

Cover Page for Project/Program Approval Request

1. Country/Region:	Mexico	2. CIF Project ID#:	(Trustee will assign ID)
3. Source of Funding:	<input checked="" type="checkbox"/> FIP	<input type="checkbox"/> PPCR	<input type="checkbox"/> SREP
4. Project/Program Title:	Dedicated Grant Mechanism for Indigenous Peoples and Local Communities in Mexico Project.		
5. Type of CIF Investment:	<input checked="" type="checkbox"/> Public	<input type="checkbox"/> Private	<input type="checkbox"/> Mixed
6. Funding Request in million USD equivalent:	<i>Grant:</i> 6 million		<i>Non-Grant:</i>
7. Implementing MDB(s):	<i>IBRD</i>		
8. National Implementing Agency:	Rainforest Alliance Contact: Edgar Gonzalez Godoy, Director General, Rainforest Alliance Mexico Phone: +525556877531 E-Mail: egonzalez@ra.org		
9. MDB Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters- Focal Point:</i> Gerhard Dieterle		<i>TTL:</i> Carlos Perez-Brito

10. Project/Program Description (including objectives and expected outcomes):

The Development Objective of the project is to strengthen capacity of forest-dependent people from targeted regions to participate in local, national and international REDD+ related processes.

Component 1: Financing Mechanisms for Community Forestry Management (USD 3.7 million). This component will support IPLC sub-projects for conservation and integration of sustainable productive activities in forest landscape management activities related to (a) avoided deforestation and forest degradation through SFM, (b) protection of environmental services; (c) enhancement of carbon stocks in forest landscape; (d) agroforestry and sustainable use of timber and non-timber products; (e) low carbon production systems in agriculture; and, (f) strengthening of community forest and non-forest enterprises.

Component 2: Capacity Building, Communication and Advocacy (USD 1.4 million). This component will support technical assistance and financing of operational cost for (i) training to Local Community Promoters (Promotores Comunitarios Locales); (ii) conduct knowledge-sharing and know-how workshops and exchanges among IPLC, associations of producers and community enterprises through Community Schools (Ejidos-Escuela); (iii) develop and adapt training modules on financial inclusion to complement and fill the gaps in already existing training materials; and (iv) developing a culturally appropriate communication and advocacy strategy for DGM activities and REDD+ processes.

Component 3: Management, monitoring and evaluation (US\$ 900,000). This component will support two main areas. First, it will support activities that increase the capacity of IPLC to oversee and assess their forest resources and to monitor and evaluate project activities using a participatory approach. Second, it will cover the incremental management costs of the NEA to implement the sub-projects and facilitate capacity building. That said, the component and its cost are an integrated approach to cover project management, monitoring under a participatory approach, and supervision.

