclosed at the Infoshop on November 29, 2011. The final version of the Indienous Peoples Planning Framework (IPPF) was disclosed in country on November 29, 2011 and disclosed at the Infoshop on the same day.

103. CONAFOR has extensive experience in working with indigenous peoples and other local communities. CONAFOR's Social Technical Team located in the Office of Coordination and Consensus *(Gerencia de Coordinación y Concertación)* will lead the implementation of social aspects and social safeguards across all programs. This is critical for the project as it involves a

substantial scale-up in activities, includes new mechanisms such as the FIP, and needs to coordinate REDD+ activities financed by the FCPF under one forest and climate change agenda while addressing social issues in a comprehensive and coordinated manner. The Social Technical Team will be integrated in the project's Operations Committee and will be provided commensurate resources through annual budgeting. This unit has an ongoing engagement with indigenous peoples, women and youth in the context of the CONAFOR programs while cooperating with other federal agencies such as the National Commission for the Development of Indigenous Peoples (*Comisión Nacional para el Desarrollo de los Pueblos Indígenas*, CDI) and other state governments. CONAFOR's institutional capacity will be further strengthened and additional human resources will be added to follow and manage social processes at multiple levels.



104. In regards to the grievance mechanism, CONAFOR has an established procedure through the *Organo Interno de Control* (OIC) to receive any complaint in a written or oral form and tailored to the need for a specific language (such as an indigenous language) other than Spanish. The OIC offices can also be found in all CONAFOR state level offices as well as in headquarters. In the case of conflicts that may arise at the community level, these are discussed and resolved in the Asamblea Ejidal or Asamblea de Comuneros. CONAFOR will respect the governance structure of the ejidos and communities and their internal bylaws. Traditional mechanisms and structures may also intervene, such as the *Consejo de Ancianos* (Council of Elders), in resolving community conflicts in the case of indigenous peoples.

105. **Summary of public participation during the project design**. Every year, CONAFOR carries out a nationwide call for proposals for its programs and for the dissemination of the operational procedures. As a result, in 2011, approximately 2,300 communities applied to the five CONAFOR programs that are supported by the SIL, indicating that communities have basic knowledge about these programs and have high interest to participate in them. The table below provides a summary of the various activities of information dissemination and consultations carried out to seek feedback from various stakeholders regarding the design of the project (more

detailed information can also be found in Annex 1 of the Indigenous Peoples Planning Framework for issues related to indigenous peoples).

March 2011	
Workshop to present FIP and REDD+ Vision	Workshop organized by CONAFOR and chaired by Dr. Juan Manuel Torres Rojo with the participation of more than 30 experts from a wide range of government sectors and civil society organizations such as Dr. Julia Carabias (UNAM), Dr. Sergio Madrid (Consejo Civil Mexicano) and Mr. Gustavo Sanchéz (Red Mocaf).
CTC-REDD+ Meeting	Presentation of the linkages between the SIL and REDD+ readiness process in Mexico. CTC-REDD+ is a participatory platform composed of more than 70 representatives from civil society, including indigenous peoples organizations, forest producers associations, campesino organizations, academia, prívate sector, etc.
April 2011	
Regional SESA Workshop	Workshop carried out in Bacalar, Quintana Roo with the participation of 48 people from communities, ejidos, forest associations, NGOs, etc., mainly from the Yucatan península.
Mayo 2011	
National SESA Workshop	National workshop organized in Mexico city with the participation of mpore than 50 representatives from various sectors: estate and municipal governments, indigenous peoples, forest ejidos and communities, agrarian communities, women's groups, NGOs (national and regional).
June 2011	
Meeting of the CTC-REDD+	CONAFOR presented the DPL and sought feedback from participants.
August 2011	
Workshop in Cuencas Costeras of Jalisco	Between August 22 – 30, workshops were carried out to seek feedback from stakeholders on the REDD+ readiness process and the FIP Investment Plan. Participants were indigenous peoples, local communities, small owners, civil society, research institutes, representatives from SEDER, SEMADES, CONANP, CONAFOR, as well as from the municipal government.
September 2011	
CTC-REDD+ Meeting	CONAFOR presented an update on the preparation of the FIP Investment Plan and sought feedback from stakeholders.
Workshops in Yucatan Peninsula	From September 1 – 9, workshops were carried out in Chetumal Quintana Roo, Campeche Campeche and Mérida Yucatán to seek feedback/inputs from stakeholders on the REDD+ readiness process and the FIP Investment Plan. Participants were representatives from ejidos, indigenous peoples communities, civil society, research institutes, state and municipal governments.
Workshop on Indicators	National and international experts were gathered in Mexico City to discuss and design the indicators to measure Project results.
October 2011	
CTC-REDD+ Meeting	CONAFOR presented an update on the progress of the SIL/FIP Project and sought feedback/inputs from stakeholders.
November 2011	
Focus Group meeting on environmental safeguards instruments	Experts in environmental issues discussed the draft versions of the Environmental Assessment and the Environmental Management Framework.
Focus Group meeting on the social safeguards instruments	Experts in social issues discussed the Social Assessment, the draft Indigenous Peoples Planning Framework and the Process Framework.

G. Monitoring and Evaluation

106. See Annex 6, section B.

H. Role of Partners (if applicable)

107. The proposed combined IBRD-FIP project is closely coordinated with the following operations: (i) the forestry pillar of the proposed IBRD US$300 million Social Resilience to Climate Change DPL; (ii) the €300 million[40] budget support operation from the French Development Agency which uses the same forestry policy matrix as the Bank's Social Resilience to Climate Change DPL; (iii) the US$3.6 million Readiness Grant from the Forest Carbon Partnership Facility and a potential future FCPF Carbon Fund Emissions Reduction Payment Agreement; (iv) the proposed US$18 million Innovative Financing Instruments project to be funded under the FIP and implemented by *Financiera Rural* with the Inter-American Development Bank; and (iv) the NOK90 million[41] grant from Norway for the MRV system to be implemented with UNDP and FAO. The FCPF is a global partnership for REDD+ that brings together over 50 forest and donor countries, many of which also participate in the FIP. See Annex 2, Section F for further discussion on the complementarity between the proposed IBRD-FIP operation and the FCPF and the DPL, and Annex 10 for further discussion on the Mexico FIP Forest Investment Plan.

[40] Equivalent to US$390 million as of December 16, 2011
[41] Equivalent to US$15.16 million as of December 16, 2011

Annex 4: Operational Risk Assessment Framework (ORAF)

