

FOREST INVESTMENT PROGRAM

Project Approval Request

1. Country/Region:	Mexico	2. CIF Project ID#:	(Trustee will assign ID)
3. Project Title:	Mexico Forests and Climate Change Project <i>includes Project 1 (Capacity Building for sustainable forest landscapes management) and Project 2 (Mitigation resilience and sustainable profitability in forest landscapes) as outlined in the Mexico FIP Investment Plan</i>		
4. Type of FIP Investment	Private:	Public: X	Mixed:
5. Funding Request (in USDmillion total) for Project:	Loan: US\$16.34 million		Grant: US\$25.66 million
6. Approved Preparation Grant	Amount (USD): n/a		Date: n/a
7. Implementing MDB:	World Bank (IBRD)		
8. Other MDB Involvement	MDB: IDB	Type of Involvement: Proposed project is consistent with FIP projects being prepared by IDB to promote community forestry enterprises' access to credit, within the framework of the Mexico Investment Plan reviewed jointly by both MDBs	
9. National Project Focal Point:	Contact: José Carlos Fernandez Title: Chief of the International Affairs and Finance Promotion Unit, CONAFOR Tel: [52] (33) 3777 7000 Email: jcfernandez@conafor.gob.mx		
10. National Implementing Agency¹ for project:	Comisión Nacional Forestal (CONAFOR) Periférico Poniente No. 5360 Esq. Carretera a Nogales, Edificio B, Jalisco México 45019 Tel: (52-33) 3777-7000 jcfernandez@conafor.gob.mx		
11. MDB FIP Focal Point and Project Task Team Leader (TTL):	Headquarters-FIP Focal Point: Gerhard Dieterle (gdieterle@worldbank.org)		TTL: Laurent Debroux (ldebroux@worldbank.org)

¹ Can be Government agency or private sector firm

12. Project/Program Description:

Sectors: Forestry (60%), General Agriculture, Fishing and Forestry (40%)

Themes: Climate Change (50%), Other Rural Development (50%)

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

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

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

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

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

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

7. *Subcomponent 1.1. Monitoring and Evaluation.* (IBRD US\$5m, and FIP US\$2m grant). First, this subcomponent would strengthen CONAFOR's monitoring and evaluation systems to bring them in line with the institution's rapidly growing portfolio. It would help revamp existing databases, strengthen CONAFOR's remote sensing and geographic information capacities, enhance capacities to better measure the outcomes of CONAFOR's investments in the field. The system would be transparent, foster accountability, and be subject to independent external reviews. Second, this subcomponent would help CONAFOR design and pilot a comprehensive REDD+ MRV system. It would help develop tools to monitor the environmental and social impacts of REDD+ pilot projects in the Early Action areas, and explore community-based monitoring techniques. It would also support a partnership with CONEVAL² for designing an impact evaluation strategy focused on Component 3. Third, it will support Monitoring results and strategic assessment of the Forest Investment Plan. This subcomponent would complement the Norwegian-funded MRV project. See also [Annex 1](#) on Monitoring and Evaluation.

8. *Subcomponent 1.2. Policy Design, Participatory Processes, and Knowledge Sharing.* (IBRD US\$12.5m and FIP US\$5m grant). This subcomponent would support the design and implementation of policies and