11. Consistency with Investment Criteria:

- (a) **Climate change mitigation potential.** Although the Mexico DGM Project will not be measured by its climate change mitigation potential, the relevance of Indigenous Lands in Mexico for forest and biodiversity conservation and for climate change mitigation is widely known. Mexico is a megadiverse country and its biological diversity provides substantial opportunities for socio-economic development. Mexico has 64 million hectares of forests. One third of the country is covered by forests. Of the total national territory (196.4 million hectares), just over 66 million hectares (33%) are covered by tropical forests and temperate forests; 37% are covered by arid ecosystems and other types of vegetation, while the remaining 30% corresponds primarily to agricultural and livestock, as well as urban areas. However, Mexico's forest ecosystems have been subjected to profound changes expressed mainly in deforestation and degradation processes resulting from human intervention, which have a long history including periods of major changes in land use. The drivers of deforestation and forest degradation show significant variation across the country and include direct and underlying factors. The direct causes of deforestation and degradation include economic, social and institutional factors, such as: the profitability of alternative land uses; land use change, particularly related to agriculture and livestock production; weak management; governance and leadership capacity by Ejidos and comunidades for conducting forest operations; and pressure created by other rural and landless populations on Ejidos and communities forest resources. As a result, environmental degradation and depletion of natural resources in Mexico have an economic cost equivalent to roughly 6.3% of Mexico's national GDP, being even higher in deforestation hotspots, and the country is among the top ten countries globally in net forest loss. Deforestation rates are particularly high in tropical dry forests and tropical rainforests in the States that are focus of the Dedicated Grant Mechanism (DGM) Mexico project: Quintana Roo, Oaxaca, Campeche, Yucatan, and Jalisco. The degradation of primary forests represents a significant source of GHG emissions and is largely due to the high rate of timber and fuelwood extraction, as well as forest fires and agricultural encroachment (particularly related to livestock). While the rate of forest loss at the national level has decreased over the last decade (FAO, 2015), these trends could be reverted if the necessary measures are not taken. In its recently submitted Nationally Determined Contribution (NDC), Mexico reaffirmed the important role of forestry and land use for its mitigation and adaptation targets, committing to reach a rate of 0% deforestation by 2030. The causes of land use changes and forest degradation in Mexico are particularly complex, requiring a set of different interventions not only to reduce emissions but also making forests economically viable to communities. Natural forests are central to livelihoods of millions of Indigenous Peoples and Local Communities (IPLC)¹ in Mexico. Evidence shows that communally managed forests in Mexico have experienced less deforestation than protected nature reserves and forests under logging bans. However, forest-dependent people tend to be poor and with limited entrepreneurial and economic activities and dividends. It is estimated that 12 million people live in and around forest areas, and 5 million attributed to indigenous people. Over a quarter of the forest populations lives in extreme poverty (Forest Investment Program (FIP) – Mexico: 2011). In 2008, 57% of the poorest quintile of rural households obtained almost one-quarter of their income from natural resource extraction, most of which was forest-related. While forests contribute a modest 1% of GDP, they represent an essential source of employment, income and livelihood for people living in and around forests that can be further strengthened by proper Sustainable Forest Management (SFM) and other productive activities in forest landscapes, beyond timber and non-timber products. This directly contributes to reducing GHG through deforestation and forest degradation.
- (b) **Demonstration potential at scale.** In the spirit of the DGM's collaborative approach to design and implementation, the Mexico DGM Project objective is consistent with the interests and aspirations of the IPLC expressed in the DGM Design Proposal and the DGM Framework Operational Guidelines (OG). Likewise, the proposed PDO has an overarching approach which leaves enough room to allow the selection of activities based on the principle of demand-driven interventions and identified through an extensive participatory and representative process which is the nature and essence of the DGM at the national and regional level. The

¹ IPLC for this projects refers to ejidos, communities and other groups such as *avecindados* and other non-tenure holders living in rural communities.

DGM PDO reads ‘to strengthen the capacity of forest dependent to participate in local, national and global REDD+ processes’. The very mandate of the DGM is to address IPLCs’ capacity to play a greater role in FIP and REDD+ at the country as well as international levels by strengthening capacities at two levels: (i) core institutional capacities of IPLC organizations through management of grant financed initiatives of their choice and, (ii) IPLC voice and participation in regional and global forums by the global platform for learning and knowledge exchange through cross-regional learning events and strengthening of IPLC networks and alliances. Thus, grant-financed initiatives will in most cases lead to a range of other benefits related to livelihoods, income, sustainable management of forests, wood energy, etc., depending on the activities agreed upon.