<table>
<tr><td>1. Project Stakeholder Risks</td><td colspan="4">Rating: Moderate</td></tr>
<tr><td rowspan="2">Description: The project will be associated, directly or indirectly, with new initiatives that attract high interest globally such as the FIP and the FCPF. Ineffective communication and/or consultation with stakeholders could affect CONAFOR’s profile and delay project implementation. Forest and Climate Change-related initiatives, especially the REDD+ strategy design process, are the center of attention of various local and national stakeholders while attracting international attention. The FIP component, as well as the FCPF and Forest Bond associated with the project, could be questioned by stakeholders who may oppose REDD+ either generally or specifically in Mexico.</td><td colspan="4">Risk Management: CONAFOR’s communication capacity will continue to be strengthened and a proactive and comprehensive communication strategy across all three mechanisms (SIL, FIP and FCPF) will be implemented in coordination with CONAFOR. In terms of direct engagement on specific issues, a Protocol for Dialogue will be prepared, in coordination with the Social Communications Unit, to manage and address specific concerns and issues from civil society and indigenous peoples’ organizations in a systematic manner acrosss all three mechanisms (SIL, FIP and FCPF) that a consultation process alone may be unable to address. Significant efforts will be undertaken for stakeholder groups at various levels to be informed about the objectives of the different mechanisms as well as the different processes of participation (such as the National CTC-REDD, the regional CTCs-REDD, the SESA Follow-up Group, etc.) and those that are already in existence (Consejo Forestal at the national and regional levels, for example). Stakeholder groups will be afforded specific representation and/or roles in the different processes and how these processes contribute to the project activities and design of the REDD+ strategy.</td></tr>
<tr><td>Resp: Client/Bank</td><td>Stage: Design/ Implementation</td><td>Due Date: Permanent</td><td>Status: Ongoing</td></tr>
<tr><td rowspan="2">Description: Consultations with local-level stakeholders (indigenous peoples and other local communities (such as campesino and agrarian communities), small-scale forest producers as well as local and regional civil society organizations) may be perceived as insufficient or not fully inclusive. Consultation process may be challenging due to the size and complexity of the country, the large number of communities and ejidos as well as budget and time constraints.</td><td colspan="4">Risk Management: CONAFOR will build upon the positive experiences of the PROCYMAF and PSA programs and expand the consultation process more widely. Early identification of local grassroots organizations representing indigenous peoples and other key stakeholders, especially in the priority regions, will be a basis for dissemination of information, engagement and consultation. CONAFOR will prepare a comprehensive methodology applicable across the three mechanisms (SIL, FIP and FCPF) for guiding information dissemination and consultations with stakeholders, when required. The methodology will include specific activities, timeline, budget, staffing, etc. In particular, CONAFOR will prepare a Practical Guide for documenting consultation processes and activities as well as dissemination protocols that are socially and culturally adequate. CONAFOR will foster the creation of local consultative mechanisms similar to the CTC-REDD+ in the priority regions. Continuous engagement and dialogue with the Consultative Council of the National Council for the Development of Indigenous Peoples (CDI) will play an important role in disseminating information and providing guidance on culturally adequate consultations with indigenous peoples.</td></tr>
<tr><td>Resp: Client</td><td>Stage:Design/ Implementation</td><td>Due Date: Permanent</td><td>Status: Ongoing</td></tr>
<tr><td colspan="5">3. Implementing Agency Risks (including fiduciary)</td></tr>
<tr><td>3.1. Capacity</td><td colspan="4">Rating: Moderate</td></tr>
<tr><td>Description: The projects entail a significant scale-up of previous initiatives (Community Forestry Projects and Payment for Environmental Services) and also a significant component of new and innovative projects that will include payments to multiple beneficiaries and procurement processes. The main FM risk is related to the scale-up of the operation, which could increase the risk of financing ineligible payments to multiple</td><td colspan="4">Risk Management: In addition to the suitable internal control infrastructure already in place in CONAFOR, the following measures are proposed to mitigate the main FM risks of this project:
• Reinforce the current organizational structure of CONAFOR through the creation of a Project Unit, which will include a coordinator and an FM Specialist, and the inclusion of administrative staff in each of the 5 units that will implement the project from the technical perspective, who will liaise with the FM coordinating unit for the FM tasks of the project.
• The preparation of an Operational Manual that will document the FM procedures.</td></tr>
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<tr><td rowspan="2">beneficiaries, who are spread widely over the country, and implies a considerable level of complexity in terms of its operational control.</td><td colspan="4">• Specific TORs will be required for the external audit of the project. The auditor's opinion will be requested on the adequate application of the key operational and financial controls of the program.</td></tr>
<tr><td>Resp: Bank and Client</td><td>Stage: Design/ Implementation</td><td>Due Date: Permanent</td><td>Status: Ongoing</td></tr>
<tr><td rowspan="2">Description: CONAFOR has demonstrated sound capacity in implementing World Bank procurement policies and procedures in past projects. For this project, CONAFOR has proposed a structure that has not yet been created and consultants have not been yet retained. CONAFOR has indicated that in the early stages of the project, procurement implementation could be carried out by CONAFOR staff familiar with Bank procurement. In addition, it is expected that CONAFOR will receive close first-line support from NAFIN, the fiduciary agent.
Finally the community programs (Component 2 and Subcomponent 3.3) will encompass a large range of activities (apoyos), with diverse actors, sometimes in remote locations with poor communications, among a large number of small, simple subprojects that are geographically dispersed and implemented by rural communities. These communities have no experience in implementing World Bank procedures. However, CONAFOR will develop instruments to ensure that these communities will implement these programs observing agreed procedures.</td><td colspan="4">Risk Management:
• Specific TORs will be prepared for the staff to be responsible for procurement. These TORs should be agreed with the Bank before negotiations. For activities to be implemented in the early stages of the project, skilled CONAFOR staff should assist with procurement, with close first-line supervision/support from NAFIN, the fiduciary agent.
• Supervision and internal/external audits are defined as part of CONAFOR's operational procedures.
• Other forms of accountabilities should be built at the community level. For example, a successful internal control requires that the beneficiaries and other stakeholders be kept well informed at all times and at all levels about their entitlements, rights, obligations, and the project's costs and benefits.</td></tr>
<tr><td>Resp: Bank and Client</td><td>Stage: Implementation</td><td>Due Date: Permanent</td><td>Status: Ongoing</td></tr>
<tr><td>3.2. Governance</td><td colspan="4">Rating: Moderate</td></tr>
<tr><td rowspan="3">Description: The project is fully aligned with the implementing agency's and the Government's overall agenda, and the commitment to the project is high. However, possible changes in leadership in the government and in the implementing agency after the 2012 federal elections may modify commitment.</td><td colspan="4">Risk Management: Team will work with transitional/new team to promote ownership of the project, fostering the continuation of high-level political support, especially after the 2012 elections.</td></tr>
<tr><td>Resp: Bank</td><td>Stage: Implementation</td><td>Due Date: from December 2012- December 2013</td><td>Status: Not yet due</td></tr>
<tr><td colspan="4">Risk Management: The project will be audited annually by an acceptable audit firm, designated by the SFP, and in accordance with ToRs acceptable to the Bank. The project will be fully supervised on a permanent basis at least twice a year.</td></tr>
<tr><td>4. Project Risks</td><td>Resp: Client/Bank</td><td>Stage: Implementation</td><td>Due Date: Permanent</td><td>Status: Not yet due</td></tr>
<tr><td>4.1. Design</td><td colspan="4">Rating: Moderate</td></tr>
<tr><td>Description: Although the project will continue and scale up activities that have been part of previous projects (Community Forestry and Environmental Services), it also includes new elements and aims to promote innovation. This may create opportunities as well as unexpected risks, mainly in the pilot</td><td colspan="4">Risk Management: The project design will be based on consultations with key stakeholder groups, especially with regard to innovative elements in the priority regions. The project will adopt a flexible approach allowing for regular stakeholder feedback and adjustments of the implementation strategy. Innovative policy tools will be tested on a pilot basis allowing for iterative, collective learning before implementation at a larger scale. In line with FIP guidelines, a learning and knowledge component will be</td></tr>
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regions.	developed. The project will also draw from experiences with similar programs in other countries. Moreover, all potential new project subcomponents will be fully assessed from an FM perspective in order to propose any additional specific arrangements or mitigating measures.The Bank will carry out close supervision/implementation support including regular field visits to priority regions and dialogue with key stakeholders to ensure that the project strategy is updated in light of their views and feedback.			
	Resp: Bank	**Stage:** Design/ Implementation	**Due Date:** Permanent	**Status:** Ongoing
Description: The multi-scale institutional strengthening component will require collaboration by other federal institutions and vertical integration with local institutions. This requires close coordination with a vast number of institutional actors.	**Risk Management:** Key institutions will be involved in further project design to ensure their buy-in and commitment, and the project will support the establishment of formal collaboration agreements. Key partner institutions would also benefit directly from the project through institutional support provided by the project.			
	Resp: Client	**Stage:** Design/ Implementation	**Due Date:** Permanent	**Status:** Ongoing
Description: Technical Private Services Providers are crucial partners for the success of Component 2. Poor training and control over private service providers have been problems in previous CONAFOR projects.	**Risk Management:** The project design included in the Subcomponent 1.4 certification process of private services providers will be a new requisite to offer technical assistance to CONAFOR's beneficiaries. It will include training to develop their abilities, aptitudes and skills. CONAFOR will hire external certification institutions, including academic and research institutions, as well as professional collegiate groups with forestry activities to assure the quality of the services.			
	Resp: Client	**Stage:** Design	**Due Date:**Completed	**Status:** Complete
4.2. Social & Environmental	**Rating: Substantial**			
Description: The operation aims to benefit indigenous peoples and other local communities (such as *campesino* and agrarian communities). However, benefits may not be broadly shared within the communities and *ejidos* if decisions on the use and management of resources are taken only by *ejidatarios*. In such case, *avecindados* and *posesionarios*, for example, are not included in this process at the same level as the *ejidatarios*. The mechanism for achieving the broad community support of indigenous peoples as per OP4.10 may be a challenge due to the involvement of approximately 4,000 indigenous peoples and other local communities in forest areas. The program incentives are only limited to those indigenous peoples and other local communities with clear land tenure, while communities with unclear land tenure are only eligible for technical assistance and capacity building.	**Risk Management:** Project activities are aimed at benefiting indigenous peoples and other local communities through demand-driven grants. Although there is underlying support by indigenous peoples and other local communities for proposals submitted for funding, a mechanism for CONAFOR to assess and verify broad community support by indigenous peoples for community-driven projects will be put in place and included in the IPPF. This mechanism will ensure that the proposal is backed up by the broad participation of indigenous peoples, including vulnerable groups (women, the poor, or numerically small indigenous peoples in an *ejido*). The Social Assessment includes an analysis of the risks and measures to mitigate the inequity arising from project activities. The project IPPF will provide a mechanism to ensure broad participation of indigenous peoples and other local communities, while maintaining a distinctive treatment of indigenous peoples as per OP4.10. The PF will include measures to carry out broad consultations and ensure participation.			
	Resp: Client	**Stage:** Design/ Implementation	**Due Date:** Permanent	**Status:** Ongoing
Description: On gender, the important traditional decision-making role of women regarding use and access to natural resources is not always fully reflected in the formal structure of the ejido/community. Women have increasingly become managers of their parcels of agrarian and forests lands by default through inheritance and absence of males without exercising	**Risk Management:** CONAFOR identifies women as a distinct stakeholder group for consultation and ensures their effective representation in local decision-making mechanisms and/or bodies. Through the Office of Coordination and Consensus *(Gerencia de Coordinación y Concertación)*, a gender strategy is being developed for CONAFOR programs. In the project context, the consultation process will follow a gender-inclusive approach and project planning and activities will ensure that women participate in and benefit from them.			

their right.	**Resp:** Client	**Stage:** Design/ Implementation	**Due Date:** Permanent	**Status:** Ongoing
Description: Regulating management of natural resources may not be socioculturally compatible for indigenous peoples and other local communities. The project mainly supports previously evaluated Bank-financed activities. Therefore, the possible environmental risks are in new/upscale activities.	**Risk Management:** The Bank is assisting CONAFOR in preparing a comprehensive package of social and environmental assessments, consultations, and safeguard instruments that cover the entire Forest and Climate Change agenda while also meeting the specific requirements of the SIL, FIP and FCPF instruments. CONAFOR has an established grievance mechanism through the *Organo Interno de Control* (OIC). In addition, the insertion of community promoters and providing additional capacity building to the private service providers will facilitate the early identification of issues on the ground. A comprehensive grievance mechanism will be established. The project will develop indicators to track the project impacts through the dissemination of sustainable management practices.			
	Resp: Client/Bank	**Stage:** Design/ Implementation	**Due Date:** Permanent	**Status:** Ongoing
4.3. Program & Donor	**Rating: Moderate**			
Description: The IA is currently engaged with a variety of donors for forest-related projects. The Bank has been in close contact with them to assure the alignment of objectives. During preparation, the Bank coordinated a meeting to discuss this project with donors working on forests in Mexico.	**Risk Management:** The Bank team will continue the donors' coordination during implementation and will participate in joint missions with other donors during the process. Two donor meetings at which the project was presented (one for FIP in September 2011, one for SIL in October 2011) supported the complementarities and coordination with bilateral and multilateral donors working on Forests and Climate Change.			
	Resp: Bank	**Stage:** Design/ Implementation	**Due Date:** Permanent	**Status:** Ongoing
4.4. Delivery Monitoring & Sustainability	**Rating: Substantial**			
Description: The proposed project is relatively broad in terms of scope and potential beneficiaries. To maintain its sustainability after Bank support is crucial. Financial sustainability of the interventions would depend on a combination of continued government commitment (especially for programs such as PES), market viability (mostly for productive programs such as *Cadenas Productivas*) and future REDD+ funding flows and success in reducing emissions (allowing for the integration of global, carbon-based funding in the future financial mix).	**Risk Management:** Four elements of the project design would contribute to the sustainability of the subprojects at community level: (i) subprojects are demand driven and therefore should reflect the priorities and specific features identified by the communities themselves; (ii) all subprojects would include a significant element of community capacity building and training in addition to physical works and goods; (iii) the project would support multi-year subprojects—an important innovation consistent with the nature of forest planning and management; and (iv) the project would support/enhance the capacity of private service providers, ADLs and ATLs that assist communities in implementing forestry projects, thus improving the quality of assistance and advice available to the communities.			
	Resp: Bank	**Stage:** Design/ Implementation	**Due Date:** Permanent	**Status:** Ongoing
Description: Although most resources will go to existing programs and will scale up previous successful engagement with the Bank, the project also includes innovative elements in terms of priority regions, thematic areas, policy tools and partnerships. Moreover, REDD+ is a new and untested instrument and will include a large number of pilot projects in Early Action Areas that will need frequent field visits.	**Risk Management:** During the preparation stage, the team identified monitoring and evaluation issues, included them in the project design under Component 1, and improved their quality. In addition, CONAFOR's strategy is to involve local institutions in the design, implementation and monitoring of project activities. This would include municipalities, states, associations of municipalities, and nongovernmental organizations, and would greatly enhance the project's capacity to successfully reach out to and support communities, and to ensure adequate monitoring and evaluation. Bank supervision will need to rely on frequent field visits and dialogue with local stakeholders, as well on CONAFOR's own			

<table>
<tr><td rowspan="2">Monitoring innovative project activities and evaluating its impacts will be complex, and there could be challenges related to the measurement of innovative indicators (for example, forest degradation).</td><td colspan="4">monitoring systems.</td></tr>
<tr><td>Resp: Client/Bank</td><td>Stage: Design/ Implementation</td><td>Due Date: Permanent</td><td>Status: Ongoing</td></tr>
<tr><td colspan="5">5. Project Team Proposed Rating <u>Before</u> Review</td></tr>
<tr><td colspan="2">5.1. Preparation Risk Rating: Moderate</td><td colspan="3">5.2 Implementation Risk Rating: Substantial</td></tr>
<tr><td colspan="2">Comments: This rating was selected considering the project will build upon previous successful Bank-supported projects with the same Borrower and implementing agency.</td><td colspan="3">Comments: This rating was selected considering the project will significantly scale up previous engagement, includes new elements and experimental activities, includes a variety of stakeholders and may be implemented under the leadership of a different administration.</td></tr>
<tr><td colspan="5">6. Overall Risk Following Review</td></tr>
<tr><td colspan="2">6.1. Preparation Risk Rating:</td><td colspan="3">6.2 Implementation Risk Rating:</td></tr>
<tr><td colspan="2">Comments:</td><td colspan="3">Comments:</td></tr>
</table>

Annex 5: Implementation Support Plan

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

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

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

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

Annex 6: Description of Indicators and Monitoring and Evaluation

A. Description of the Indicators included in the Results Framework (see Annex 1)

1. The results framework for the proposed SIL-FIP operation (see Annex 1) is based on the outcomes of a workshop on indicators held in Mexico City from September 21 to 22, 2011, and attended by representatives of academia, civil society INMUJER, and CONAFOR. The proposed project indicators are consistent with CONAFOR's own operational monitoring system (*Sistema Único de Rendición de Cuentas*, SURC) and with the FIP program-level Results Framework included in the Mexico Investment Plan. (See Annex 10 on FIP Forest Investment Program).

