

Cover Page for Project/Program Approval Request

1. Country/Region:	Guatemala	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:	Sustainable Forest Management 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> US\$ 775,000	<i>Non-Grant:</i> US\$ 8,450,000	
7. Implementing MDB(s):	<i>Inter-American Development Bank</i>		
8. National Implementing Agency:	<i>National Forest Institute (INAB)</i>		
9. MDB Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters-Focal Point:</i> Gloria Visconti GLORIAV@iadb.org	<i>TTL:</i> Marion Le Pommellec MARIONLNP@iadb.org	

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

The Sustainable Forest Management Project (hereinafter “the Project”) is part of Guatemala’s Forest Investment Program (FIP). The project seeks to contribute to reducing the rate of deforestation and emissions of carbon dioxide equivalent (CO2), by improving the efficiency of public forest services, as well as the effectiveness, profitability and social inclusion of forest incentive programs and the sustainable use of forests.

The Project is complementary to the other two projects of the FIP Program: i) Strengthening of forest governance and governability, and diversification of livelihoods; and, ii) Green Guarantee Fund.

In Guatemala, the change in land use is due in particular to the low profitability of the forest with respect to other uses (livestock, agriculture, etc.), due to the high transaction costs associated with licit forest use, the low commercial quality of the forest and low capacity of forestry companies to generate added value, among other reasons. To this we add the transaction costs to access the State’s forestry incentive programs (PINPEP and PROBOSQUE) and the challenges of effectiveness, profitability, sustainability and inclusion of these incentive programs. Causes underlying the sector’s difficulties include the low efficiency of public forest services, particularly in the administration of forest incentives and harvesting licenses.

To address this problem, the Project proposes the following activities divided into 3 components:

- **Component 1 Institutional strengthening:**
 - Simplify and harmonize processes and regulations;
 - Design and develop an automated information and process management system;
 - Implement information infrastructure in the national and regional offices of the National Forest Institute (INAB) and the National Council for Protected Areas (CONAP);
 - Strengthen the capacities of personnel involved in the provision of forest services and accompany the organizational change associated with automation of management; and,
 - Establish a monitoring system for the certification of forest management plans, based on geospatial images.

- **Component 2 Inclusive restoration:**
 - Provide producers with technical-legal assistance (including the preparation of Forest Management Plans (FMPs) and environmental impact assessments when required), with cultural relevance, under a gender-based approach, to prepare and enter files for access to forest incentives with a focus on Agroforestry and Silvopastoral Systems (AFS/SPS);
 - Provide training and technical assistance, individually and in groups, to local producers and technicians throughout the duration of the Project, to assist in the proper implementation of the FMPs.

- **Component 3 Forest-Industry-Market link:**

- Provide technical assistance to forest producers in market-oriented forestry management, including assistance in obtaining exploitation licenses and training in good management practices;
- Encourage the formalization of existing associations, cooperatives and Micro, Small and Medium Enterprises (MSMEs); the creation of new ones and promotion of second-tier entities; its strengthening in managerial and marketing capacities, aimed at making the connection with the market, including support for the preparation of business plans and participation in fairs;
- Promote technological efficiency by training machinery operators, exchanging experiences and participating in fairs;
- Establish a public access market intelligence system, through the elaboration of protocols for the collection and analysis of data and the improvement of the current information dissemination mechanisms, operated by INAB in collaboration with municipal forestry offices (web page, training, forestry extension, technical visits, forestry fairs).

The Project will be carried out in 30 prioritized municipalities. Expected results are:

- Reduction of net deforestation;
- Emission reduction of 161,894tCO₂e;
- Time needed to process files and incentive payments, decreased;
- Time needed to issue licenses for forest exploitation, decreased;
- Area under tree cover, increased;
- Profitability of agricultural plots increased thanks to transition to AFS or SPS.
- Participation of women and indigenous populations in forest incentive programs in the 30 intervention municipalities, increased; and,
- Value of forest products, increased.

