

Document of  
**The World Bank**  
**FOR OFFICIAL USE ONLY**

Report No: PP4086

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF

US\$4.5 MILLION

TO THE

ASOCIACION SOTZ'IL

FOR A

GUATEMALA DEDICATED GRANT MECHANISM FOR INDIGENOUS PEOPLES AND  
LOCAL COMMUNITIES IN GUATEMALA

April 16, 2021

Social Sustainability & Inclusion Global Practice  
Latin America And Caribbean Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

## CURRENCY EQUIVALENTS

Exchange Rate Effective March 11, 2021

Currency Unit = Guatemalan Quetzal (GTQ)

GTQ = US\$ 0.13

US\$ = GTQ 7.77321

## FISCAL YEAR

January 1 - December 31

Regional Vice President: Carlos Felipe Jaramillo

Country Director: Michel Kerf

Regional Director: Anna Wellenstein

Practice Manager: Maria Gonzalez

Task Team Leader(s): Dianna M. Pizarro, Philippe Dardel

## ABBREVIATIONS AND ACRONYMS

AOP	Annual Operating Plan
ANOFCG	National Alliance of Community Forestry Organizations of Guatemala ( <i>Alianza de Organizaciones Forestales Comunitarias</i> )
CDD	Community Driven Development
CFMP	Cultural Forest Management Plan
CIF	Climate Investment Funds
CONAP	National Council of Protected Areas ( <i>Consejo Nacional de Áreas Protegidas</i> )
COVID-19	Coronavirus Disease 2019
COP21	2015 United Nations Climate Change Conference
CPF	Country Partnership Framework
DFIL	Disbursement and Financial Information Letter
DGM	Dedicated Grant Mechanism
E&S	Environmental and Social
ENDDBG	National Strategy to Address Deforestation and Forest Degradation ( <i>Estrategia Nacional para el Abordaje de la Deforestación y Degradación de Bosques en Guatemala</i> )
ERP	Emission Reductions Program
ESF	Environmental and Social Framework (of the World Bank)
ESMF	Environmental and Social Management Framework
ESS	Environmental and Social Standards
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
FM	Financial Management
FMA	Financial Management Assessment
GDP	Gross Domestic Product
GEA	Global Executing Agency
GHG	Greenhouse Gas
GoG	Government of Guatemala
GPTC	Guatemala Group to Promote Communal Lands ( <i>Grupo Promotor de Tierras Comunales de Guatemala</i> )
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GSC	Global Steering Committee
GTQ	Guatemalan Quetzal
IDB	Inter-American Development Bank
IFR	Interim Unaudited Financial Report
INAB	National Forest Institute ( <i>Instituto Nacional de Bosques</i> )
IP	Indigenous Peoples
IPLC	Indigenous Peoples and Local Community
IPLCs	Indigenous Peoples and Local Communities
IPPF	Indigenous Peoples Planning Framework
IRR	Internal Rate of Return

ITTO	International Tropical Timber Organization
LCR	Latin America and Caribbean Region (of the World Bank)
LMP	Labor Management Procedures
M&E	Monitoring and Evaluation
MCEES	Mechanism for the Compensation of Ecosystem and Environmental Services Related to Forests ( <i>Mecanismo para la Compensación de los Servicios Ecosistémicos y Ambientales asociados a los Bosques</i> )
MICCG	Indigenous Peoples and Climate Change Roundtable ( <i>Mesa Indígena de Cambio Climático de Guatemala</i> )
MSMEs	Micro, Small, and Medium Enterprises
NDC	Nationally Determined Contributions
NEA	National Executing Agency
NPV	Net Present Value
NSC	National Steering Committee
PAP	Participatory Action Plan
PDO	Program Development Objective
PES	Payment for Ecosystem Services
POM	Project Operational Manual
PPSD	Project Procurement Strategy for Development
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RED PINPEP	National Network of Beneficiaries of the Incentives Program for Forestry and Agroforestry Small Landholders ( <i>Red de beneficiarios del Programa de incentivos para pequeños poseedores de tierras de vocación forestal o agroforestal</i> )
RETF	Recipient-Executed Trust Fund
SCC	Social Cost of Carbon
SCD	Systematic Country Diagnostic
SEP	Stakeholder Engagement Plan
SIGAP	Guatemalan Protected Area System ( <i>Sistema Guatemalteco de Áreas Protegidas</i> )
SOE	Statement of Expenditures
STEP	Systematic Tracking of Exchanges in Procurement
TOR	Terms of Reference
UNFF	United Nations Forum on Forests
UNFCCC COPs	United Nations Framework Convention on Climate Change Conference of the Parties
USD	United States Dollar
WBG	World Bank Group
WHO	World Health Organization

