

# CLIMATE INVESTMENT FUNDS

FIP/SC.7/6  
October 21, 2011

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Meeting of the FIP Sub-Committee  
Washington, D.C.  
October 31, 2011

Agenda Item 6

MEXICO FORESTS AND CLIMATE CHANGE PROJECT  
UNDER THE  
FIP INVESTMENT PLAN

### **Proposed Decision by the FIP Sub Committee**

The FIP Sub-Committee approves an allocation of USD 25.66 million in FIP grant resources and USD16.34 million in FIP concessional for the project entitled: *Mexico Forests and Climate Change Project*, submitted by the World Bank on behalf of the Government of Mexico.

The FIP Sub-Committee takes note of the total budget of USD 840,000 for project support and supervision services and approves a final tranche of USD 420,000 for such services provided by the World Bank.

The Sub-Committee requests the Government of Mexico and the World Bank to take into account written comments submitted by Sub-Committee by November 15, 2011 in the further development and implementation of the project

**FOREST INVESTMENT PROGRAM**

**Project Approval Request**

<b>1. Country/Region:</b>	Mexico	<b>2. CIF Project ID#:</b>	(Trustee will assign ID)
<b>3. Project Title:</b>	<b>Mexico Forests and Climate Change Project</b> <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>		
<b>4. Type of FIP Investment</b>	Private:	Public: X	Mixed:
<b>5. Funding Request (in USDmillion total) for Project:</b>	Loan: US\$16.34 million	Grant: US\$25.66 million	
<b>6. Approved Preparation Grant</b>	Amount (USD): n/a	Date: n/a	
<b>7. Implementing MDB:</b>	World Bank (IBRD)		
<b>8. Other MDB Involvement</b>	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	
<b>9. National Project Focal Point:</b>	Contact: José Carlos Fernandez Title: Chief of the International Affairs and Finance Promotion Unit, CONAFOR Tel: [52] (33) 3777 7000 Email: <a href="mailto:jcfernandez@conafor.gob.mx">jcfernandez@conafor.gob.mx</a>		
<b>10. National Implementing Agency<sup>1</sup> for project:</b>	Comisión Nacional Forestal (CONAFOR) Periférico Poniente No. 5360 Esq. Carretera a Nogales, Edificio B, Jalisco México 45019 Tel: (52-33) 3777-7000 <a href="mailto:jcfernandez@conafor.gob.mx">jcfernandez@conafor.gob.mx</a>		
<b>11. MDB FIP Focal Point and Project Task Team Leader (TTL):</b>	Headquarters-FIP Focal Point: Gerhard Dieterle ( <a href="mailto:gdieterle@worldbank.org">gdieterle@worldbank.org</a> )	TTL: Laurent Debroux ( <a href="mailto:ldebroux@worldbank.org">ldebroux@worldbank.org</a> )	

<sup>1</sup> 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 CONEVAL<sup>2</sup> 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

<b>13. Objective</b>	
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>	
<b>14. Expected Outcomes:</b>	
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	
<b>15. Key Results and Indicators for Success (consistent with FIP results framework):</b>	
<b>Result</b>	<b>Indicator</b>
<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>

<sup>3</sup> Comisión Nacional para el Desarrollo de los Pueblos Indígenas

<sup>4</sup> Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación

<sup>5</sup> Comisión Nacional de Áreas Naturales Protegidas

<sup>6</sup> Procuraduría Federal de Protección al Ambiente

<sup>7</sup> 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>	
<b>Component 2 Consolidation of Priority Community-Based Programs at National Level (IBRD US\$270 million)</b>		
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>	
<b>16. Budget:</b>		
<b>Expenditures<sup>8</sup></b>	<b>Amount (USD million) - estimates</b>	
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%)		
<b>Total Cost (FIP)</b>	<b>42 million</b>	
Co-Financing <sup>9</sup> :	<i>Amount (USD million):</i>	<i>Type of contribution:</i>
• Government	287	Budget
• World Bank	300	Loan
<b>Co-Financing Total</b>	<b>587million</b>	
<b>Total project (Government, FIP, IBRD)</b>	<b>629 million</b>	
<b>17. Project/Program Timeframe</b>		
Expected Board/MDB Management <sup>10</sup> approval date: Board presentation January 31, 2011		
Expected Mid-Term review date: March, 15, 2014		
Expected Project/Program closure <sup>11</sup> date: March 31, 2017		

<sup>8</sup> These expenditure categories may be adjusted during project implementation according to emerging needs.