This is expected to benefit at least: (i) 8,317 small and medium-sized forest producers, who meet the requirements to access forest incentives granted by PINPEP and PROBOSQUE (at least 37% of women and 58% of indigenous peoples); and, (ii) 800 individual producers (at least 50% of women and 50% of indigenous peoples) and members of 225 MSMEs. Intermediate beneficiaries include 1,570 forest service providers: Civil servants or individuals appointed to public services (at least 20% of women).

11. Consistency with Investment Criteria:

The Project is consistent with the investment criteria of the FIP:

- **Climate change mitigation potential:** It is expected to reduce 161,894tCO₂e through: (i) the increase in forest cover by improving the effectiveness of forest incentive programs; and, (ii) the sustainable use of the existing forest.
- **Scaling-up demonstration:** The Project will be implemented in 30 municipalities in the country to maximize the impact of interventions and mitigation potential for climate change, and focuses on addressing barriers that limit addressing the causes of deforestation and forest degradation, which have been prioritized for REDD+. The Project will enable conditions to apply the forest policy instruments of the country, especially the strengthening of public forest services and support to users to access forest incentive programs and exploitation licenses, so the scaling-up will be at national level.

In addition, some of the project's interventions seek to scale pilots carried out in some areas of the country that have shown potential to reduce deforestation and increase forest cover, while generating ecosystem services of great social, environmental and economic value for the populations.

- **Cost-effectiveness:** According to the cost-benefit analysis carried out, with a discount rate of 12%, the Project presents a net present value of USD194 million (2019 dollars) and an internal rate of return of 159%.
- **Potential for implementation:** The Project is consistent with the policy instruments of the country's forestry sector, especially the Forestry Law, Protected Areas Law, and forest incentive programs (PINPEP Law and PROBOSQUE Law), which are the basis of the National REDD+ Strategy to reduce deforestation and increase forest cover. Interventions will be implemented by the government entities in charge of the country's forestry sector inside and outside protected areas (mainly INAB and CONAP), in coordination with actors in the territories including the private sector, municipalities, local forestry organizations, among others.

The interventions designed for the Project include the inputs of stakeholders during the dialogue processes (consultations), and seek to incorporate and strengthen forest governance platforms such as: the National Alliance of Community Forestry Organizations, the Association of Forest Communities of Petén (ACOFOP, for its acronym in Spanish), the Network of PINPEP Beneficiaries, among others.

- **Integrated and sustainable development (co-benefits):** The Project is expected to generate the following co-benefits: Increase in forest cover, provision of sustainable firewood, generation of economic income through forest incentives and timber and non-timber product commercialization. Likewise, in the year 2035 it is estimated that the Project will have created 1,679 new jobs and reduced the number of poor people by 22,137 individuals.
- **Safeguards:** In accordance with the Environment and Safeguards Compliance Policy (OP-703) of the IDB, the operation has been classified as category B, since it is expected that it could generate direct and indirect environmental and social impacts of a moderate nature, mainly related to the potential non-significant and mitigable conversion/degradation of natural and critical habitats, and the risk of exclusion of indigenous peoples and for gender-related reasons. The Project is not expected to cause physical or economic displacement of the population. In accordance with the Disaster Risk Management Policy (OP-704), the operation has been categorized as moderate risk due to natural disasters, mainly landslides, frosts, volcanic eruptions and droughts, as well as forest fires caused by droughts.

A Strategic Environmental and Social Assessment (SESA) of the program and its Environmental and Social Management Framework (ESMF) have been developed, including an Indigenous Peoples Strategy, which analyzes the potential impacts and risks of the operation and proposes measures to prevent and/or mitigate them. The Program's Gender Action Plan responds to the two lines of action defined in the Operational Policy on Gender Equality in Development (OP-761): The preventive one, which analyzes the possible adverse impacts of the operation on women and gender equality and proposes appropriate mitigation measures; and proactive, with measures aimed at actively promoting gender equality and the empowerment of rural women producers.