**BASIC INFORMATION**

Is this a regionally tagged project? No		Country (ies)
Financing Instrument Investment Project Financing		Classification Small Grants
Approval Date 07-May-2021	Closing Date 30-Apr-2026	Environmental and Social Risk Classification Substantial
Approval Authority RVP	Bank/IFC Collaboration No	

## Please Explain

The DGM is part of the Forest Investment Program and is approved by the World Bank's Board of Directors. However, given that the proposed Project is a small grant, the highest approval authority available within the Operations Portal is the Regional Vicepresident (RVP).

**Proposed Development Objective(s)**

The Project Development Objective is to strengthen the capacity of, and benefits gained by, Indigenous Peoples and Local Communities in their role in sustainable forest and natural resource management.

**Components**

Component Name	Cost (USD Million)
Component 1: Support for traditional IPLCs' forest management systems and enabling conditions for their sustainability	1.60
Component 2: Support for forest dependent IPLCs' economies and food security	2.22
Component 3: Project administration, monitoring, and evaluation	0.67

**Organizations**

Borrower : Asociación Sotz'il



Implementing Agency : Asociación Sotz'il.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

Total Project Cost	4.50
Total Financing	4.50
Financing Gap	0.00

**DETAILS****Non-World Bank Group Financing**

Trust Funds	4.50
Strategic Climate Fund Grant	4.50

**Expected Disbursements (in USD Million)**

Fiscal Year	2021	2022	2023	2024	2025	2026
Annual	0.05	1.20	1.20	1.10	0.70	0.25
Cumulative	0.05	1.25	2.45	3.55	4.25	4.50

**INSTITUTIONAL DATA****Financing & Implementation Modalities****Situations of Urgent Need of Assistance or Capacity Constraints**

☐ Fragile State(s)    ☐ Fragile within a non-fragile Country    ☐ Small State(s)    ☐ Conflict    ☐ Responding to Natural or Man-made Disaster

**Other Situations**

☐ Financial Intermediaries (FI)    ☐ Series of Projects (SOP)  
☐ Performance-Based Conditions (PBCs)    ☐ Contingent Emergency Response Component (CERC)



☐ Alternative Procurement Arrangements (APA)

☐ Hands-on Expanded Implementation Support (HEIS)

**Practice Area (Lead)**

Social Sustainability & Inclusion

**Contributing Practice Areas**

Environment, Natural Resources & the Blue Economy

**OVERALL RISK RATING**

**Risk Category**

**Rating**

Overall

● Substantial

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No



## Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant

## Legal Covenants

### Sections and Description

Article II. Section 2.03. (a) Institutional and Other Arrangements. (ii) The Recipient shall, no later than thirty (30) days after the Effective Date, establish, and thereafter operate and maintain at all times during Project implementation, a Project implementing unit (the “PIU”) with professional staff in adequate numbers and with terms of reference, qualifications and functions acceptable to the Bank, to perform all Project related functions.

### Sections and Description

Article II. Section 2.03. (a) Institutional and Other Arrangements. (iii) The Recipient shall hire an Independent Verification Entity to verify and validate conservation results in accordance with terms and conditionalities set forth in the Operational Manual.