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

<sup>10</sup> In some cases activities will not require MDB Board approval

<sup>11</sup> Financial closure date

#### 18. Role of other Partners involved in project/program<sup>12</sup>:

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 ATIs and ADIs) 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.

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<sup>12</sup> 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 Manual<sup>13</sup> 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*<sup>14</sup> 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.

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



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

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.:

(The report # is automatically generated by IDU and should not be changed)

<b>Project Name</b>	Mexico Forests and Climate Change Project
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Mexico
<b>Sector</b>	Forestry (60%), General Agriculture, Fishing and Forestry (40%)
<b>Lending Instrument</b>	SIL
<b>Project ID</b>	P123760 (IBRD) and P124988 (FIP)
<i>{If Add. Fin.}</i> <b>Parent Project ID</b>	
<b>Borrower(s)</b>	Government of Mexico
<b>Implementing Agency</b>	Comision Nacional Forestal (CONAFOR) Periferico Poniente No. 5360 Esq. Carretera a Nogales, Edificio B, Jalisco Mexico 45019 Tel: (52-33) 3777-7000 jcfernandez@conafor.gob.mx
<b>Environmental Screening Category</b>	{ }A {X}B { }C { }FI
<b>Date PID Prepared</b>	October 20, 2011
<b>Estimated Date of Appraisal Completion</b>	November 11, 2011
<b>Estimated Date of Board Approval</b>	January 31, 2012
<b>Decision</b>	<i>{Insert the following}</i> Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments. <i>{the text is automatically generated after PID is filed}</i> .
<b>Other Decision</b> <i>{Optional}</i>	<i>Teams can add more if they wish or delete this row if no other decisions are added</i>

**I. Country Context**

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

2. **The proposed operation is consistent with the Bank's new business model in Mexico.** The proposed SIL is part of a broader, strategic engagement in support of the Government's agenda on forest and climate change. Using a diverse range of instruments, the Bank would provide policy advice, convening services, investments, as well as the piloting of innovative financial services. Instruments being mobilized in support of this agenda include: the proposed Social Resilience and Climate Change Development Policy Loan (DPL); the Forest Carbon Partnership Facility (FCPF); the Global Environment Facility (GEF); the Program on Forests (PROFOR), and a potential Forest Bond with the World Bank Treasury, in addition to the proposed IBRD loan and Forest Investment Program (FIP) credit and grant, for which Mexico has been selected as one of eight pilot countries worldwide. Partnerships are underway with the French Development Agency in the context of the DPL, with the Inter-American Development Bank in the context of the FIP, and with the Norwegian-funded MRV project in the context of Component 1 of the proposed operation, among others.
3. **The proposed operation is central to the Bank's engagement with Mexico on climate change.** 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.
4. **The proposed operation builds upon a long-standing, successful collaboration on forests and climate change.** Since 1997, two *Community Forestry Projects* assisted indigenous and other rural communities to raise their standards of living through improved forest management (closed in 2009). The Bank also supported the *Mexico Environmental Services Project* aimed at enhancing the provision of environmental services of national and global significance and to secure their long-term sustainability (closed in 2011) and the *Community Conservation Project for Biodiversity*. The proposed operation would also build upon the policies supported by four recent Climate Change Development Policy Loans (2008-2010) that included forest-related prior actions.
5. **The proposed project is consistent with the Mexico Country Partnership Strategy.** One pillar of the 2008-2013 CPS (Report No 42846-MX) discussed by the Board of Directors on April 8, 2008 is to help Mexico assure environmental sustainability by reducing greenhouse gas emissions and deforestation. The CPS outcomes include the conservation of the forestry natural capital. The proposed project is also consistent with Mexico's National Development Program which aims to turn environmental sustainability into a cross-cutting theme of public policies.