- (c) **Cost-effectiveness.** The DGM is designed to address key barriers to allow IPLC to engage in profitable and sustainable productive activities in forest landscapes. It seeks to enhance financial inclusion; strengthen the organizational and technical capacities at the community level; enable IPLCs to generate increased monetary and non-monetary benefits and thereby empowering them to participate more actively in REDD+ activities. By design, the DGM aims to maximize the sustainability and efficiency of such sub-projects. The DGM will support IPLCs to transition from the current mix of unsustainable production systems across the landscapes into sustainable ones. In the absence of the project, DGM beneficiaries would likely remain without access to financing and other support to transition to sustainable low-carbon land uses: agricultural areas would continue to be non-sustainable and lead to further pressure on the agricultural frontier; conventional extensive cattle grazing would continue to have low tree cover and be limited carbon sinks; sustainable forest operations would continue to be economically unviable; forest would still be subject to illegal activities and land use conversion. Under these conditions, the identified economic benefits generated by the DGM are incremental. The Economic Analysis showed that the transition to sustainable sub-project as the proposed in the DGM have positive social and private returns: 1) In the case of the transition from unmanaged forests to sustainable forest management, both temperate and tropical forests, result in a positive social and private return. In the case of temperate forests (pine production), the Net Present Value (NPV) at 10% would be of \$4,230/ha while in tropical forests it would be of \$18,380/ha, compared to a loss of at present value (at 10%) of \$1,000/ha (tropical) and \$793/ha (temperate) of unmanaged forests. 2) In the case of Ecotourism, evidence suggests that ecotourism projects can reach a mean financial return of approximately 22%. 3) In the case of the transition from unsustainable to improved agricultural practices results in clear improvements, net social cost benefit increasing from \$2,800/ha at 10% discount rate to \$18,000/ha. However, even under private costs and benefits, the transition results in a doubling of the NPV, from \$9,000/ha to \$18,000/ha. 4) In the case of the transition from traditional grazing practices to silvopastoral systems,, the analysis shows that traditional grazing practices have a social NPV at 10% of \$24,000/ha, whereas the private social NPV is \$26,200. In contrast, the silvopastoral systems have a higher NPV, with a social NPV of \$42,000 and a private one of \$43,800. In both cases, the difference between the social and private returns result from the GHG emissions from cattle. The results in the Economic Analysis show that the set of eligible projects of the DGM will have positive private returns that exceed those of the existing unsustainable land uses in the intervention areas. While the composition of the portfolio of sub-projects is not known, a sensibility analysis of the DGM portfolio of sub-projects shows that the likely benefits per hectare could vary from \$10,862/ha and 13,156/ha in the case of temperate forests. For the tropical ones, the values are between \$13,406/ha and \$18,010/ha. Moreover, the social value of the sub-projects supported by the DGM is likely to be higher, since the Economic Analysis did not include in the calculations other non-economic local benefits such as the value from reduced pressure on forest land or the resulting improvement in food accessibility as well as ecosystem services.
- (d) **Implementation potential.** In accordance with the Global DGM Guidelines, the Mexico DGM has developed a governance and management arrangement with the capacity for coordination, partnership and synergies. To enhance participation and ensure opportunities of access for the most deprived IPLC, the Project will rely on simplified, streamlined and flexible procedures for grant application and communication/outreach strategies as well as for procurement financial reporting. A National Steering Committee (NSC) will accompany project implementation and a National Executing Agency has been selected. The NSC will work as a deliberative and social control arena. The NSC includes self-selected representatives from IPLC. The Government of Mexico,

through the National Forestry Commission and the Institute for Indigenous people participate in the NSC as permanent observers. The NEA is a nonprofit and nongovernmental organization (NGO) that meets the World Bank's program-related, fiduciary and safeguard requirements. The NEA will facilitate the work of the NSC and provide to the World Bank operational and financial reports. The Project is proposed to be implemented over a five-year period.

- (e) **Integrating sustainable development (co-benefits).** The Project's main co-benefits are: (a) Environmental: (i) provision of biodiversity and hydrological services; and (ii) target low carbon emission and sustainable forest landscape products and value chains, etc. (b) Socioeconomic: (i) reduced vulnerability of IPLCs and their traditional low-impact livelihoods to manmade and climate-change-related threats; (ii) increased monetary and nonmonetary benefits for forest users due to livelihood diversification and sustainable forest/land use management systems; and (iii) enhanced adaptive capacity of IPLC. (c) Institutional: (i) strengthened representative organizations of IPCL; (ii) increased engagement and participation, role and voice of IPCL in REDD+/climate-change decision-making bodies at the local, national, and global levels; and (iii) enhanced partnerships between IPLC representative organizations and networks.
- (f) **Safeguards.** The Mexico DGM is conceived as a pilot project and its design has been led by IPLC. The project aims at contributing to the implementation of the national REDD+ program – including the FIP and the FCPF as well as the Forest and Climate Change project – and particularly adds to the ongoing efforts to implement its operational pillars, the ENAREDD+ and the emission reduction program under the FCPF. To that regard, Mexico's overall REDD+ program provides an open, participatory, inclusive, cultural appropriate and analytical consultation process. Particularly, under the FCPF readiness grant a full national consultancy on the ENAREDD+ was carried out that included 4 modalities – indigenous people, sectorial workshops, working groups for vulnerable groups and online – and more than 5,000 consultees. The DGM is designed and implemented as part of Mexico's REDD+ program and therefore build on this strong record. The Project is expected to have a positive social impacts on the lives of indigenous populations and local communities. There is an ongoing broad process of informed and free consultation that started in 2014 and a total of 16 consultation workshops have been held with key stakeholders, including two regional meetings with indigenous representatives in the Yucatán Peninsula, Oaxaca and Jalisco. In addition, 6 consultation meetings were conducted with each one of the regional sub-committees and general assemblies of the NSC in Guadalajara, Jalisco, Chetumal, Quinta Roo and Oaxaca. A basic information package was put together by the NSC to inform consistently different IPLC organizations at all sub-committee meetings and general assembly's meetings. A comprehensive analysis of different social and environmental assessments of several projects in the forestry and natural resources sector with significant indigenous population's components was carried out to inform the design of the Project and also an ESMF was developed. The analysis included an extensive desk review, field visits to several of the potential beneficiary regions in the targeted states, interviews and meetings with a wide range of stakeholders. One of the most important issues found in the review of the social assessments is the need for the social inclusion of Indigenous Peoples (IP) and communities in the projects. In addition, the assessment identified the need for culturally and socially appropriate means of communication, with cultural appropriate training and materials, as well as the importance of taking into account their traditional knowledge and traditions during the implementation of the Projects activities.
- As a result, The World Bank's OP 4.10 IP is triggered for this Project. As IP are the Project's direct and main beneficiaries, this Project is considered to be an IP Project. For this reason, an Indigenous Peoples Plan (IPP) was not prepared. The Project was jointly prepared with the NSC and in full consultation with indigenous leaders from the Project area. A robust consultation process was conducted with members of the NSC, and key governmental institutions such as CONAFOR and CDI in order to review the proposed Project design. Project documents including the OM and the ESMF were jointly reviewed, inputs incorporated and were continuously consulted and reviewed with the beneficiaries and the NSC, and the inclusion of non-land tenure holders, specifically young, women and *avecindados*. The project will not only attend these findings for project design but mainstream these elements to the project's governance structure, consultation processes for project dissemination and subproject identification, and during the call for proposals, among others through i) the establishment of a permanent mentoring program within the regional sub committees for women, ii)