12. Stakeholder engagement:

Two stakeholder consultation processes were carried out: one to identify the risks to be considered in the design of Project activities; and another on the SESA/ESMF. The first process took place in May 2018 and was attended by 86 people (21% women and 79% men, 36% indigenous Maya people and 64% non-indigenous people). The second one took place between November and December 2018 and involved 211 people (40% women and 60% men, 31% indigenous Maya and Xinca people and 68% non-indigenous people) representatives of municipalities, organizations and cooperatives of community forestry, groups of women linked to the forestry sector, representatives of indigenous peoples, environmental NGOs, private companies in the forestry sector and regional or local organizations that influence the management of forest resources.

The main topics discussed were: How the project would improve forest administration with INAB/CONAP process homologation actions and state-of-the-art equipment and technology; how the project would support/reduce difficulties in entering the forest incentive programs; what technical assistance would be given to producers; what support would be given to access financing; potential risks and impacts of the program. The dialogues resulted in adjustments to some interventions to include the mitigation measures.

13. Gender considerations:

During the design of the project, it was observed that women face difficulties in integrating and maintaining forestry incentive programs due, among other factors, to ignorance about the existence of programs, costs and lack of capacity to prepare incentive program applications.

For this reason, it was decided to create a component called "Inclusive Restoration" with a strong gender-based component that would increase the participation of women in forest incentive programs. To this end, producers will be provided with technical-legal assistance with cultural relevance and under a gender-based approach to prepare forestry incentive documents. In addition, training and individual and group technical assistance will be offered to local producers and technicians.

A Gender Action Plan has been prepared that includes measures aimed at actively promoting gender equality and the empowerment of rural women producers during the implementation of the project. It also analyzes the possible adverse impacts of the operation on women and gender equality and proposes appropriate mitigation measures.

The consultations with the interested parties had the participation of groups of women whose representation ranged from 21% in the first consultation held in May 2018 to 40% in the second consultation held in December of the same year.

Gender indicators included in the result matrix:

- Percentage of women among beneficiaries receiving forest incentive payments in the area of intervention (baseline 14.5%, goal 35%)
- Institutional personnel and trained service providers, taking into account cultural and gender relevance (Women: baseline 0%, goal 314 of 1,570)
- Producers receiving legal technical support to prepare AFS/SPS incentive files (Women: baseline 0, goal 2,317 of 6,817)
- Producers trained in Sustainable Forest Management (of AFS and SPS) (Women: baseline 0, goal 750 of 1,500)
- Forestry producers trained in demand-oriented forestry management in the area of intervention (Women: baseline 0, goal 400 of 800)

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

Core Indicator	Target
Reduction of the average annual net deforestation rate in municipalities under intervention	6.5%
Reduction of additional CO2e emissions in the municipalities under intervention	161,894tCO2e
Intermediate Results Indicators	
Average time for approval of the incentive file outside/inside a protected area	60 / 90 (Business days/file)
Weekly amount of inspections for FMP certification	50 inspections/week
Percentage of the total time of INAB and CONAP personnel dedicated to field visits for certification of the implementation of the FMP	60%
Average time for issuance of exploitation licenses outside/inside a protected area	60 / 90 (Business days/file)
Area of implementation of AFS/SPS increased in the area of intervention	13,600 Ha
Change in the value of the production of basic grain plot/pasture plot, that changed to AFS/SPS (USD/Ha)	20% each one
Percentage of women and indigenous peoples beneficiaries of incentives	35 and 50%
Wood supply ratio sold in the area of intervention	9%
Change in average prices received by forest producers for their timber products in the area of intervention	10%

15. Co-Financing:

	<i>Amount (in USD):</i>	<i>Type of contribution:</i>
Government of Guatemala	\$12M ¹	Fiscal resources

16. Expected Board/MDB Management approval date:

September 2019

¹ Consistent with the GoG's "Funds from forest incentive programs" referred to in Table A.1.1.9, p92 of the Forest Investment Plan.