## II. Sectoral and Institutional Context

6. 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.<sup>1</sup> Other forests belong mostly to small, individual owners. The net deforestation rate seems to be moderate, while forest degradation is relatively high.<sup>2</sup> The direct drivers of deforestation and degradation vary by region, and include conversion to pasture and agriculture, unsustainable logging, overgrazing, fuel wood collection, fires, and pests and diseases. 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.

7. In the nineties, the Government started helping communities to manage their forest resources through a series of community-based incentives and advisory programs. At present, an estimated 2,380 communities use forest management plans, and about 60 are independently certified. In many cases, these public investments, combined with the low profitability of agriculture in remaining forestland and to some extent with rural out-migration, contribute to a decline in forest loss.<sup>3</sup> They also seem to succeed in building social capital, creating jobs and incomes, and promoting forest sustainability. However, one cannot assume those trends will continue; the financial viability of the model is still uneven; over-regulation of community forestry remains an obstacle; and forest degradation is still high and has not been reversed. Although much remains to be done, Mexico's community forestry approach is increasingly recognized as a reference worldwide. This community forestry approach is seen by the Government as a central piece of its social development and poverty alleviation strategies in forested regions. It will also likely serve as a foundation of Mexico's strategy for Reducing Emissions from Deforestation and Degradation (REDD+).<sup>4</sup>
8. **Over the past decade forests have become a national priority for Mexico.** The National Forestry Commission (CONAFOR) was established in 2001 to assist communities and small private owners in developing management plans, restoring degraded areas, planting trees, using non-timber products, and protecting environmental services. CONAFOR operates a range of thematic, community-based incentive programs, collectively known as *Pro-Arbol*. The scope of these programs increased rapidly since 2001. CONAFOR's budget

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

<sup>2</sup> Government estimates for annual deforestation rate and forest degradation rate are 0.25% and 0.45% respectively.

<sup>3</sup> Rural out-migration has had complex effects on forest condition. On one hand, people abandon marginal cropping areas and it may grow back into forest. On the other hand, out-migration tends to weaken local institutions and creates shortages of workers for community forestry enterprises, which weakens some of the factors that have helped to protect the forests.

<sup>4</sup> 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".

increased from US\$27 million in 2001 to US\$510 million in 2010 and its portfolio has reached a total of about 12,000 transactions annually.

9. **Mexico has also become a leader in international negotiations on climate.** Mexico successfully hosted the 16<sup>th</sup> Conference of the Parties, and brokered the Cancun Agreement—a cornerstone towards a future global architecture on climate, especially as it relates to REDD+. In Cancun, Mexico unveiled its 2010 REDD+ Vision which lays out Mexico’s proposal for piloting REDD+ and represents an intermediate step towards developing a full national REDD+ Strategy. The REDD+ Vision emphasizes the importance of a cross-sector 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.<sup>5</sup> In sum, the Government sees the proposed program as a core element of its adaptation and mitigation agenda.

### III. Project Development Objectives

10. The proposed project is part of the package of Bank engagement in support of Mexico's ambitious, cutting-edge Forest and Climate Change program, within the overall framework of Mexico’s National Development Program and Mexico’s REDD+ Vision. The project contributes to the higher-level objective of ensuring the sustainable management, restoration, and expansion of Mexico's forest resources, while promoting local socio-economic development among poor rural communities including indigenous peoples, strengthening local communities’ resilience to climate change, and spearheading the global effort on REDD+.
11. Within the overall framework spelled out in paragraph 9 above, the specific Project Development Objective is: *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+).*
12. 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.
13. **Project Beneficiaries.** The key beneficiaries of the 5-year project are an estimated 4,000-5,000 *Ejidors* and Communities that would participate in demand-driven incentive and

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<sup>5</sup> The leading sources of greenhouse gas emissions are: energy (24%), transport (18%), and forests and land-use change (14%). It is estimated that forestry actions might have the potential to contribute 28% of Mexico’s total emission reductions (*Instituto Nacional de Ecología*. Third National Communication. *Secretaría de Medio Ambiente y Recursos Naturales*. Mexico. 2006)

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.

