

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA110299

Project Name	Mexico Dedicated Grant Mechanism for IP and LC (P151604)
Region	LATIN AMERICA AND CARIBBEAN
Country	Mexico
Financing Instrument	Investment Project Financing
Project ID	P151604
Borrower(s)	
Implementing Agency	Rainforest Alliance
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	02-Jun-2017
Date PID Approved/Disclosed	06-Jun-2017
Estimated Date of Board Approval	14-Sep-2017
Appraisal Review Decision (from Decision Note)	
Other Decision	

I. Project Context

Country Context

With a population of 127 million, Mexico is the second most populated country in Latin America and has the 14th highest Gross Domestic Product (GDP) worldwide. However, 46.2% of the population (about 55.3 million people) live under the poverty line and poverty rates are much higher among the Indigenous Peoples (IP). It is estimated that 12 million people live in and around forest areas of Mexico with more than half of them living in impoverished conditions, and 5 million attributed to indigenous people. Mexico is also 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. 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. As a result, deforestation rates during the period of 1976 and 2000 are estimated at 0.76% for tropical rainforests and 0.25% for other types of forests. In the period of 2005-2010, these rates have decreased to an average of 0.24% for all types of forests. This represents about 155,000 hectares per year. However, these data hide the heterogeneity of the phenomenon that is expressed in significantly higher rates for some regions in the country.

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 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.

Natural forests are central to livelihoods of millions of Indigenous Peoples and Local Communities (IPLC) 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. Over a quarter of the forest populations lives in extreme poverty.. 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. Thus, sustainable management of natural resources in forest landscapes can play a major role for Reducing emissions from deforestation and forest degradation, including conservation, sustainable management of forests, and enhancement of forest carbon stocks (REDD+), and income generation.

Sectoral and Institutional Context

Mexico's unique land tenure structure provides a firm basis for collective management of forest resources. Following the 1917 Land Distribution Reform, land ownership became communal in agrarian communities (ejidos y comunidades). As a result, more than 70 percent of the forests (45.5 million hectares) are under collective ownership by forest communities, with the remaining owned by small landowners and the state. There are a total of 31,514 Ejidos and comunidades in Mexico, of which about 9,000 are forest or tropical rainforest owners. It is estimated that about 3,000 communities and Ejidos are engaged in forestry as their main activity. This land tenure system of Ejidos and comunidades is unique in the world and provides a firm social, economic and legal basis for collective management of forest resources. Community forestry still faces challenges to access finance and better management practices. Although 65% of the community forests have commercial potential, less than a quarter of them have developed forest management plans and less than 9% have evolved into community forest enterprises. In addition, the sector represents only 0.01% of total loans by the banking sector. Only 16% of the ejidos and comunidades have been able to apply for loans – the vast majority of which are for agriculture and herding activities. This represents a challenge, as well as an important opportunity to develop tailor made financial inclusion schemes in Mexico's forestry sector under an integrated landscape approach that allows for productive integration. Indeed, Ejidos and comunidades have recently pointed out two main difficulties in emerging towards community forest businesses: i) lack of finance, and ii) lack of technical capacity to manage investments. Mexico is committed to curb deforestation and degradation through policy and institutional reforms. At the federal level, the Ministry of Environment and Natural Resources of Mexico (SEMARNAT) is the government agency responsible for natural resources including forests. In 2001, the National Forest Commission (CONAFOR) was established with the objective of promoting conservation activities and developing sustainable forest policies, plans and programs, including the focal point of REDD+. Throughout these years CONAFOR has become a very solid institution and has gained national and international recognition for its tangible results in strengthening local communities to manage their forest through demand-driven government-led national programs. The World Bank support to CONAFOR dates from its creation and currently covers a full range of Bank's instruments in support