2. Indicators 1 and 2 for Component 2 (Social Organization Index and Economic Development Index for Community-Based Programs at National Level, equivalent to 79 percent of project resources with an estimated 4,000 beneficiary communities over the life of the project) include gender participation as one of the main parameters to be monitored as part of the Results Framework.

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

4. *PDO-level Results Indicator 2: Increase in number of communities building social organization and generating income from sustainable production of forest goods and services.* Same as for PDO Level Result Indicator 1, but using communities rather than hectares.

5. *PDO-level Results Indicator 3: Reduction of net deforestation and forest degradation rate in selected landscapes within REDD+ Early Action Areas.* A baseline and a monitoring system for net deforestation and forest degradation in selected landscapes of the REDD+ Early Action Areas will be developed and tested in years 1 and 2 of the project, including a methodology for measuring or estimating forest degradation. The monitoring system would become operational in year 3, and actual measurements would take place in years 3, 4, and 5 of the project, using satellite images and local ground information. The baseline would be calculated on the basis of the current trend toward deforestation and forest degradation in those areas. This indicator would be measured in equivalent CO_2 emissions, if possible, or in number of hectares as a proxy. This work would include the North American Land Cover Monitoring System (NALCMS), and will be coordinated with the Norwegian-supported MRV project also implemented by CONAFOR.

6. *Component 1–Indicator 1: Improved monitoring and evaluation system for CONAFOR-supported-programs (includes MRV) is operational.* The goal is that by the end of the project, CONAFOR will have a fully functional monitoring and evaluation (M&E) system focused on

measuring results and outcomes. Although some data will be available from year 1, others are to be constructed during the project. It is expected that all the data SEMARNAT and CONAFOR are mandated to collect would be included in the system.

7. *Component 1–Indicator 2: Number of CONAFOR field offices rehabilitated, equipped, staffed and trained.* CONAFOR will define what constitutes an ideal field office (*promotoría*) in terms of the physical state of the office, its equipment, and the training and number of its staff. The indicator will count those *promotorías* that meet these conditions to a sufficient degree in terms of serving the area for which they are intended.

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

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

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

11. *Component 1–Indicator 6: Number of Knowledge Assets on REDD+ created and shared*. This indicator aims to capture the project's contribution to disseminating lessons learned and experiences in REDD+ gained from FIP investments in the Early Action Areas. It will measure the number of knowledge assets created and shared (counting only assets such as peer-reviewed publications, book-length studies, videos and workshops).

12. *Component 2–Indicator 1: Increase in Social Organization Index (SOI) in communities that participate in demand-driven programs on community forestry and payments for environmental services.* A survey will be applied in a sample of communities, using a modified version of a survey developed by the National Autonomous University of Mexico (*Universidad Nacional Autónoma de México,* UNAM) in 2008. After this survey is reviewed, an index of social organization will be proposed, a baseline will be established, and then CONAFOR will conduct two more survey applications (years 3 and 5) to measure the progress in the indicator. The SOI is described in paragraph 19 below.

13. *Component 2–Indicator 2: Increase in Economic Development Index (EDI) in communities that participate in demand-driven programs on community forestry and payments for environmental services.* A survey will be applied in a sample of communities, using a modified version of a survey developed by UNAM in 2008. After this survey is reviewed, an index of economic development will be proposed, a baseline will be established, and then CONAFOR will conduct two more survey applications (years 3 and 5) to measure the progress in the indicator. The EDI is described in paragraph 20 below.

14. *Component 2–Indicator 3: Reduction of loss of forest cover (net deforestation rate) nationwide*. A monitoring system will be deployed and tested during the first two years of the program. This will include the NALCMS, which is expected to become operational in 2012. This indicator measures the evolution of forest cover over time, as compared to an initial value (2012), without taking into account a reference scenario.

15. *Component 3–Indicator 1: Percentage of participating communities receiving support from innovative landscape management agents in REDD+ Early Action Areas.* Landscape management agents, including ATLs and ADLs, are local entities that integrate REDD+ across sectors, levels of government, and geographic areas. ATLs or ADLs would support the recipients of Component 3.3 in Early Action Areas by promoting and explaining Component 3.3 activities and helping communities plan their participation, apply to the program, and implement accepted plans. The indicator would count communities that receive support from an ATL or ADL in at least two of these phases. See Annex 2, Component 3.2 on ATLs and ADLs.

16. *Component 3–Indicator 2: Number of operational REDD+ agreements in REDD+ Early Action Areas.* For each of the pilot areas, at least two REDD+ agreements (as described in Annex 3) are to be signed and active for the operation of the programs.

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

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

in the State of Jalisco represent 9 percent of total CONAFOR investments in the Early Action Areas.

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

20. Social Organization Index (SOI). Community governance of forest resources has proved to be a key element for forest conservation and vital local forest economies. It sustains collective action needed for the sustainable management of common goods. Community governance and collective action are conditions that initially will sustain and enable the functioning of the project, but will also be influenced by it. In this sense the first assessment of the values of the index can serve as a useful baseline of local social conditions (that favor the implementation of the project's different components or the obstacles that it will face) while later assessments can provide information about the project's impacts on these key conditions, providing planning inputs for the implementation of the project at regional and local scales. The index would be construcuted as: $\mathbf{IGCA = A + B + C + D + E + F + G + \sum H\ (Q * R) + N}$, with scores ranging from a minimum of -16 (strong disorganization and conflict over forest management) to a maximum of 65 (very high social organization for forest management) and with:

- A = Forest management scheme (whether the forest is managed by the community, divided and managed by groups, or divided and managed by individuals).
- B = Period of community authorities' service. Authorities of communities and *ejidos* play a key role in the performance of forest projects, and the duration of their mandate is essential. The index will reflect whether authorities are elected by the assemblies of community members for a period of three years, eighteen months, or one year.
- C = Number of assemblies per year. Assemblies are the arenas in which decisions on forest management and communities' forest enterprises are made, authorities are elected, agreements are reached and conflicts are discussed. Functioning assemblies are a critical asset for the governance of collective natural and economic resources. The index will measure how many times the assembly meets annually.
- D = Percentage of communal right holders regularly participating in assemblies. Attendance and participation in communal meetings are critical for local forest governance. The Agrarian Law requires the participation of at least 51 percent of the right holders in order to consider the assemblies and their decisions as legally valid. The index will measure the percentage of community members participating in assemblies.
- E = All the towns within the community's borders take part in the assemblies. Many "agrarian communities" and *ejidos* include more than one settlement. It is also often the case that the main settlement has better access to roads, markets and public services, and thus concentrates economic and political power. When this tendency ends up excluding smaller towns from decision-making arenas, collective action and common forest management are often threatened.
- F = Participation of people without formal tenure rights in the assemblies. In many communities there are individuals and even heads of households without a formal share in communal property rights.

These are generally the most vulnerable within forest communities: women and many young people. They often depend on land and forest resources, but their access is frequently uncertain, and they have few incentives to take part in forest protection and to follow forest management rules.

- G= Gender equity and community forest organization. Women traditionally lacked access to formal property rights, are excluded from decision-making arenas and generally do not take part in local authorities organizations. The impacts of this traditional exclusion increase as the numbers of female-headed households increase as a result of migration.
- ∑ H = Decisions made by the assemblies with regard to common forest management. As forest resources and forest industries are collective assets, the knowledge and decisions on the ways they are managed are fundamental for their governance; assemblies are the arenas in which this knowledge is acquired and these decisions are made. The capacities of assemblies to functionally deal with these issues depend on the level of conflict present in communities (and within assemblies) and on their capacity to discuss, negotiate and resolve conflicts.
- Q = Frequency of conflicts in the assembly.
- R = Capacity of the assembly for conflict resolution and consensus building.
- N= Number of days of nonpaid work in favor of the community. Collective nonpaid work in favor of communities' public goods enables communities to build and maintain much of their public infrastructure. Forest restoration and protection activities are often provided by community members under these schemes. Nonpaid community work also provides spaces for socialization around common purposes. In southern Mexico this practice is known as "*tequio*".

21. Economic Development Index (EDI). The index would be constructed as: **IFED = A + B + C + D + E + F + G + H + I + J + K** with scores ranging from a minimum of -12 (very low economic development) to a maximum of 60 (very high economic development) and with:

- A = Community harvesting of commercial non-timber forest products (NTFP), non-conventional forest products (NCTF), and Payment for Environmental Services schemes (PES).
- B = Presence of forest management plans to sustain the harvesting of NTFP and/or NCTF.
- C = Typology of forest producers (level of vertical integration of timber production). The index would refer to the following typology: (i) Type 1 potential forest producers: communities owning forest land, able to perform sustainable forest management, and not performing any commercial logging under a forest management plan; (ii) Type 2 forest producers selling timber as stump: community owners of forest land where logging under forest management plans takes place, and logging operations are performed by third parties based on sales contracts; (iii) Type 3 forest producers selling timber as logs: community owners of forest land where logging under forest management plans takes place, communities control extraction processes and sell logs; and (iv) Type 4 forest producers able to add value and market forest production: forest producers with access to industry and infrastructure who market their production = 12.
- D = Participation of community members in forest activities.
- E = Harvesting of oak or other non-conventional timber.
- F = Capacities to finance community forest extraction and industry. The index would measure whether these activities are financed completely or partially by the community, or with government funds, or with contribution from the timber buyer.
- G = Equipment.
- H = Forest equipment and industry owned privately by some community members.
- I = Economic feasibility of logging operations.
- J = Economic feasibility of mills.
- K = How the technical advisory is covered

B. Monitoring and Evaluation

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

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

a) *Systems for monitoring of inputs:* CONAFOR uses two main tools to monitor the inputs: (i) the Management and Information Analysis System (SIGA II) to track the management of application incentives allocated under the CONAFOR programs; (ii) the Unified Accounting System (*Sistema Único de Rendición de Cuentas,* SURC) to monitor inputs; and (iii) the Payment System (*Sistema de Gestión de Pagos,* SIDPA) to track and control the payments to the beneficiaries of CONAFOR's programs. Both systems can be disaggregated to the minimum unit (community/*ejido*/private landowner) or aggregated by state and municipality. The systems make it possible to observe information about gender, indigenous groups, and number of beneficiaries within a forest community.

b) *Matrix of Results Indicators: A* strategic planning tool to express the internal programs in a simple and organized format. It aligns the contribution of the programs to the objectives stated in the SED and NDP. The matrix is permanently and systematically updated by CONAFOR and presented on the Ministry of Finance's portal.

c) *Monitoring scorecard:* Monitors the progress of indicators stated by CONAFOR or aligned reports. It is updated on a monthly basis. It is currently in draft version, and CONAFOR expects to improve the tool.

d) *External evaluations:* These assessments are focused on the satisfaction level of beneficiaries supported under CONAFOR's programs and the results of the activities performed by the beneficiaries with resources from CONAFOR. The external evaluations use statistically representative samples, and are implemented every three to four years. CONAFOR is redesigning the external evaluation mechanism, with a new focus on measuring the programs' net effect and impact evaluation. Recent efforts to improve these evaluations include experts' workshops.The evaluations are implemented by external qualified

institutions –research organizations and Universities- to improve transparency and to avoid conflict of interest.

e) *Accountability reports:* Including quarterly self-assessments presented to CONAFOR's governing body and annual reports to the Ministry of Finance. It could also include voluntary reports by a single program or concept to evaluate a specific result.

f) CONAFOR has experience and skills in forest monitoring and in evaluating policies with instruments such as a National Forest Inventory based on a network of over 24,000 permanent sampling sites and multiple community monitoring experiences, including carbon monitoring for various voluntary carbon market initiatives and the evaluation of policies with periodic studies for the evaluation of programs.