## Conditions



Type Effectiveness	Financing source	Description Article IV Effectiveness; Termination Section 4.01 (a) The execution and delivery of this Agreement on behalf of the Recipient have been duly authorized by all necessary corporate action.
Type Effectiveness	Financing source	Description Article IV Effectiveness; Termination Section 4.01 (b) The Operational Manual referred to in Section 2.03(b) of this Annex has been adopted by the Recipient in a manner satisfactory to the Bank.
Type Effectiveness	Financing source	Description Article IV Effectiveness; Termination Section 4.01 (c) The grievance mechanism referred to in Section 2.04(e) has been updated in a manner satisfactory to the Bank.
Type Effectiveness	Financing source	Description Article IV Effectiveness; Termination Section 4.01 (d) An updated SEP has been adopted by the Recipient in a manner satisfactory to the Bank.
Type Effectiveness	Financing source	Description Article IV Effectiveness; Termination Section 4.01 (e) If the Bank so requests, the condition of the Recipient, as represented or warranted to the Bank at the date of this Agreement, has undergone no material adverse change after such date.

## PROJECT TEAM

### Bank Staff

Name	Role	Specialization	Unit
Dianna M. Pizarro	Team Leader(ADM Responsible)	Sr. Social Development Specialist	SLCSO



Philippe Eric Dardel	Team Leader	Sr. Natural Resources Management Specialist	SLCEN
Monica Lehnhoff	Procurement Specialist(ADM Responsible)	Procurement Specialist	ELCRU
Jorge Alberto Cavero Uriona	Procurement Specialist		ELCRU
Eduardo Franca De Souza	Financial Management Specialist(ADM Responsible)	Financial Management	ELCG1
Leanne Farrell	Environmental Specialist(ADM Responsible)	Environmental Specialist	SLCEN
Ricardo Marten Caceres	Social Specialist(ADM Responsible)	Social Development Specialist	SLCSO
Alexandra Lelouch Loeb	Counsel		LEGLE
Ana G. Strand	Team Member		SLCSO
Andrew Francis Drumm	Environmental Specialist	Environmental Specialist	SLCEN
Cynthia Margarita Arevalo Rincon	Social Specialist	Social Development Specialist	SLCSO
Maria Lourdes Quiogue Kasilag	Counsel		LEGLE
Mario Alfredo Nanclares	Team Member		SLCEN
Meerim Shakirova	Window Manager		SENGL
Renata Pantoja	Team Member		WFACS
Tatiana Cristina O. de Abreu Souza	Team Member	Finance Specialist	WFACS
Veronica Yolanda Jarrin	Team Member	Operations	SLCEN
Zenia Maria Salinas Vallecillo	Team Member		SLCEN
<b>Extended Team</b>			
<b>Name</b>	<b>Title</b>	<b>Organization</b>	<b>Location</b>



Republic of Guatemala

Guatemala Dedicated Grant Mechanism for Indigenous Peoples and Local Communities in Guatemala

TABLE OF CONTENTS

<b>I. STRATEGIC CONTEXT</b>	<b>9</b>
A. Country Context	9
B. Sectoral and Institutional Context	10
C. Higher Level Objectives to which the Project Contributes	13
<b>II. PROJECT DEVELOPMENT OBJECTIVES</b>	<b>15</b>
A. Project Development Objective	15
B. Project Beneficiaries	15
C. PDO-Level Results Indicators	16
<b>III. PROJECT DESCRIPTION</b>	<b>16</b>
A. Project Components	16
B. Project Cost and Financing	20
<b>IV. IMPLEMENTATION</b>	<b>20</b>
A. Institutional and Implementation Arrangements	20
B. Results Monitoring and Evaluation	23
C. Sustainability	23
<b>V. KEY RISKS</b>	<b>24</b>
A. Overall Risk Rating and Explanation of Key Risks	24
<b>VI. APPRAISAL SUMMARY</b>	<b>26</b>
A. Technical and Economic Analysis	26
B. Financial Management	27
C. Procurement	31
D. Legal Operational Policies	32
E. Environmental and Social	32
<b>VII. WORLD BANK GRIEVANCE REDRESS</b>	<b>34</b>
<b>VII. RESULTS FRAMEWORK AND MONITORING</b>	<b>35</b>
<b>ANNEX I. IMPLEMENTATION ARRANGEMENTS</b>	<b>43</b>
<b>ANNEX II: THEORY OF CHANGE</b>	<b>54</b>
<b>ANNEX III. ECONOMIC ANALYSIS</b>	<b>56</b>