13. Objective	
The specific Project Development Objective is: <i>to support rural communities in Mexico to sustainably manage their forests, build social capital, and generate additional income from forest products and services including the Reduction of Emissions from Deforestation and Degradation (REDD+).</i>	
14. Expected Outcomes:	
Forest area under improved management and reduced carbon emissions practices increased by 1,635,000 hectares (10% of baseline)	
Number of communities building social organization and generating income from sustainable production of forest goods and services including REDD+ increased by 330 (20% of baseline)	
Rates of net deforestation and forest degradation in selected landscapes within REDD+ Early Action areas, reduced by 10% as compared to reference scenario	
15. Key Results and Indicators for Success (consistent with FIP results framework):	
Result	Indicator
<i>Component 3 - Innovation for REDD+ in Early Action areas (FIP US\$30.34 million)</i>	
Community-based REDD+ initiatives in Early Action areas are designed and implemented at landscape level thereby maximizing synergies and economies of scale	<i>Percentage of participating communities receiving support from innovative Landscape Management Agents in REDD+ Early Action areas (increase from 0% to 100%)</i>
Forest, agriculture, and livestock policies are better aligned and contribute to increasing the carbon balance in rural landscapes in REDD+ Early Action areas	<i>Number of operational REDD+ collaboration agreements between CONAFOR, SAGARPA and States in REDD+ Early Action areas (from 0 to 4)</i>
New tools and models for managing land and forests with reduced carbon footprint and higher income for communities are identified and replicated at scale in the Early Action areas	<i>Number of innovative REDD+, economically viable, community-based landscape management initiatives with demonstrated potential for replication at scale (from 0 to 18)</i>
Public investments outside the forest sector increasingly contribute to achieving REDD+ objectives, thereby complementing sector-specific efforts	<i>Increase in the proportion of CONAFOR and SAGARPA investments being mobilized through the new REDD+ integrated landscape mechanisms in Early Action areas (from 9% to 50%)</i>
<i>Component 1 - Policy Design and Institutional Strengthening (FIP US\$11.66 million, and IBRD US\$30 million)</i>	
Social, economic, environmental and carbon emissions outcomes from forest programs are monitored, verified and reported in an efficient and transparent manner.	<i>Improved Monitoring and Evaluation system for CONAFOR-supported programs (includes MRV) is operational (Y/N)</i>
CONAFOR programs are operated efficiently and field offices provide high-quality services to beneficiaries	<i>Number of CONAFOR field offices rehabilitated, equipped, staffed and trained (from 0 to 32)</i>
Communities engage in active forest management and take responsibility of their resources without unnecessary administrative burden or delays	<i>Percentage of forest management permits and special permits approved within the legal timeframe (from 91% to 100%)</i>

³ Comisión Nacional para el Desarrollo de los Pueblos Indígenas

⁴ Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación

⁵ Comisión Nacional de Áreas Naturales Protegidas

⁶ Procuraduría Federal de Protección al Ambiente

⁷ LDAs are non-government agencies that support and help implement one or several CONAFOR programs in specific regions. LTAs are local public agencies with a mandate in integrated rural development (e.g. inter-municipal associations and decentralized public organizations).

Public agencies in charge of forests, agriculture and livestock share information thereby reducing the risks of overlaps and inconsistencies	<i>An integrated database of CONAFOR, SAGARPA, DGF is operational (Y/N)</i>	
Communities receive high-quality advisory services in designing and implementing forestry sub-projects, thereby securing financial, social and environmental success of the programs	<i>Number of private forest technical advisers for communities, accredited (from 0 to 800)</i>	
Experiences and lessons from REDD+ pilot actions are widely disseminated hence facilitating replication of good practices at scale	<i>Number and Type of Knowledge Assets on REDD+ created and shared (from 0 to 10)</i>	
Component 2 Consolidation of Priority Community-Based Programs at National Level (IBRD US\$270 million)		
Participating in CONAFOR's community forestry and PES programs effectively help communities increase their level of social organization and capacity to engage in active forest management and protection	<i>Increase in Social Organization Index in communities that participate in CONAFOR demand-driven programs on community forestry and payments for environmental services (increase of SOI index by 20% from baseline)</i>	
Participating in CONAFOR's community forestry and PES programs effectively help communities generate additional income and improve livelihoods and level of economic development	<i>Increase in Economic Development Index in communities that participate in CONAFOR demand-driven programs on community forestry and payments for environmental services (increase of SOI Index by 20% from baseline)</i>	
16. Budget:		
Expenditures⁸	Amount (USD million) - estimates	
Consultants	6	
Equipment	2.5	
Workshops/seminars	7	
Travel/transportation	1	
Community grants	23.34	
Others (admin costs/operational costs)	2.16	
Contingencies (max. 10%)		
Total Cost (FIP)	42 million	
Co-Financing ⁹ :	<i>Amount (USD million):</i>	<i>Type of contribution:</i>
• Government	287	Budget
• World Bank	300	Loan
Co-Financing Total	587million	
Total project (Government, FIP, IBRD)	629 million	
17. Project/Program Timeframe		
Expected Board/MDB Management ¹⁰ approval date: Board presentation January 31, 2011		
Expected Mid-Term review date: March, 15, 2014		
Expected Project/Program closure ¹¹ date: March 31, 2017		

⁸ These expenditure categories may be adjusted during project implementation according to emerging needs.

⁹ This includes: in-kind contributions (monetary value), MDB loan or grant, parallel financing, etc.