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

a) Generate a "differences-in-differences" indicator: $(Y_T - Y_C)^K - (Y_T - Y_C)^0$, where *Y* is a variable that measures the degree of success in reaching the expected outcome of the projects (for example a deforestation or a degradation variable). *T* represents the treatment group (those units of analysis that participate in a REDD project). *C* represents the control group. Finally, *0* and *K* denote the baseline year and *K* years after the baseline year, respectively.

b) Unit of analysis: *predio/ejido* (the minimum unit that can participate in a REDD project).

c) Population: all eligible areas that potentially can participate in Early Action projects.

d) Frequency: we suggest gathering information in the baseline year, and then in years 3 and 5.

e) Independent variables (to select the control group): vegetation type; type of land property rights (private, *ejido* or *comunidad)*; size of the *predio/ejido*; existence/non-existence of bylaws (*reglamentos internos*); land-use alternatives (INEGI potential land-use data); sociodemographic characteristics (average values per *predio*); geographic characteristics (average values per *predio*); infrastructure proxies (time/distance to markets).

25. These variables would be used to build the control group. Many methodologies may serve this purpose (for example, matching methods).

Annex 7: Economic and Financial Analysis

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

- Component 2 focuses on payments under the existing CONAFOR forest programs.
- Component 1 will integrate the various forestry programs and improve them.
- Component 3 will pilot the use of PSAB and other tools to reduce emission reductions.[42]

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

3. **Component 2: Support to CONAFOR Forestry Programs.** The project would support five CONAFOR programs: Payments for Forest Environmental Services (PSAB), three Community Forestry programs (*Silvicultura Comunitaria*, PRODEFOR, and *Caden*as), and the Special Programs *(Programas Especiales)*, which address problems in specific geographical areas with a targeted mix of instruments. The project will initially support these programs in their current form (as reflected in the ProÁrbol Operating Rules *[Reglas Operativas]* for 2012, and the Guidelines *[Lineamientos]* for each of the Special Programs). These programs will gradually be improved thanks to the activities under Component 1. The analysis here focuses on the benefits of the forestry programs in their current form, while the next section examines the benefits of activities designed to improve the programs.

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

5. The PSAB program currently covers about 2.2 million ha. Participating landholders are paid to conserve existing forests.[43] Contracts are for five years, and are renewable. Applications are ranked according to their score in prioritization criteria (*criterios de prelación*) and are accepted according to their score until the available budget is exhausted. After the first year,

[42] Some activities of this component are technically under Component 1, but they are considered here as part of Component 3 activities.

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

payments are conditional on having maintained the enrolled forest area to the prescribed standard.

6. *Costs*. The costs to Mexico of undertaking the PSAB include: (i) the opportunity costs of foregone land uses in cases where land users would indeed have undertaken other land uses; (ii) any management costs involved in complying with PSAB contracts; and (iii) the transaction costs of the PSA program, including the National Forest Financing Fund's administrative costs and costs borne by program participants.[44] A crucial point here is that the payments themselves are not an economic cost, although they are a financial cost to CONAFOR.

- *Opportunity costs.* An INE study prepared during preparation of the PSAB program estimated the average opportunity costs to be about US$40/ha for maize producers and US$70/ha for livestock producers, but with substantial numbers of producers having lower opportunity costs (Jaramillo 2002). The high demand for participation at the initial payment level of US$30/ha confirmed this. Since participation is voluntary, it is safe to assume that those who choose to participate have opportunity costs, plus any necessary management costs and transaction costs borne by participants (see next bullet), that are lower than the payments offered, which until 2010 were about US$30/ha/yr (US$40/ha for cloud forests). In fact, there is reason to believe that the opportunity costs are zero in at least part of the enrolled area, as there is reason to believe that some areas would have been conserved even in the absence of the PSAB program (see below).
- *Management costs.* Participants must undertake a variety of activities in conserved forests. As noted, these costs and opportunity costs together are almost certainly less than payments for participating landholders.
- *Transaction costs.* CONAFOR's own costs are limited to four percent of payments, or about US$1.60/ha/year. However, it is likely that some additional costs are also borne under other parts of CONAFOR's budget. To allow for this, administrative costs are rounded up to US$2/ha/year. These costs apply regardless of whether the land use change is additional or not.
- The *upper bound* of the costs of PSAB is thus about US$32 per hectare per year. Landholders with lower opportunity costs have the greatest incentive to participate, it is likely that per hectare costs are lower in much of the contracted area. In fact, in some areas with low or no additionality, costs may be little more than CONAFOR's own transaction costs.

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

- The degree to which it succeeds in avoiding deforestation or degradation that would have occurred in the absence of the program. To the extent that the PSAB pays to conserve forests that would have been conserved anyway, no net benefits are generated.

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

- The difference in the value of the desired services generated by conserved forests compared to the value of the services that would be generated by degraded forests or under alternative land uses.

8. *Additionality*. Two studies have examined the extent to which PSAB has reduced deforestation. Alix-García et al. (2010) find a small positive effect among participants enrolled in 2004, with considerable heterogeneity across regions and types of properties (Alix-García et al. 2010). A separate study by INE finds that deforestation among PSA recipients fell from 1.6 percent to 0.6 percent in 2000 and 2007 (Muñoz Piña 2011).[45] As the PSAB program has sought to target areas at higher risk of deforestation in recent years, its effectiveness in reducing deforestation is likely to have increased over time.[46]

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

- The extent to which PSAB is spatially targeted to hydrologically important areas. Appropriate land uses will only help if they are in the right place, given that water services, by their nature, are highly site-specific. PSAB has made considerable efforts in this regard through the definition of eligible areas (which are based primarily on hydrological criteria) and the use of prioritization criteria. Thanks to these efforts, the share of the PSAB area in watersheds with over-exploited aquifers quadrupled between 2003 and 2006, for example.
- The extent to which forests generate the desired services. To date, PSAB has not undertaken any monitoring of its impact on the desired water services.[47] In general, forest conservation as undertaken under the PSAB is likely to have its greatest positive impact on water quality,[48] thus reducing the cost of treatment downstream and/or avoiding the siltation of reservoirs. With the possible exception of cloud forests, forests would generally tend to reduce total water availability.[49]

10. Although the actual magnitude of benefits cannot be quantified,[50] contracts that are in hydrological areas with high value and in areas with high risk of deforestation are most likely to

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

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

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

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

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

[50] Adger et al. (1995) estimated the average Total Economic Value (TEV) of Mexican forests to be about US$80/ha (or about US$113/ha in 2010 dollars). Such estimates are suggestive, but they provide a poor guide to conservation decisions considering that (aside from the methodological and data difficulties of valuing many aspects of forest TEV): (i) the actual value of a given hectare of forest can differ substantially from the average, and (ii) the actual loss depends on the value of the land use that would replace the forest.

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

11. *Service generation: Carbon*. Carbon sequestration, along with biodiversity conservation, was the objective of the PSAB program's CABSA window (PSA focused on Carbon Sequestration), which accounted for about 10 percent of the enrolled area. However, even the hydrological window would have resulted in carbon sequestration to the extent that it reduced deforestation. INE estimated that about 3 million tCO_2 were avoided thanks to avoided deforestation in its sample (taking into account carbon stocks in different kinds of forests), or about 1.7 tCO_2/ha on average over all participants. Assuming a carbon price of US\$5/tCO_2 (based on the implicit value per ton under the recent agreements Norway signed with Brazil and Guyana), and assuming that 20 percent is spent on transaction costs, yields a value of about US\$6.5/ha. These benefits are thus currently very low on average, but have considerable room for improvement (see discussion of Component 3 below).

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

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

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

15. *Community and production forestry.* CONAFOR's Community Forestry Programs (*Silvicultura Comunitaria*, PRODEFOR, and *Cadena Productiva Forestal*) support a palette of activities that include capacity building, participatory assessments, planning, and in the most advanced cases harvesting, processing, and marketing of forest products, and certification. These

programs were previsously supported under the PROCYMAF I and II projects, and their net benefits are well established. A detailed economic analysis of activities supported by the PROCYMAF II project found that community forest production projects had an internal rate of return (IRR) of 20.2 percent, while non-timber forest products projects had an IRR of 22.1 percent (World Bank 2009).[51] It is expected that community forestry activities supported under Component 2 would have at least similar rates of return.[52]

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

17. **Component 2: Consolidation and Improvement of CONAFOR Forestry Programs**. Component 1 will invest US$17.5 million to coordinate and improve the various CONAFOR forestry programs. In the case of PSAB, for example, this will include continued improvements to prioritization criteria so as to improve targeting to areas with the highest-value environmental services and those most at risk of deforestation; to program rules, so as to better adapt conservation activities and payment levels to local conditions in different parts of the country; and to program management, so as to reduce transaction costs. There will also be efforts to combine the different programs; one option being considered, for example, is a PSAB contract for productive community forests. The benefits of the investment under this component would be experienced in the form of improvements in the level of benefits generated by the forestry programs. An improvement in net annual benefits of US$0.55/ha in the area enrolled in PSAB alone would be sufficient to justify this investment.

18. **Component 3: Innovation for REDD+ in Early Action Areas.** Component 3 would invest US$37 million to pilot the use of PSAB and other tools to reduce emission reductions from deforestation and forest degradation (REDD). Mexico is currently designing a REDD strategy with support from the Forest Carbon Partnership Facility (FCPF), and hopes to participate in the FCPF's Carbon Fund. The Early Action projects undertaken under this project would be a major input to the development of the country's REDD strategy. In particular, although the precise rules of a REDD mechanism remain to be established, all the current proposals call for REDD payments to countries to be based on results: on the emissions avoided by reducing observed deforestation and forest degradation, and by improving carbon stocks in existing forests, relative to an agreed reference level. It is thus critical to determine how to best use the range of available tools to achieve such results. Therefore, the benefits of the Early Actions in Component 3 will arise primarily from the improved effectiveness of CONAFOR's forestry programs in reducing emissions, rather than from the direct benefits of the Early Actions

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

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

themselves. In fact, to ensure that their effectiveness is well understood, the Early Action pilots supported by Component 3 will include a strong impact evaluation program, which will increase their cost. Therefore, this analysis focuses on the potential improvements that Component 3 activities would generate for a future national REDD strategy.

19. INE estimated that about 3 million tCO_2 were avoided between 2000 and 2007 thanks to avoided deforestation by PSAB recipients in its sample (taking into account carbon stocks in different kinds of forests). Adjusting for the fact that participants were only enrolled for 2.4 of the 7 years covered by the analysis, INE estimates that avoided deforestation would have been twice as high for PSAB recipients over the entire length of a five-year contract. Averaging the resulting reduced emissions over all PSAB recipients yields an average reduction of about 3 tCO_2/ha. Assuming a carbon price of US\$5/tCO_2 (based on the implicit value per ton under the recent agreements Norway signed with Brazil and Guyana), and assuming that 20 percent is spent on transaction costs,[53] yields a value of about US\$12/ha. Assuming this is received over 30 years at a 5 percent interest rate yields a payment of about US\$0.78/ha/year.