14. 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.
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 rates in selected landscapes within REDD+ Early Action areas (number of hectares, or equivalent CO<sub>2</sub> emissions).
16. The Project's Intermediate Result Indicators reflect the project's focus on: promoting innovation for the REDD+ agenda, modernizing CONAFOR's monitoring and evaluation systems, harmonizing public policies across sectors, building social organization within communities, and piloting new local governance and landscape management models, as key intermediate steps towards reaching the PDO.

#### IV. Project Description

17. **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.
18. *Subcomponent 1.1. Monitoring and Evaluation.* (IBRD US\$5m, and FIP US\$2m grant). First, this subcomponent would strengthen CONAFOR's monitoring and evaluation systems to bring them in line with the institution's rapidly growing portfolio. It would help revamp existing databases, strengthen CONAFOR's remote sensing and geographic information capacities, and enhance capacities to better measure the outcomes of CONAFOR's investments in the field. The system would be transparent, foster accountability, and be subject to independent external reviews. Second, this subcomponent would help CONAFOR design and pilot a comprehensive REDD+ MRV system. It would help develop tools to monitor the environmental and social impacts of REDD+ pilot projects in the Early Action areas, and explore community-based monitoring techniques. It would also support a partnership with CONEVAL<sup>6</sup> for designing an impact evaluation strategy focused on Component 3. Third, it will support monitoring results and strategic

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<sup>6</sup> Consejo Nacional de Evaluación de la Política de Desarrollo

assessment of the Forest Investment Plan. This subcomponent would complement the Norwegian-funded MRV project. See also Annex 1 on Monitoring and Evaluation.

19. *Subcomponent 1.2. Policy Design, Participatory Processes, and Knowledge Sharing.* (IBRD US\$12.5m and FIP US\$5m grant). This subcomponent will support analytical works and participatory processes aimed at improving public policies and programs. First, it will support the studies and workshops needed to draw lessons from the ongoing environmental services and community forestry programs, and propose adjustments to the CONAFOR operating rules for subsequent implementation under Component 2. It would aim to achieve greater integration amongst these programs, so they mutually reinforce each other. It would also support studies related to policies and programs related to forestry, agriculture, livestock, and other economic activities in rural landscapes. Second, this subcomponent will also support the studies and workshops needed to design innovative REDD+ approaches that will be piloted in Early Action areas under Component 3. Third, it will support all participatory processes, communication and outreach efforts needed for the successful implementation of the project including on social and environmental safeguards. It will support a collaborative program with CDI<sup>7</sup> to disseminate information and receive feedback from indigenous communities. It will support participatory processes for indigenous, local communities and other stakeholders in the management of forest landscapes in Early Action areas supported under Component 3. Fourth, it will support knowledge management and learning activities in-country and internationally, including South-South initiatives and the dissemination and exchange of lessons and experiences on REDD+ and on the implementation of the FIP Investment Plan. This subcomponent would be coordinated with the REDD+ Readiness process supported by the FCPF.
20. *Subcomponent 1.3. Strengthening of CONAFOR and Cross-Sector Coordination.* (IBRD US\$12.5m and FIP US\$1.66m grant). First, this subcomponent will support the provision of training and acquisition of equipment for CONAFOR's staff and offices at central and State level to modernize CONAFOR's administration and advisory capacities and promote the sharing of good practices and new technologies. It would also support overall project management including coordination, reporting, fiduciary and safeguards functions. Second, this subcomponent would foster cross-sector coordination between CONAFOR and other federal agencies involved in rural development (SEMARNAT, SAGARPA,<sup>8</sup> CONANP,<sup>9</sup> and PROFEPA<sup>10</sup>). Specifically, it would support the implementation of two policy measures included in recent Climate Change DPLs: (i) the creation of joint databases with SAGARPA and SEMARNAT, and (ii) the streamlining of the administrative framework for community-based forest management.
21. *Subcomponent 1.4. Improvement of Private Advisory Services to Communities.* (FIP US\$3m grant). This subcomponent will provide training to a roster of private technical service providers (estimated 1,174 nationwide) who advise communities in preparing and implementing sub-projects for CONAFOR funding. The training modules would cover

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<sup>7</sup> *Comisión Nacional para el Desarrollo de los Pueblos Indígenas*

<sup>8</sup> *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*

<sup>9</sup> *Comisión Nacional de Áreas Naturales Protegidas*

<sup>10</sup> *Procuraduría Federal de Protección al Ambiente*

technical, business, marketing, and social issues among others. This subcomponent will also support the design and implementation of a service provider quality accreditation and certification scheme.