<b>ANNEX IV. GUATEMALA COUNTRY PROGRAM ADJUSTMENT RESPONDING TO COVID-19 .....</b>	<b>64</b>
<b>ANNEX V. PILOT IPLCS MECHANISM FOR THE COMPENSATION OF ECOSYSTEM AND ENVIRONMENTAL SERVICES RELATED TO FORESTS .....</b>	<b>67</b>



## I. STRATEGIC CONTEXT

### A. Country Context

1. **Despite a stable macroeconomic framework, Guatemala struggles with modest rates of economic growth and high poverty compared to its neighbors.** Measured by per capita Gross Domestic Product (GDP), Guatemala was the fifth poorest economy in Latin America and the Caribbean (LCR) as of 2018 and has among the highest rates of social and economic exclusion in the region. GDP growth averaged 3.3 percent from 2015-2018, with real GDP per capita growth stagnating and falling slightly behind the average for Central America over the same period (2.1 percent). Low collection of taxes by the central government (tax revenues averaged close to 11 percent of GDP between 2015 and 2018) and highly rigid budgetary expenditures, as well as significantly low levels of labor productivity (mainly explained by gaps in knowledge and job skills), hamper Guatemala's ability to provide basic public services and respond to changing conditions and demands.
2. **Guatemala has a large Indigenous population that is disproportionately affected by high rates of poverty, malnutrition, unequal land distribution and deeply rooted inequality<sup>1</sup>.** Guatemala's population of 16.3 million is highly diverse, with 43.6 percent of Guatemalans self-identifying as Indigenous who speak languages from 22 linguistic families.<sup>2</sup> Nearly four out of five Indigenous people live in poverty, and extreme poverty is three times higher in the Indigenous population than in the non-Indigenous population.<sup>3</sup> The proportion of households living in poverty<sup>4</sup> is forecast to have increased from an estimated 45.7 percent in 2019 to 47 percent in 2020.<sup>5</sup> Guatemala has the sixth highest rate of chronic malnutrition in the world and the highest in LCR.<sup>6</sup> Chronic childhood malnutrition (and stunting) affects 47 percent of all children under the age of five, 58 percent of Indigenous children, and 66 percent of children in the lowest income quintile.<sup>7</sup> In 2019, only 40 percent of Guatemalan families enjoyed food security, ranking the country 68 out of 113 countries.<sup>8</sup> Land distribution is among the most unequal in the region, with small farmers (with less than 7 ha) holding 22 percent of agricultural land in terms of area (and 92 percent of farms in terms of number) while commercial producers hold 57 percent of agricultural land (2 percent of farms).<sup>9</sup> Indigenous Peoples and local communities (IPLCs) hold secure land tenure over only 12 percent of forests and municipalities own another eight percent, many of which are also "communal lands".<sup>10</sup>
3. **The Coronavirus Disease 2019 (COVID-19) pandemic and Hurricanes Eta and Iota have exposed and**

<sup>1</sup> Income inequality measured by the Gini index is expected to increase to 0.54, from a pre-crisis level of 0.49.

<sup>2</sup> Instituto Nacional de Estadística Guatemala. XII Censo Nacional de Población y VII de Vivienda, 2018.

<sup>3</sup> World Bank. 2016. Building Bridges in Guatemala: Systematic Country Diagnostic (SCD). Washington, DC.