20. As noted, CONAFOR's costs of contracting participants are about US\$1.60/ha/year,[54] without even considering opportunity costs, so selling carbon credits to a REDD mechanism at this price would be a losing proposition if carbon sales were the only benefit. However, these estimates are based on avoided deforestation in the early years of the program, when deforestation risk was not a prioritization criterion (even now, it is only one of many). Efforts focused on areas at high risk of deforestation (such as the Early Action Areas) are likely to yield much higher rates of avoided deforestation and reduced emissions. INE estimates that deforestation among participants could have been reduced by 3.5 percent, rather than 1 percent, if areas at high risk of deforestation had been targeted. Benefits can also be increased by targeting forests whose loss would result in more emissions. In INE's sample, average emission reductions were about 170 tCO_2/ha, but varied from about 113 tCO_2/ha to over 200 tCO_2/ha. Thus, there is very considerable scope to increase emission reductions from the average of 3 tCO_2/ha observed in the period up to 2007. Although perfect targeting will never be possible, if it could be improved to the point that 1 in 10 enrolled hectares achieved the 170 tCO_2/ha average emission reductions, the average benefit from carbon payments alone, net of the costs of participating in the REDD mechanism, would come to US\$68/ha, or US\$4.5/ha/year over 30 years at a 5 percent interest rate.

21. The activities to be undertaken under Component 3 are precisely intended to learn how to generate such improvements in targeting, so that a long-term REDD strategy might be designed to generate more emission reductions from the application of each selected tool (whether PES or other). Reaching the improved targeting levels on about 575,000 ha would be sufficient, at

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

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

US$5/tCO$_2$, to make the FIP investment of about US$37 million economically attractive. As the current PSAB program covers 2.2 million hectares, 575,000 hectares represent only about a quarter of its area. However, the improved targeting could also be achieved through other tools, such as community forestry or protected areas, or combinations of tools. Moreover, these estimates are very conservative as they assume that the improved targeting generates only carbon benefits. However, any increase in the additionality of PSAB or other programs would also generate greater water services and biodiversity benefits. Thus, the threshold for the FIP investments under Component 3 to be viable would be lowered further.

22. Component 3 could also support activities aimed at improving carbon stocks (the '+' part of REDD+). A 2007 study conducted by CONAFOR in Los Tuxtlas, Veracruz (an area with ecosystems comparable to those in the Yucatán Early Action Area), assessed the benefits of a project that included components such as reforestation and agroforestry systems on 15,000 ha and forest protection on 18,480 hectares. It estimated that the project would sequester about 380,000 tCO$_2$ over 5 years and as much as 1.0 MtCO$_2$ over 10 years, which at a net price of US$4/tCO$_2$ would result in an of 16.4 percent.

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Annex 8: World Bank Climate Change Engagement in Mexico

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

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

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

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

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

5. **In the third stage, *Strengthening* (2007–2010)**, Bank support was focused on cross-sectoral strategies to address climate change and was closely related to the National Climate Change Strategy. The flagship of this period is the *Climate Change DPL* (US$501 million), which was presented to the Board for its approval jointly with a new Country Partnership Strategy. In this stage, the analytical and knowledge activities continued to increase, evidencing the Bank's technical expertise in climate change. One of the key activities developed during this stage was the preparation of the Clean Technology Fund Investment Plan, which provides support for the low-carbon growth objectives in Mexico's 2007–2012 National Development Plan, Climate Change Strategy and Special Climate Change Program. Preparation of the

Investment Plan was led by the GoM and the Bank, in partnership with the Inter-American Development Bank and the International Finance Corporation.

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

a. The Urban Transport Transformation Program (P107159, 2010), which combines various Bank instruments, contributes to the transformation of urban transport in Mexican cities toward a lower carbon growth path, and improves the quality of urban transport systems.
b. The Green Growth DPL (P115608, US$1.504 billion), which recognized and supported the cross-cutting mitigation measures embedded in the objectives of the Special Program for Climate Change (PECC).
c. The Low-Carbon DPL (P121800, 2010) in the amount of US$401 million, which recognized and supported the Government's reforms and implementation of policies and programs under the PECC. This DPL included the energy, transport, urban housing and forestry sectors and was informed by the flagship Low-Carbon Study (MEDEC, P108304).
d. The Subnational Climate Change Program (P105849, P122021 2010–), which is composed of a series of activities, including the Subnational Climate Change Plans, the Local Sustainable Development and the Cities Alliance Grants, to help develop municipal climate change strategies.
e. These are complemented by an Engagement in the Water Sector and Climate Change, which defines an integrated series of instruments, including the Adaptation to Climate Change in the Water Sector DPL.

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

a. The Social Resilience to Climate Change DPL (P120170, FY12) seeks to reduce the impacts of climate change on the poor through policies to: (a) promote sustainable territorial development and reduce vulnerability to natural disasters; (b) strengthen long-term climate change adaptation planning; and (c) implement pro-poor climate change measures in the forestry sector.
b. The Ecosystems Adaptation DPL (FY13), which will be built upon the Social Resilience and Climate Change DPL and will support policy actions that build resilience through ecosystem-based adaptation, simultaneously addressing challenges of climate change adaptation and protecting biodiversity and landscapes that are essential for human well-being and provide economically valuable services.
c. Other future activities include the Hydrometeorological Service Specific Investment Loan (P126487, FY12), the Climate Change Public Expenditure Review (FY12), and the Energy Efficiency (Supply-side Management) Investment Loan (FY13).
d. The Forest and Climate Package of collaboration, composed of the FCPF Readiness Fund and Carbon Fund, the forestry pillar of the Social Resilience DPL, the proposed SIL and FIP investment operation, and PROFOR grants for advisory services.

Annex 9: Lessons Learned from Previous Projects and REDD+ Engagement

1. The design of the proposed project has been enriched by lessons and recommendations from several previous initiatives. This annex reviews the achievements and lessons learned in the Community Forestry Program (PROCYMAF, P007700, P035751), Indigenous and Community Biodiversity Conservation Project (COINBIO, P066674) and Environmental Services Project (PSA, P089171). The instruments developed and challenges faced by both projects are also reviewed.

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

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

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

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

6. At the regional level the project also helped to create Regional Participatory Committees, which integrated forest communities (and other relevant stakeholders such as the private sector and private technical service providers) occurring in a specific geographical area. These new intermediate institutions, another form of social capital, facilitated the integration and unification of local producers, giving them more power to negotiate timber prices, government support for road infrastructure and other local investments, and a stronger voice to participate in second- and third-level organizations to influence sectoral policies.

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

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

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

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

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

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

13. This project also contributed to the establishment of an endowment fund to finance PES schemes for conservation of biodiversity of global significance where other sources of financing do not exist. Over its duration, this successful project has resulted in at least 500,000 additional

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

14. At a global benefits level, the project resulted in about 317,265 hectares of biodiversity contracts, which include forests and other natural ecosystems of global biodiversity significance under effective conservation (protection and sustainable management) by landowners. At the end of the project, about 5,409 PES contracts to conserve forests or other natural ecosystems are current, counting only the hydrological contracts, which are all for forest conservation.

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

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

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

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

19. One of the main challenges faced by the PSA project was to balance the definition and enforcement of clear operational procedures and eligibility criteria, with a flexible project

approach that allows for more targeted, site-specific approaches. The PSA project implemented differentiated payment schemes in order to account for both the magnitude of the benefits to be achieved through conservaftion and the costs of such conservation.

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

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

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

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

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

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

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

27. Social capital is an important result of investments but is difficult to quantify under traditional economic and financial analysis methods. Proxies or models must be found to highlight the value of the gains. Traditional economic valuation methods of internal rate of return and net present value do not always capture the value of generating social capital. Investments

that do not generate directly measurable financial returns must be measured indirectly. New tools are needed to help analysts cope with these demands, which are of increasing importance.

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

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

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

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

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

33. *Development of robust monitoring and evaluation*. The credibility of environmental services programs relies not only on fiduciary monitoring but mainly on quantification of the actual impacts of environmental services. The PSA project developed a monitoring and evaluation system that includes definition of baselines, regular monitoring of vegetation cover with remote-sensing technologies, and intense fieldwork for evaluation of environmental and social impacts. The system needs to be refined and improved to accommodate the expansion of the current program under the new operation.

34. **Contributions to a new operation.** The new operation is capitalizing on the strategies, instruments and methodologies generated by PROCYMAF in its more than ten years of existence, and by the five years of PSA implementation. Programs such as this can be used as a "spearhead" that first intervenes in a selected area to strengthen social and human capital and lays the foundation for further investments by CONAFOR's programs (e.g., PRODEFOR, Productive Chains, Payments for Environmental Services), as well as other government programs.

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

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

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

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

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

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

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

42. *National scope with subnational and local implementation works*. REDD+ offers a magnitude and scope that were not possible under project-based approaches. A national-level

accounting framework would overcome problems associated with project-level implementation such as leakage and additionality while also allowing a range of subnational activities to take place.

43. *Partnership*. A partnership among sometimes contentious stakeholders in tropical land use can find ways to communicate and explore highly policy-sensitive topics if it builds trust and willingness to share new ideas.

44. *Methodological issues*. Addressing methodological issues such as reference level and measurement, reporting and verification (MRV) is a key entry requirement for REDD+ programs. In the absence of clear policy guidance at international level and price signals for REDD+, countries could embark on a no-regrets stepwise approach to begin building capacity.

45. *REDD+ funding*. Early initiatives to finance REDD+ have illuminated a paradox: In spite of the high level of international commitments to REDD+ funding, the mechanics of multilateral programs to move resources to REDD+ partner countries require due diligence and safeguards that improve the quality and inclusiveness of the REDD+ efforts but tend to slow the flow of funds to countries.

Annex 10: Forest Investment Program

1. **The Forest Investment Program (FIP)**. The Forest Investment Program is part of the Climate Investment Fund.[55] It supports developing countries' REDD+ efforts to reduce deforestation and forest degradation and promotes sustainable forest management that leads to emission reductions and the protection of carbon reservoirs. The FIP achieves this by providing upfront bridge financing for readiness reforms and fostering public and private investments identified through national REDD+ readiness strategies. The FIP takes into account country-led priorities and strategies for the containment of REDD+ while building on existing forest and related initiatives. It promotes programmatic investments aimed at transformational change in the forest sector and/or sectors that affect forests. Primarily, FIP-funded activities will finance efforts to address the underlying causes of deforestation and forest degradation.

2. Mexico was selected as a FIP pilot country in July 2010. In June 2011, the FIP Subcommittee proposed allocating to Mexico US$32.16 million in grants and US$27.84 million in concessional finance, for a total of US$60 million. CONAFOR is the operational coordinating agency for the Government of Mexico. The Government of Mexico selected IBRD as the coordinating Multilateral Development Bank (MDB) considering CONAFOR's long-standing collaboration with IBRD in forestry, climate change and the REDD agenda.

3. In addition to the eight pilot countries' allocations, the FIP tentatively set aside US$50–75 million to provide direct support to indigenous peoples and local communities. The purpose of this Dedicated Grant Mechanism (DGM) is to ensure "*the full and effective, continuous participation of indigenous peoples and local communities in the design and implementation of FIP investment strategies... This participation will be highly dependent on strengthening the capacity of these groups to play an informed and active role in national REDD+ processes in general and FIP processes in particular, as well as in recognizing and supporting their tenure rights, forest stewardship roles, and traditional forest management systems*." Currently, the FIP Subcommittee is finalizing the design and operational modalities of the MDG.

4. **The Mexico FIP Investment Plan**. Building on the analytical work carried out under the REDD+ Readiness process, the FIP Investment Plan presents the immediate or direct and respective underlying causes of deforestation and degradation as a starting point to design priority interventions for FIP funding in Early Actions in priority areas. Table 1 summarizes the underlying and the direct causes of deforestation and degradation, and the proposed mitigation measures.