22. **Component 2. Consolidation of Priority Community-Based Programs at National Level.** (IBRD US\$270m). This component will continue and scale up previous successful Bank engagement in community forestry and payments for environmental services with Mexico. It will support demand-driven community-based sub-projects related to social organization, capacity-building and land-use planning, as well as the protection, sustainable management, harvesting, processing and marketing of forest goods and services. Support to selected communities would be provided in the form of grants following the existing CONAFOR procedures (*reglas operativas*) which are reviewed and updated annually. This Component would support five programs which CONAFOR has identified as a priority package for the achievement of its overall mandate: (i) payment for environmental services (PES), (ii) community forestry development (PROCYMAF), (iii) forestry development (PRODEFOR), (iv) development of forest productive chains (*Cadenas Productivas*), and (v) special programs (*Programas Especiales*).
23. Taken together, in 2011, these five programs represent an annual disbursement of approximately \$98 million, i.e. 20 percent of CONAFOR's total budget. This means, with an average US\$54 million annually, the IBRD contribution would represent about 55 percent of the annual cost of the five programs. It is estimated that, taken together over five years, these five programs would support about 4,000-5,000 community initiatives. The average amount of a proposal is about \$11,000.00 dollars per community/*ejido*, though there may be a wide variability—ranging from about \$5,500.00 dollars (PROCYMAF) up to \$22,905.00 dollars (PES, distributed in 5 years).
24. 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.
25. Overall, this Component—and the five CONAFOR programs it supports—aims to help local communities to combine sustainable forest management with socio-economic development, and to enhance the contribution of forests to climate change mitigation and adaptation. It aims to provide additional income opportunities to communities, making sustainable management more economically attractive. The PROCYMAF, PRODEFOR, *Cadena* programs support a palette of activities ranging from capacity-building, participatory assessments, planning, and in the most advanced cases, harvesting, processing and marketing of forest products, and certification. In doing so, they help communities advance through a sequence of development phases towards sustainable self-management of their forests. The PES program provides financial transfers to interested communities as an incentive for protecting ecosystem services. It currently operates in priority areas selected for their environmental, hydrological and biodiversity value. The *Programas Especiales* provides financial transfers in 10 selected regions to support projects related to



hydrological conservation and soil erosion prevention. These areas have been selected for their social and environmental vulnerability and/or climate change mitigation and adaptation potential.