of Mexico's forestry agenda. In addition, there are cross-sectoral coordination platforms, including civil society and indigenous organizations networks such as the National Development Commission for Indigenous Peoples (CDI). Mexico is also at the forefront at the international level in the preparation and implementation of the REDD+ scheme. Mexico's ambitious Nationally Determined Contribution (NDC) recognizes the essential role of forests in mitigation actions and establishes the goal of 0% deforestation by 2030. In addition, Mexico's climate change commitments emphasize forests' contribution to adaptation by reducing local communities' vulnerability to natural disasters and economic downturns. The efforts on reducing emissions from deforestation and forest degradation (REDD+) are addressed through Mexico's ambitious REDD+ agenda, a comprehensive set of instruments and interventions under the National REDD+ Strategy, (ENAREDD+). Mexico participates in many platforms of technical and financial support for REDD+; it is one of the 44 developing country participants of the Forest Carbon Partnership Facility (FCPF), one of the eight FIP pilot countries for the FIP, and a member of the UN-REDD program. Significant amounts of domestic funds and international-pledged funds are committed to the forestry sector and with various projects underway, including the FIP.

II. Proposed Development Objective(s)

The Proposed 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.

III. Project Description

Component Name

Component 1: Financing Mechanisms for Community Forestry Management

Comments (optional)

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 Name

Component 2: Capacity Building, Communication, and Advocacy

Comments (optional)

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 workshop 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 the all DGM activities and REDD+ processes.

Component Name

Component 3: Management, monitoring, and evaluation

Comments (optional)

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.

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IV. Financing (in USD Million)

Total Project Cost:	6.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
Strategic Climate Fund Grant			6.00
Total			6.00

V. Implementation

The Mexico DGM project is designed and implemented under a large scale national REDD+ effort led by the GoM. To that regard, its objectives and implementation arrangements are completely aligned with the ENAREDD+ and the FIP Investment plan. The DGM Mexico has developed bottom up governance and management arrangements with the capacity for coordination, partnerships and synergies. Due to the geographical targeting of the Project, three Regional Sub-Committees have been set up by region: Jalisco, Oaxaca and the Yucatan Peninsula. The main governance body is the NSC that it is composed of elected representatives of each one of the Sub-committees. The NSC receives direct support from a small Technical Committee composed of members from the NSC. In the specific case of Mexico, the NSC is exclusively composed of community and ejido representatives, and of representatives of community and ejido organizations and producer groups. That said, no NGOs or private entities are part of the committee. In addition, two government parties – CONAFOR and CDI have been named as permanent observers. 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. Rain Forest Alliance was selected as the NEA in Mexico, through a competitive process, led by the NSC and supported by the World Bank. The selection committee was integrated by members of the NSC, and a representative from CONAFOR and CDI respectively. The World Bank completed a capacity assessment of the NEA on key aspects of project implementation, such as financial management, procurement, and safeguards, and will provide close guidance and support during the life of the project and particularly during the first six months of Project implementation in addition to the usual implementation support. Relevant aspects of this support are included in the Implementation Support Plan (ISP). In order to facilitate Project readiness and ensure consistency with their own internal policies and procedures, the NEA will prepare the Operational Manual (OM), with an Environmental and Social Management Framework (ESMF) that was drafted with support from the World Bank, and will develop a Grievance Redress Mechanism (GRM) and Complaints Procedures. The resources allocated for the DGM Mexico will be disbursed to the NEA

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according to the provisions of the Grant Agreement. The NEA will assume full responsibility for the administration of grant resources, compliance with the Bank's fiduciary and safeguard policies and procedure and all Project-related monitoring and reporting.

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VI. Safeguard Policies (including public consultation)

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

VII. Contact point

World Bank

Contact: Carlos Tomas Perez-Brito
 Title: Senior Social Development Spec
 Tel: 458-4274
 Email: cperezbrito@worldbank.org

Borrower/Client/Recipient

Implementing Agencies

Name: Rainforest Alliance
 Contact: Edgar Gonzalez Godoy
 Title: Director General Rainforest Alliance Mexico
 Tel: 00525556877531
 Email: egonzalez@ra.org

VIII. For more information contact:

The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 473-1000
 Web: <http://www.worldbank.org/projects>

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