5. *Opportunities for greenhouse gas abatement in Mexico*. In 2010, the National Institute of Ecology identified various activities in Mexico's forest sector with an emission reduction potential of 58 million tons of CO_2e for the year 2020 and 96 million tons for the year 2030. These projections indicate that the forest sector in Mexico would be a net sink in the year 2022. The FIP investment plan is expected to become a strategic instrument that would contribute to generating an enabling environment for these activities and meeting this target.[56]

[55] http://www.climateinvestmentfunds.org/cif/node/1956

[56] SEMARNAT/INE (2010) Potencial de mitigación de gases de efecto invernadero en México al 2020 en el contexto de la cooperación internacional.

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

Forest Type	Underlying Causes	Direct Causes	Potential Mitigation Measures
Tropical dry forests	*Economic* • Low profit margin of forest management. • Limited access to financial services for local (ejido) and indigenous community forest management. *Policy and Institutional* • High transaction cost due to forest regulatory compliance. • Leakages and perverse incentives for agricultural and livestock production. *Social* • Informal land leasing and sharecropping practices in local and community forest lands.	• Forest land conversion to subsistence food production in transition to pasture for extensive livestock for meat production in local and indigenous communities and small landholdings. • Forest land conversion for agro-industry (agave). • Forest degradation for extensive livestock grazing in local and indigenous community lands. • Forest land conversion due to urban development; infrastructure for human settlement. • Forest degradation due to illegal logging and over-exploitation for firewood and charcoal production.	• Agricultural and livestock policy, legislation and program implementation review and short- and medium-term recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Review of and recommendations for forest regulations; review and simplification of forest control and supervision procedures to reduce transaction costs and promote environmental best practices. • Cooperative agreements between rural government agencies for sectoral policy alignment and implementation, and multi-sectoral action to implement integrated sustainable agriculture, livestock and forestry programs in forest landscapes. • Establishment of the Landscape Management Entity to coordinate technical assistance programs, financing, land-use programs, sustainable forest management and ejidal and indigenous community development. • Design and implementation of multi-sectoral development programs, support for financial services and promotion of sustainable agriculture, livestock and forestry production systems with emphasis on low-impact tillage, agroforestry, silvo-pastoral practices, agro-ecology techniques. • Identification and promotion of best practices for non-timber forest product extraction (natural fiber and bromelias). • Socioeconomic analysis of *avecindados* and landless peoples and recommendations for preventing environmental impacts from informal access to natural resource use.
Tropical moist forests	*Economic* • Low profit margin for forest management. • Limited access to financial services for local (ejido) and indigenous community forest management activities associated with lack of productive infrastructure and	• Primary and secondary forest conversion due to commercial and agro-industry expansion (sugar cane, agave, jatropha, palm oil, coffee, etc.) in local and indigenous communities and small landholdings. • Primary forest conversion due to pasture expansion for extensive	• Agricultural and livestock policy, legislation and program implementation review and short- and medim-term recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Review of and recommendations for forest regulations; review and simplification of forest control and supervision procedures to reduce transaction costs and promote environmental best practices. • Technical assistance and financial services programs for supply

	limited technical assistance. *Policy and Institutional* • Sectoral assistance programs for agro-industry that contribute indirectly to deforestation and degradation. • Limited government capacity for forest control and supervision. • High transaction cost due to forest regulatory compliance. • Tourism and urban development policies and lack of appropriate law enforcement and environmental safeguards. • Lack of compliance and law enforcement by state and municipal governments, related to urban and tourism development. *Social* • Weak indigenous and local community organizational structure and limited technical capacity for forest management.	livestock grazing in local and indigenous community lands and small landholdings. • Degradation of primary and secondary forests due to selective harvesting and over-exploitation of high-value timber and non-timber species in local and indigenous community lands and small landholdings. • Degradation of primary forests due to over-exploitation and unsound forestry practices as a consequence of community forest industry standing timber logging contracts. • Conversion of mangroves and flooded forests due to tourism and urban development infrastructure in coastal ecosystems of the Yucatán Peninsula and Jalisco.	chain development and added value incorporation in forestry production. • Cooperative agreements between government rural development agencies for sectoral policy alignment and implementation, and multi-sectoral action to implement integrated sustainable agriculture, livestock and forestry programs in forest landscapes. • Establishment of the Territorial Management Agency to coordinate and facilitate technical assistance efforts and financial services for the SFM. • Technical assistance and financial services programs for supply chain development to promote added value incorporation in forestry production. • Implementation of simple verification systems for securing legal origin of timber to prevent illegal activities in forestry operations and related trade. • Indigenous and local community promoter participation in monitoring community forest industry logging contracts to prevent unsound socioeconomic and environmental practices. • Design and implementation of communication programs about market information on forest products. • Development of the National Forest Certification System. • Conservation status analyses of high commercial value timber species and identification of lesser-known species. • Environmental and socioeconomic analysis for short- and medium-term recommendations to prevent and mitigate urban and tourism infrastructure development. • Strengthening and promotion of Payments for Environmental Services initiatives.

Temperate pine forests	*Economic* • Low profit margin for forest management, particularly in local and indigenous forest lands. *Policy and Institutional* • Sectoral assistance programs for agro-industry that contribute indirectly to deforestation and degradation. • High transaction cost due to forest regulatory compliance. *Social* • Weak indigenous and local community organizational structure and limited technical capacity for forest management. • Deficient organizational development and business administration of local and indigenous community organizations.	• Deforestation of primary and secondary forests for commercial agriculture in local and indigenous community forest lands and small landholdings. • Degradation of primary and secondary forests due to selective and over-harvesting of timber and non-timber forest products. • Degradation due to illegal logging and over-exploitation of timber and firewood collection.	• Agricultual and livestock policy, legislation and program implementation review and short- and medium-term recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Review of and recommendations on forest regulations; review and simplification of forest control and supervision procedures to reduce transaction costs and promote environmental best practices. • Implementation of simple verification systems for securing legal origin of timber to prevent illegal activities in forestry operations and related trade. • Indigenous and local community promoters' participation in monitoring community forest industry logging contracts to prevent unsound socioeconomic and environmental practices. • Capacity-building programs on forest management and support for financial services and technical assistance programs for community forestry. • Promotion and strengthening of Payments for Environmental Services initiatives.
Temperate deciduous oak forests	*Economic* • Low profit margin for forest management, particularly in local and indigenous forest lands. • Rural unemployment and under-employment and severe poverty.	• Deforestation due to agriculture and extensive livestock for meat production in local and community forest lands and small landholdings. • Forest degradation due to illegal and informal logging practices in community and local lands. • Forest degradation due to extensive use of natural pasture for livestock grazing. • Forest degradation due to unsustainable firewood collection, charcoal production in local and indigenous community lands.	• Agricultural and livestock policy, legislation and program implementation review and short- and medium-term recommendations to prevent perverse incentives, unwanted indirect impacts and leakages, policy and program reforms and institutional alignment. • Establishment of mechanism for cooperation agreements that facilitate sector development, policy alignment and integrated multi-sectoral implementation of sustainable agricultural, forestry and livestock production. • Technical assistance and financial services programs for value chain development. • Technical assistance programs for sustainable firewood collection. • Implementation of secondary forest enrichment and establishment of local woodlot programs for sustainable firewood production. • Promotion and strengthening of PES initiatives.

Table 2: Logic model of the FIP Mexico Investment Plan

Global – CIF Final Outcome (15–20 years)	Improved low-carbon, climate resilient development

Mexico Transformative Impact (10–15 years)	Core objective: Reduced GHG emissions from deforestation and forest degradation, and enhanced forest carbon stocks contributing to the achievement of the national net zero 2020 target*	
	Co-benefit objective 1: Reduced poverty in indigenous and local communities through increased incomes from sustainable forest landscape management and productive mosaics	Co-benefit objective 2: Reduced loss in biodiversity and services, and increased resilience of forest landscapes to variability and climate change

Mexico Catalytic Replication Outcomes (5–10 years)	Reduced deforestation and forest degradation and enhanced conservation through forest landscape management		
	Increased direct management of forest landscapes by indigenous and local communities	Improved enabling environment for REDD+ and sustainable management of forest landscapes including Territorial Management Entities	Access to predictable and adequate financial resources, including results-based incentives for REDD+ and sustainable management of forests through direct investments and a dedicated line of financing

Mexico Program – FIP Outputs and Outcomes (2–7 years)	Forest and non-forest areas under sustainable management of natural resources in productive mosaics		
	Sustainable management of forests and forest landscapes to address the drivers of deforestation and forest degradation in REDD+ Early Action Areas	An institutional and legal/regulatory framework that supports sustainable management of forests landscapes and protects the rights of indigenous and local communities in priority forest landscapes within REDD+ Early Action Areas	Empower indigenous and local communities by providing capacity-building and financing mechanisms

Mexico Program – FIP Activities (1–5 years)	Increased institutional and local capacity and sustainable investment to address the direct and underlying drivers of deforestation and forest degradation in the REDD+ Early Action Areas			
	Investment within forest landscapes, and launching of a stepwise approach for sustainable competitive productive mosaics	Investments in institutional capacity, forest governance, implementation of Territorial Management Entities and strategic evaluation platforms	Strengthening participation of indigenous and local communities in overall forest landscape management and strategic evaluation platforms	Create financing mechanisms targeted to low-carbon activities that enable financial access to communities and ejidos and promote productive mosaics in forest landscapes

FIP Inputs: New and additional resources supplementing existing ODA flows for REDD+ and related strategies addressing different drivers of deforestation and forest degradation

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

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

Expected Key results from the Implementation of the Investment Plan, consistent with FIP Results Framework:	
Result	**Success Indicator**
Reduced pressure on forest ecosystems	a) Change in hectares (ha) deforested in project/program area b) Change in hectares (ha) of forests degraded in project/program area c) Amount of non-forest sector investments identified to address drivers of deforestation and forest degradation
Sustainable management of forests and forest landscapes to address drivers of deforestation and forest degradation	a) Increase in number of communities building social organization and generating income from sustainable production of forest goods and services
An institutional and legal/regulatory framework that supports sustainable management of forests and protects the rights of local communities and indigenous peoples	a) Percentage of participating communities receiving support from new ATLs/ADLs (local entities that integrate REDD+ across sectors, levels, and territorially) b) Number of agreements among CONAFOR, SAGARPA, and States in support of REDD+
Empowered local communities and indigenous peoples and protection of their rights	a) Number of new community-based, economically viable REDD+ focused initiatives with demonstrated potential for replication at scale
Increased capacity to address direct and underlying drivers of deforestation and forest degradation	a) National strategy or action plan National reference level(s) b) Robust and transparent national multi-scale monitoring system including subnational and community level components c) Information system on how safeguards are being addressed
New and additional resources for forest and forest-related projects	a) Increase in the proportion of coordinated financial resources being mobilized in REDD+ Early Action Areas

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

7. *Landscape approach*. One of the most challenging conditions to be faced by initiatives under Mexico's FIP Investment Plan is the tailoring of national policy implementation and investments for local level actions, considering the very particular socioeconomic, political and institutional conditions of targeted forest areas. To that end the initiative uses the forest

landscape as the spatial unit for resource deployment and activity implementation. Forest landscapes are defined as forested rural spatial units together with productive mosaics. The spatial configuration of these forest landscapes is decided by the specific objectives related to natural resource management and sustainable rural development.