cultural appropriate calls for proposals for sub projects, and iii) capacity building and inclusion efforts to enable indigenous groups and non-tenure holders to develop and present project ideas..

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

12. Stakeholder engagement:

The following lessons have been incorporated into the Project's design: (i) Participatory and inclusive stakeholder approach to empower IPLCs' grassroots organizations and promote the devolution of decision making to them have been introduced in Project's design as a joint partnership, which built a strong sense of ownership by the key stakeholders; and (ii) culturally adequate technical assistance, timely and on-site training to enhance managerial and technical capacities will be provided to IPLCs' grassroots organizations. The NSC will continue to provide overall governance for the DGM Mexico that is the result of a broad process of informed and free consultation that started in 2014 in order to assure a participatory consultancy to design the project's governance structure. The process focused on analyzing governance options and process of representation for IPLC within a total of 16 consultation workshops with key stakeholders have been held, including two regional meetings with indigenous representatives in the Yucatán Peninsula and Oaxaca that selected the Consorcio Chiclero from Yucatan as the chair of the NSC. The NSC will review and approve the annual work plan of the NEA and sub-projects proposals submitted by IPLC, associations of producers and community forest enterprises from targeted states. The project's governance structure does also include permanent government representatives from CONAFOR and CDI within the NSC and regional sub committees as observers.

Critical features embedded in the DGM guidelines and project design are expected to contribute to a broad stakeholder engagement. They are: (i) its broadly participatory and empowering approach that ensures representation and participation of key stakeholders in the different stages of project preparation and implementation; (ii) the design of an appropriate, clear, transparent and broadly representative governance mechanism – the NSC – open to dialogue with other participatory bodies; (iii) selection of a NEA through a competitive process, which shall (a) be familiar with WBG procedures (fiduciary, procurement, and safeguards), (b) hold the capacity to provide technical assistance and training in all areas needed by the key stakeholder, and (c) have experience in working with indigenous communities and *ejido*

13. Gender considerations:

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

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

14. Indicators and Targets (consistent with results framework):

Core Indicator	Target
Indicator 1: Targeted <i>ejidos</i> , communities, associations or organizations of producers, and community enterprises receiving sub-grants and matching-grants through the project	50
Indicator 2: Share of targeted <i>Promotores Comunitarios Locales</i> with improved capacity supported by the project	80
Indicator 3: People in targeted forest and adjacent communities with increased monetary or non-monetary benefits from forests	2,500
Indicator 4: Percentage of participants in the capacity development activities with increased role in the FIP and other REDD+ processes at local, national or global levels	75

15. Parallel Financing:

	<i>Amount (in USD million):</i>	<i>Type of contribution:</i>
Co-Financing Total:		

16. Expected Board/MDB Management approval date:

01-August-2017