¹⁰ In some cases activities will not require MDB Board approval

¹¹ Financial closure date

18. Role of other Partners involved in project/program¹²:

The project is meant to benefit a large number of indigenous peoples and other local communities throughout the country. It will continue to support existing CONAFOR programs which many communities and civil society organizations support in general. Significant efforts will be undertaken to strengthen existing mechanisms and processes of participation, such as the National CTC-REDD, the regional CTCs-REDD, the SESA Follow-Up Group, the *Consejo Forestal* at the national and regional levels, for example. CONAFOR will need to develop a comprehensive communications and consultation strategy that would align the objectives of the FCPF, SIL and FIP as part of the country's forest and climate change vision. The Unit of *Coordinación y Concertación* will take the lead responsibility for the overall social aspects of implementation for the SIL and FIP as well as the FCPF in order to address social issues in a comprehensive and coordinated manner. This unit has an ongoing engagement with indigenous peoples, women and youth in the context of the CONAFOR programs while cooperating with other federal agencies such as CDI (*Comisión Nacional para el Desarrollo de los Pueblos Indígenas*) and other state governments.

The following collaborations agreements will be established between CONAFOR and public partner agencies for specific project activities: (i) with CONEVAL for the design of an impact evaluation strategy under Subcomponent 1.1; (ii) with CDI for the dissemination of information and consultations with indigenous peoples under Subcomponent 1.2; (iii) with SAGARPA, SEMARNAT and PROFEPA for the establishment of joint databases and the streamlining of administrative procedures under Subcomponent 1.3; and (iv) with CONABIO and local entities (e.g. inter-municipal associations and non-government organizations, often referred as ATLS and ADLs) under Component 3 to finance community-based REDD+ activities in Early Action areas (direct payments from CONAFOR to community beneficiaries).

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

¹² Other local, national and international partners to be involved in implementation of the project/program.

19. **Implementation Arrangements** (incl. procurement of goods and services):

19. The detailed institutional arrangements are presented in Annex 3 of the project document. 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 Inter-secretarial Commission for Sustainable Rural Development and the Inter-secretarial Commission on Climate Change. At local level, day-to-day implementation and monitoring of Components 2 and 3 of the proposed Project 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

20. **Financial management.** The Bank conducted a financial management (FM) assessment in accordance with OP/BP 10.02 and the FM Practice Manual¹³ of the World Bank. The overall conclusion of the assessment is that the FM arrangements as set out for this Project are adequate. The project is complex in terms of FM and the overall FM risk is considered Substantial, mainly because Components 2 and 3.3 will involve grants and payments to multiple beneficiaries (communities and *ejidos*), which implies a considerable level of complexity in terms of operational control. CONAFOR has an adequate capacity to carry out the FM tasks given its long-standing experience in executing projects financed with Bank's resources, and also has a sound internal control environment supported by the following mitigating measures: (i) strong country public FM arrangements, which will be applicable to this project as it will be integrated into the national budget, (ii) manuals of policies and procedures, including a set of operational rules applicable to the payments related to component 2 of the project, (iii) a well integrated IT platform to perform all the budgeting, accounting and payments functions related to the project, (iv) a suitable organizational structure, in which the *Coordinación General de Administración*¹⁴ will perform most of FM project activities and will be reinforced through the creation of a Project Unit which will include a FM specialist. The following measures have been agreed with CONAFOR: (i) the preparation of an operational manual which will document the FM procedures agreed for the project, to be completed before negotiations; (ii) preparation of specific TORs 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; and (iii) hiring the FM specialist within the Project Unit.

21. **Procurement.** CONAFOR has been the implementing agency for Bank-assisted projects for many years. The procurement team has sound knowledge of the Bank procurement policies and guidelines, and reporting is of good quality. Implementation of the Second Community Forestry Project (PROCYMAF) was deemed fully satisfactory with regards to procurement policies. The workload of the CONAFOR procurement team has significantly increased. They are responsible for implementing World Bank projects and grants from other sources. If not strengthened adequately, this could generate issues relating to CONAFOR capacity to provide timely and professional procurement services. To overcome this risk, during appraisal the Bank will closely review this staffing issue and work with CONAFOR to develop a contingency plan.

22. The main component of this operation (Component 2, USD270 million) will support five existing CONAFOR programs (PES, PROCYMAF, PRODEFOR, Cadena and special programs) and Component 3.3 will support innovative community-based initiatives focused on REDD+. The PES program consists mostly of financial transactions to communities and *ejidos* without any procurement activities; while the other four programs supported under Component 2, as well as Component 3.3, may consist of small procurement activities to be executed by entities different from CONAFOR (communities and *ejidos*). During appraisal the scope of these programs, as well as the procurement roles of these entities will be defined, as well as the appropriate mitigation actions, as needed. The Overall procurement risk for this operation is Substantial.

¹³ The FM Manual was issued by the FM Sector Board in March 1, 2010.

¹⁴ This department exists within CONAFOR and is in charge of all institutional FM activities.