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

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

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

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

12. In order to maximize the transformative and innovative impacts of the FIP and to enhance synergies among REDD+ efforts, it was decided to integrate the proposed FIP Projects 1 and 2 with the new SIL. Within this context, the FIP would provide the space and resources for innovation and local capacity building for REDD+. It would also inform the design of future national REDD+ strategies, and lay the foundation for future REDD+ programs. The FIP

Investment Plan is fully in line with Mexico's proposal for REDD+ Readiness which is being supported by the Forest Carbon Partnership Facility (FCPF).

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

- FIP Project 1 (Capacity Building for Sustainable Forest Landscapes Management) was mainstreamed into SIL Subcomponents 1.1, 1.2, 1.3 and 3.2.

- FIP Project 2 (Mitigation Resilience and Sustainable Profitability in Forest Landscapes) was mainstreamed into SIL Subcomponents 1.4 and 3.3.

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

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

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

Table 5: Specifc FIP projects, as outlined in the draft Investment Plan

Project	Activities
Project 1. Capacity building for sustainable forest landscapes management Objective: Enable and promote policy and program implementation alignment for integrated multi-sectoral action in priority forest landscapes using the support of Territorial Management Entities and enhancing coordination mechanisms to effectively assist sustainable forest management in order to prevent deforestation and degradation and enhance forest carbon stocks. Budget: US$15.66 million (grant) To be implemented with IBRD	1. Design and implement management models for sustainable productive landscapes. 2. Identify, promote and strengthen local development agents (ATLs, ADLs) in REDD+ Early Action Areas. This also includes mechanisms to enable funding, equipment allocation and training. 3. Create capacity within different levels of public agencies for integrated multi-sectoral policy and program implementation in productive rural landscapes. 4. Design innovative mechanisms for development policy, incentives and program alignment in REDD+ Early Action Areas, including the use of special guidelines for forest programs. 5. Support participatory processes for indigenous peoples, local communities and other relevant stakeholders in the management of forest landscapes. 6. Monitor results and strategic assessment of the Forest Investment Plan, including participatory mechanisms and documentation and dissemination of experiences.
Project 2. Mitigation resilience and sustainable profitability in forest landscapes Objective: Promote investments in sustainable productive mosaics targeting local and indigenous community organizations, as well as small landholders in priority forest areas and along their value chains. Selected investments should be able to generate mitigation, increase resilience to climate change, increase the economic value of forest products and contribute to the sustainable economic viability of productive mosaics. Budget: US$10 million (grant), US$16.34 million (loan) To be implemented with IBRD	1. Invest in sustainable forest management primarily for local communities to improve supply and value chains, including but not limited to training, appropriate technology development, land and natural resource use; planning investments also include mechanisms for forest ecosystem service compensation, use of innovative conservation practices and landscape restoration, among others. 2. Strengthen organizational capacity, technical assistance for community-based enterprises, forest certification, etc. 3. Outside forest sector investments through alignment mechanisms and co-investments from other sectors to increase the value of productive mosaics by incorporating forests within other rural productive activities (agro-forestry, afforestation, reforestation, silvo-pastoral production systems, etc.).
Project 3. Creation of a dedicated line of financing for low carbon strategies in forest landscapes	1. Framework analysis: (a) analyze Financiera Rural's credit portfolio and project pipeline in order to identify potential activities within forest landscapes that may be eligible to receive

Objective: Create a dedicated financing line accessible to *ejidos* and other local communities and finance low-carbon activities in forest landscapes. Budget: US$5 million (grant), US$10 million (loan) To be implemented with IDB	financing for low carbon emission, and (b) market research to identify potential demand for local production. 2. Design and prepare financing strategies for low-carbon community-based activities within forest landscapes that will in turn facilitate credit access to *ejidos* and other local communities: (a) design strategies taking into account existing local and national strategies; and (b) emphasize the identification and strengthening of financial intermediaries within these forest landscapes. 3. Develop and train credit agents and promoters within Financiera Rural to identify and handle low-carbon loans. 4. Promote, implement and monitor loans and related financial instruments.
Project 4. Strengthen the financial inclusion of *ejidos* and other local communities through technical assistance and capacity building for low-carbon activities in forest landscapes Objective: Establish a technical assistance facility to build local and indigenous community capacities to develop viable financial and technical proposals, and to develop basic business administration and entrepreneurial skills for sound community-based enterprises to meet REDD+ targets. This will help reduce the risks on the loan recipient side that other financial intermediaries are not willing or able to take, even if adequate financing instruments are developed. Budget: US$1.5 million (grant), US$1.5 million (loan) To be implemented with IDB	1. Identify *ejido* and other local community needs related to REDD+ projects and financial services. 2. Strengthen the technical, administrative, institutional and financial capacity of community organizations to create bankable projects to support profitable social enterprises with high environmental and social co-benefits. 3. Develop community enterprises and economic integration of productive chains in forest landscapes with a low-carbon approach. 4. Leverage additional financial resources by mobilizing other sources of funding from private investors. 5. Develop business models for promoting sustainable and productive low-carbon activities in participating communities in forest landscapes.

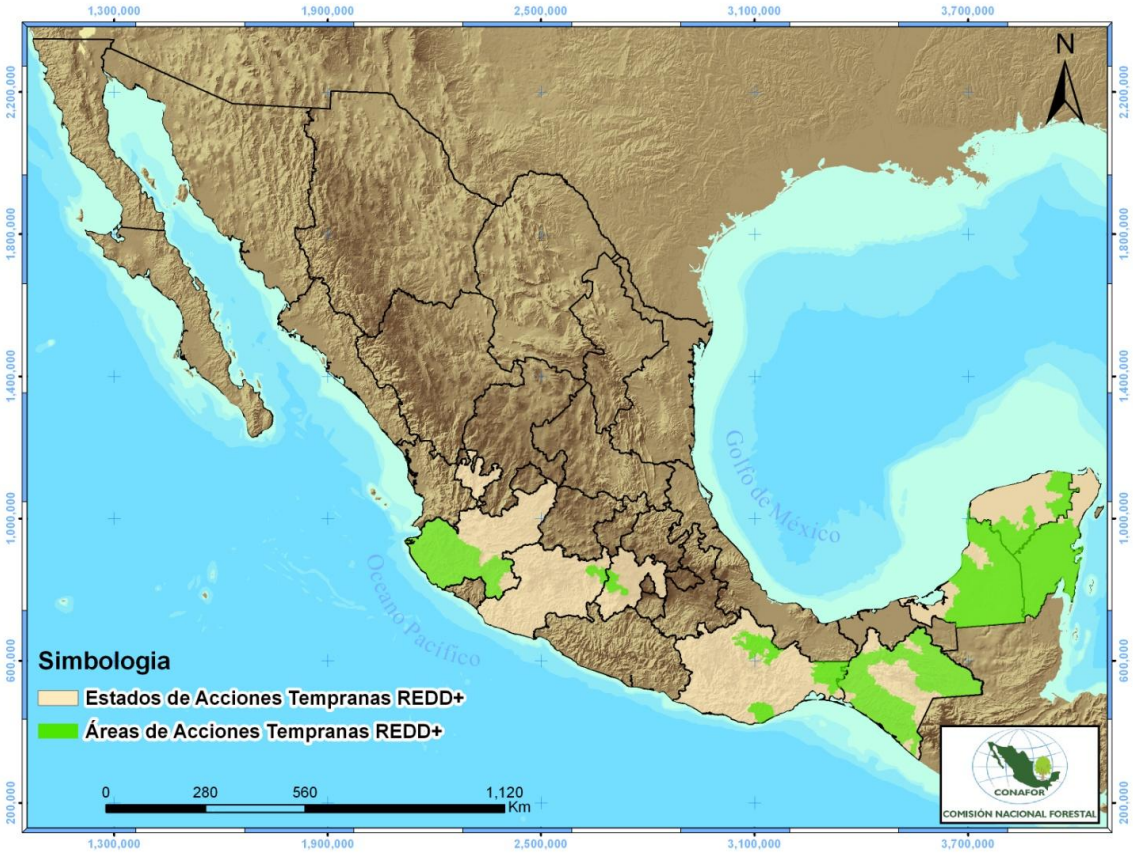
Table 6: Tentative breakdown of FIP resources (US$42 million) within Components 1 and 3 of the proposed SIL-FIP operation

FIP-financed Activities in Components 1 and 3 of the Proposed SIL-FIP Operation	Amount	Category of Expenditure
Component 1: Policy Design and Institutional Strengthening – US$11.66 million		
Subcomponent 1.1: Monitoring and Evaluation – US$2 million (grant from Investment Plan Project 1)		
Activity 2. Design of REDD+ MRV system in two Early Action Areas	**2 milllion**	Equipment, studies Technical assistance Consultant services Specialized staff workshops Operating costs
1. *Development of the baselines (carbon, social and environmental) and monitoring of REDD+ social and environmental (in collaboration with CONEVAL)*	*1*	
2. *Pilots of community-based REDD+ monitoring techniques*	*1*	
Subcomponent 1.2: Policy Design, Participatory Processes and Knowledge Sharing – US$5 million (grant from Investment Plan Project 1)		
Activity 2. Design of Innovative Policy Approaches for REDD+	**1 m**	Studies Technical assistance Consultant services Specialized staff Specialized staff workshops Operating costs Training Study tours
1. *Harmonization of forest and agricultural incentive programs*		
2. *Adaptation of CONAFOR programs to REDD+ objectives*		
3. *Design and promotion of landscape-level local development entities*		
Activity 3. Management of Socio-Environmental Impacts	**3 m**	
1.Field surveys of social and environmental impacts of REDD+ pilots	*1*	
2. Communication and consultation with indigenous peoples and local communities (in collaboration with CDI and other relevant partners)	*2*	
Activity 4. Knowledge Management and Learning	**1 m**	
1. *Production and dissemination of knowledge assets related to REDD+*	*0.5*	
2. *Support of South–South REDD+ initiatives*	*0.5*	
Subcomponent 1.3: Strengthening of CONAFOR and Cross-Sector Coordination – US$1.66 million (grant from Investment Plan Project 1)		
Activity 1. Strengthening of CONAFOR	**1.66 m**	Equipment Training
1. *Rehabilitation of CONAFOR offices in two REDD+ Early Action Areas*	*1.66*	
Subcomponent 1.4: Improvement of Private Advisory Services to Communities – US$3 million (grant from Investment Plan Project 2)		
Activity 1. Training and accreditation of private technical assistants	**3 m**	Consultant services Operating costs
1. *Training program for private service providers*	*2*	
2. *Operation of the new accreditation system*	*1*	
Component 2: Consolidation of Priority Community-Based Programs at National Level – US$0		
This component is financed by IBRD and GoM.		