26. **Component 3. Innovation for REDD+ in Early Action Areas.** (FIP US\$14m grant and FIP 16.34m loan). This component will promote the design and piloting of new approaches for REDD+ in two Early Action areas located in the State of Jalisco and in the Yucatan Peninsula, and selected for their learning and replication potential. It will contribute to the alignment of forest, agriculture and livestock policies and programs for integrated multi-sectoral management in priority forest landscapes and will promote the role of landscape management agents.
27. *Subcomponent 3.1. Policy Innovation and Cross-Sector Harmonization* (For information, costs covered under Component 1.2). This subcomponent would support the analytical work and participatory processes needed to design innovative REDD+ approaches that will be piloted under subcomponents 3.2 and 3.3. In this context, CONAFOR would pursue three lines of innovation. First, CONAFOR would work closely with SAGARPA to ensure greater alignment and remove discrepancies with the agriculture and livestock policies and incentive programs (PROCAMPO, PROGAN) and improve the overall carbon balance in rural landscapes. Second, CONAFOR would tailor its own programs and adjust the eligibility criteria to promote low-carbon approaches at community-level (e.g. testing PES payments for sustainably managed forests). Third, CONAFOR would design and implement the management models for sustainable productive landscapes and support the emergence of new local governance structures allowing for a broader spatial integration at municipal, watershed or landscape level, instead of just responding to individual community demands.
28. *Subcomponent 3.2. Building Capacities for Landscape-Based Management in REDD+ Early Action Areas.* (FIP US\$7m grant). This subcomponent would provide training, equipment, and technical assistance to a series of Local Development Agents (ADLs) and Local Technical Agents (ATL) that include REDD+ in their dialogue and work-programs with communities, local authorities, and other partners.<sup>11</sup> Working through LDAs and LTAs would help mainstream REDD+ into regional development initiatives and in more spatially-integrated landscape management models. LDAs and LTAs would work with communities and help establish local territorial development plans. This subcomponent would help strengthen or create six inter-municipal associations (LDAs) and an estimated twenty non-government organizations (LTAs), in addition to the CONABIO *Corredor Biologico*. It will include: (i) Identification, promotion and strengthening the ADLs and ATLs in Early Action REDD+ Areas, considering existing local entities; and (ii) Create capacity within different levels of public agencies for integrated multi-sectoral policy and program implementation in productive rural landscapes

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<sup>11</sup> 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).

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

## V. Financing

Source:	(\$m.)
Borrower/Recipient:	287
IBRD	300
IDA	0
Forest Investment Program	42
	Total: 629

## VI. Implementation

30. The implementing agency for this project will be CONAFOR . 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.

31. The following collaborations agreements will be established with partner agencies for specific project activities: (i) with CONEVAL for the design of an impact evaluation strategy under Subcomponent 1.1; (ii) with CDI for the dissemination of information and consultations with indigenous peoples under Subcomponent 1.2; (iii) with SAGARPA, SEMARNAT and PROFEPA for the establishment of joint databases and the streamlining of administrative procedures under Subcomponent 1.3; and (iv) with CONABIO and local entities (e.g. inter-municipal associations and non-government organizations, often referred as ATLS and ADLs) under Component 3 to finance community-based REDD+ activities in Early Action areas (direct payments from CONAFOR to community beneficiaries). The agreement with CONABIO and a template agreement with local entities will be included in the Operational Manual.
32. The proposed project would build upon the successful experience of the previous Community Forestry and Payments for Environmental Services projects. It supports a second generation of interventions to assist forest-dependent communities in building social organization, take full ownership of forest management, and optimize local and global benefits from forests. Component 1 logically focuses on improving CONAFOR's capacity to monitor and evaluate the impacts of its growing programs, on promoting cross-sector coordination, on improving the quality of technical assistance services available to communities. Component 2 moves towards the consolidation of a priority subset of CONAFOR's community-based programs, ensuring the continuity of these programs overtime, and allowing for iterative improvements and greater harmonization amongst them. The PES program underwent a continuous process of improvement, for example through the introduction of a point system to prioritize the applications with the highest potential value. This process of gradual improvement would continue with the support of component 1.2, and its results would be integrated into component 2 for implementation at scale.
33. The proposed operation would help advance the REDD+ agenda in Mexico and globally with a strong focus on community-based management and on 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).

**VII. Safeguard Policies (including public consultation)**

*{Same as in last approved ISDS}*

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Piloting the Use of Borrower Systems to Address Environmental and Social Issues in Bank-Supported Projects ( <a href="#">OP/BP 4.00</a> )		X
<a href="#">Environmental Assessment</a> ( <a href="#">OP/BP 4.01</a> )	X	
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	X	
Pest Management ( <a href="#">OP 4.09</a> )	X	
Physical Cultural Resources ( <a href="#">OP/BP 4.11</a> )	X	
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )	X	
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )	X	
Forests ( <a href="#">OP/BP 4.36</a> )	X	
Safety of Dams ( <a href="#">OP/BP 4.37</a> )		X
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*	not eligible for piloting under OP 4.00	
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )	not eligible for piloting under OP 4.00	

**VIII. Contact point at World Bank and Borrower**

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**Implementing Agency**

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

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