Component 3: Innovation for REDD+ in Early Action Areas – US$30.34 million		
Subcomponent 3.1: Policy Innovation and Cross-Sector Harmonization (for information, budgeted under Component 1.2)		
Activity 2. Design of Innovative Policy Approaches for REDD+ 1. *Harmonization of forest and agricultural incentive programs* 2. *Adaptation of CONAFOR programs to REDD+ objectives* 3. *Design and promotion of forest landscape-level development entities*	Budget included in Component 1.2	
Subcomponent 3.2: Building Capacities for Landscape-Level Forest Management – US$7 million (grant from Project 1)		
Activity 1. Building capacity of local development agents (ATL, ADL) *Creation/strengthening of six inter-municipal associations in Early Action Areas* *Creation/strengthening of twenty NGOs in REDD+ Early Action Areas*	**6 m** *3* *3*	Equipment Training Technical assistance
Activity 2. Design of integrated REDD+ action plans at landscape level	**1 m**	TA, workshops
Subcomponent 3.3: Community Investments in REDD+ Early Action Areas – US$23.34 million (from Project 2, US$7 m grant and US$16.34 m loan)		
Activity 1. An estimated 440 demand-driven grants to forest communities to pilot innovative REDD+ management models, using policy models and landscape-based capacities developed under Components 3.1 and 3.2. Represents 63% of FIP resources dedicated to the proposed SIL–FIP project.	**23.34 m**	Community grants
TOTAL FIP Resources for Components 1 and 2	US$42 million	

15. **REDD+ Early Action Areas**. In Mexico, REDD+ interventions should be designed to address the specific drivers of deforestation and degradation in each particular state or region. Mexico has proposed starting with a subnational approach,in priority areas known as REDD+ Early Action Areas. This operation would support innovative approaches for REDD+ in two REDD+ Early Action Areas located in the State of Jalisco and the three states of the Yucatán Peninsula: Campeche, Quintana Roo, and Yucatán (See Map 1). These areas were selected for their learning, implementation and replication potential (see Section C in Annex3). Other REDD+ Early Action Areas might also be identified for project support at a later stage, depending on progress, lessons learned and institutional opportunities. In these areas, regional diagnoses of the drivers of deforestation will be undertaken, and specific REDD+ actions will be designed. Subnational reference levels and forest monitoring systems will be designed in each area. This will need to be coordinated with relevant governmental and nongovernmental organizations at the state and local levels. Successful approaches and models would be gradually expanded to other parts of the countryand then at national level. This will allow investments to be shaped, taking into account the diverse ecological and socioeconomic conditions of the target areas.The REDD+ Early Action Areas considered for project support in an initial phase are.

Map 1. REDD+ Early Action Areas as presented in the FIP Investment Plan.



16. The criteria for selecting the REDD+ Early Action Areas reflect the Forest Investment Program's priorities, and include: (i) potential for achieving emission reduction outcomes; (ii) potential for improving local population livelihoods and other socioeconomic co-benefits; (iii)

potential for achieving environmental co-benefits including biodiversity and watershed protection; (iii) implementation feasibility, including a critical mass of local partners and political support; and (iv) short-term transformational impact useful for local and national scaling-up strategies

17. **FIP as a key element of Mexico's REDD+ agenda.** Mexico's Forest Investment Plan builds on various ongoing efforts by the Government of Mexico to be prepared for REDD+ implementation mechanisms in the country. REDD+ preparatory work began with the development of the Readiness Preparation Proposal (R-PP) under the Forest Carbon Partnership Facility (FCPF), and continued with the design of the *Mexico Vision for REDD+: Towards a National Strategy*. Mexico's R-PP has been approved by the FCPF Participants Committee. It identifies the necessary actions to build a solid National REDD+ Strategy with an effective participatory process and a strategic assessment of social and environmental impacts. Progress is being made in preparing the baseline, an MRV system, and other key elements of the REDD+ Readiness Package. These design efforts are sometimes referred to as REDD+ Phase I.

18. In the meantime, progress is being made in piloting new REDD+ governance models in priority landscapes and in testing new tools for measurement and monitoring of forests. The FIP Investment Plan, combined with the proposed IBRD operation, seeks to intensify Mexico's REDD+ design and innovation efforts, and to bring them into practice in the field. It aims to strengthen capacities and align policies for REDD+, to deliver reductions of carbon emissions along with environmental and social co-benefits, and to generate experiences and scalable models for future replication in Mexico and other parts of the world. The efforts are often referred to as REDD+ Phase 2, and will be supported by the proposed SIL-FIP operation and the forestry pillar of the Social Resilience DPL.

19. Mexico's vision is to achieve steady progress in the transition from Phase 1 (design) and Phase 2 (adjustment of policies and investments for capacity) toward REDD+ Phase 3, which would consist of payments for verified emission reductions. Mexico is actively participating in the design of the FCPF Carbon Fund. It will seek opportunities to refine its institutional and financing arrangements and eventually engage in an Emission Reduction Purchase Agreement (ERPA) with the Carbon Fund.

20. The Readiness Preparation Plan for REDD+ and the REDD+ Vision document set out a number of important goals and principles. Some of the most notable principles are:

- It establishes a goal of zero net emissions from forest land use change and a significant reduction in the rate of degradation by 2020.
- It recognizes that deforestation and degradation factors are frequently outside of the forest sector and that the most effective way to face these factors is with a territorial, cross-sectoral and sustainable rural development approach.
- It commits to maintain and promote community management of forests, which is the most common form of forest ownership, by promoting the rights of indigenous and local communities.

- Multiple co-benefits will be sought for the implementation of REDD+, including: poverty alleviation, biodiversity conservation, climate change adaptation, as well as other forest environmental services.

21. Given the cross-sectoral nature of REDD+, the REDD+ Vision was also endorsed by the Intersecretarial Commission on Sustainable Rural Development. Mexico's REDD+ Vision[57] was developed through a participatory process involving civil society, the academic community and several government agencies. Mexico is currently preparing its National REDD+ Strategy and will carry out an extensive consultation to inform the design of the strategy. The CTC-REDD+ was created as a multi-stakeholder and specialized space to analyze and provide feedback on the REDD+ process. The CTC was created in 2010 and it has been actively involved in the REDD+ policy-making process as well as the FCPF R-PP and the FIP Investment Plan. These participatory forums are expanding with the creation of CTC-REDDs at the state level in the Early Action Areas.

22. **Risks and mitigation measures.** In addition to Section V.B and Annex 4, the following paragraphs highlight some of the risks and mitigation measures related to the implementation of the proposed FIP.

23. *Diversity of situations, national consistency*. The diversity of ecosystems and of social contexts in Mexico poses a challenge in terms of implementation capacity and participation of local stakeholders, and consistency in a national program. The design of REDD+ strategies, the MRV and the reference level pose technical challenges. REDD+ is a new and untested instrument and will be operated in a diverse national context. The preparation and implementation will necessarily involve a wide range of governmental and nongovernmental stakeholders, which will be added to the complexity of its coordination. The proposal to concentrate efforts in Early Action Areas mitigates these risks to some extent. Although Early Action Areas will develop their own processes, including the determination of reference levels, assessment and intervention schemes, the role of CONAFOR as the coordinating agency, and the additional support offered through of the readiness funds of the FCPF, will help ensure national consistency. The various forums for participation, especially the CTC at local and national levels, would also promote coordination and consistency of the emerging REDD+ appraoches.

24. *Lack of harmonization of forest and non-forest policies*. The harmonization of policies across multiple government agencies and at various levels (federal, state, local) is not easy, and has many legal, technical and political aspects. It is worth noting that Mexico's REDD+ Vision was supported by the Intersecretarial Commission on Climate Change and by the Sustainable Rural Development Commission. The President of Mexico presented the Vision in Cancún, with the participation of both the SEMARNATand SAGARPA. This suggests that there is increasing commitment for harmonizing policy objectives across sectors.

25. *Social and governance risks*. Mexico has a strong history in implementing initiatives with indigenous peoples and other forest-dependent communities, including the PROCYMAF, PSA and COINBIO programs. These programs demonstrate the capacity to operate in several areas

[57] Available online at http://www.conafor.gob.mx/portal/index.php/cambio-climatico-y-bosques/1-proceso-de-redd-en-mexico/a-fcpf

relevant for REDD+ nationally and at the local level, including the recognition of the rights of indigenous peoples. However, the Government of Mexico recognizes the need to further promote the full participation of civil society and other key actors, particularly indigenous and local communities. In addition, in the context of REDD+, it will be important to define carbon rights and benefit-sharing mechanisms. These new undertakings may be subject to controversy. The mechanisms will be defined as part of the design of the National REDD+ Strategy and the SESA supported by the FCPF based based on consultations with stakeholders, especially indigenous peoples and other forest-dependent communities.

26. *Risks associated with land rights and resources*. The rights of land and resources are an issue of international concern in relation to REDD+. In recent decades, Mexico has made important progress in establishing and securing community land rights, so the risks related to lack of or unclear tenure rights are lower than in many other tropical forest countries. The Land Law provides the legal framework for *ejidos* and communities and outlines their internal structures and procedures. The Ejido or Community Assemblies serve as a decision-making body on land use in communal land matters. Their bylaws regulate land use in detail. The specific land titles, both individual parcels and common lands within the *ejido*, are recorded in the National Agrarian Registry. PROCEDE, a major agrarian reform program, issued certificates for parcels and for common lands in most of the *ejidos* and communities. The program concluded its work in 2006, with over 85 percent of *ejidos* and communities having certified land titles. There are regions with land disputes (demarcation boundaries between *ejidos*, and internal conflicts among *ejidatarios*). Such disputes can be settled with the mediation of the Office of the Federal Agricultural Attorney *(Procuraduría Agraria)*, through the Agrarian Tribunals, or through out-of-court processes. The extent of land conflicts varies significantly between states. Most conflicts appear to affect only a portion of the land and many seem to find a resolution through out-of-court processes. As part of the REDD preparatory phase, attention will be paid to how a REDD+ mechanism will address areas with pending land issue in the future. The proposed investment operation will only provide capacity building to communities with pending land issues.

27. **Expected co-benefits.** The proposed FIP investments are expected to generate important social, environmental and institutional co-benefits, as described in the following paragraphs:

28. *Social*. FIP activities included in the Priority Actions will focus on increasing community capacity and improving livelihoods of indigenous and local communities. The proposed FIP activities offer clear social co-benefits that will build the self-reliance of community members and leaders engaged in local stakeholder platforms at the community and forest landscape levels. Stakeholder platforms are expected to guide the implementation of integrated sustainable development programs based on environmentally sound productive activities in and outside of the forest sector. Sponsored low-carbon-impact agricultural and livestock practices are expected to contribute to improving the quality not only of natural resources management but also of livelihoods by providing increased local employment and income opportunities. Capacity development includes designing and implementing self-development plans at the community and landscape levels. Based on a proactive strategy to promote integrated multi-sectoral actions and to incorporate forests in the productive mosaics, the implementation of self-development plans will prepare communities to practice resilience and adapt to climate change events and disasters. In order to successfully promote community self-reliance, the Early Actions will sponsor

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

29. *Environmental.* Consistent with the Government of Mexico's strong environmental commitments and policies, FIP initiatives are expected to focus on investments that will highlight the benefits of hydrological services to ensure quality water for human consumption, for productive activities and for maintaining hydrological regimes. Community forestry, sustainable agricultural and animal husbandry production systems will contribute to healthy productive landscapes by using best practices for land and other natural resource planning and watershed management. These services will particularly benefit women and children settled in vulnerable landscapes such as those found in the coastal areas and in downhill forest lands. Securing ecosystem connectivity through rural productive mosaics that include agroforestry, afforestation, silvo-pastoral production systems and landscape restoration activities will increase forest, freshwater and coastal ecosystem resilience to climate change disaster events. These activities will also increase forest landscapes' biodiversity richness, thus ensuring their capacity to improve the quality of environmental goods and services for the benefit of the local population.

30. *Institutional*. FIP-sponsored activities will also focus on the establishment of local development agents (ATLs, ADLs) and cross-sectoral development agencies, together with new or existing Strategic Evaluation Platforms. In collaboration with municipal governments and other existing participatory schemes, the ATLs, ADLs and Strategic Evaluation Platforms would form the cornerstone of local governance and the socioeconomic development framework. Full stakeholder engagement, transparency and accountability will provide the basic local building blocks for the eventual low-carbon development strategy. The ATLs and ADLs are expected to implement an integrated multi-sectoral agenda that includes technical assistance, capacity building and resource mobilization in support of environmentally sound development of local and indigenous communities within the targeted landscapes. The rules of engagement and participation for all stakeholders (particularly for the most relevant—those who own the forests—such as *ejidos* and indigenous communities) are expected to foster opportunities for full democratic participation in policy, legislation and program implementation.

NOVEMBER 2008

IBRD 33447R