<sup>4</sup> Defined as living below US\$5.5/day, 2011 purchasing power parity (PPP).

<sup>5</sup> World Bank, Poverty & Equity Brief, Latin America and the Caribbean, Guatemala, April 2021.

<sup>6</sup> <https://www.worldbank.org/en/country/guatemala/overview>

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> 2003 Agricultural Census.

<sup>10</sup> Communal lands refers to lands that have been certified and registered through an administrative procedure that recognizes the collective property / possession / tenancy of Indigenous or peasant communities over land that is collectively administered and used, as well as the agreement of the population that no surveying will be carried out of individual plots within it; it does not affect the legal status of the land, nor does it assign ownership rights.



**exacerbated Guatemala's underlying and preexisting challenges to inclusive growth.** As of March 29, 2021, COVID-19 has infected 193,050 Guatemalans and killed 6,794.<sup>11</sup> To mitigate the spread of COVID-19 and strengthen the country's health response, the authorities declared a state of emergency on March 5, 2020 and implemented strong containment measures. However, these limitations on mobility and public transportation and the closure of commercial activities and markets left many without income or food, pushing approximately 350,000 people into poverty.<sup>12</sup> Economic activity contracted an average 8.6 percent year on year (y/y) between March and May 2020, and higher food prices reduced the purchasing power of many (60 percent of households reported an increase in food prices during May and July 2020).<sup>13</sup> The situation was further exacerbated by the aftermath of 2020 Hurricanes Eta and Iota, which left over 2.4 million people affected, US\$780 million in economic damages (0.1 percent of GDP), and thousands of hectares of damaged or lost crops.<sup>14</sup> Most sectors restarted economic activity in early October 2020, and are now operating at around 80 percent of capacity.<sup>15</sup> The cumulative impact of the COVID-19 pandemic and Hurricanes Eta and Iota is estimated to have resulted in a 1.5 percent contraction of GDP in 2020.<sup>16</sup>

## **B. Sectoral and Institutional Context**

4. **Guatemala holds assets, including its natural and cultural diversity, that if leveraged could make important contributions to a more sustainable, inclusive, and resilient post-pandemic society.**<sup>17</sup> Guatemala is among the most biodiverse countries in the world, with 3.7 million hectares of forest covering 35 percent of the country's territory. These forests are home to at least seven major distinct biomes and the highest percentage of endemic species in Central America.<sup>18</sup> Guatemala's forests furnish multiple ecosystem goods and services including water regulation, reduce vulnerability to floods and landslides, improve infrastructure resilience, economic opportunities,<sup>19</sup> and improve land integrity and productivity. Forests also contribute many material and immaterial goods and services not reflected in GDP, such as land for subsistence agriculture, clean water, and cultural and sacred sites. Guatemala's rich cultural diversity, with nearly half of the population self-identifying as Indigenous Peoples, encompasses extensive traditional knowledge and practices relevant for traditional medicine, food security, and ecosystem conservation.
5. **Forests in Guatemala, however, are under severe threat of deforestation and degradation.** From 2001 to 2016, forests in Guatemala were reduced at an average rate of 32,000 hectares (1 percent) per year, with over two-thirds of losses occurring in the northern lowlands of Petén and northern Quiché and Alta

<sup>11</sup> <https://covid19.who.int/region/amro/country/gt>

<sup>12</sup> World Bank, Poverty & Equity Brief, Latin America and the Caribbean, Guatemala, April 2021.

<sup>13</sup> Ibid.

<sup>14</sup> Hurricanes Eta and Iota hit Guatemala hard in November 2020. WHO. Central America: situation Report No. 3. November 16, 2020.

<sup>15</sup> World Bank, Crisis Response and Recovery in Guatemala Development Policy Loan (P173698). Washington D.C., December 2020.

<sup>16</sup> Central Bank of Guatemala, 2021.

<sup>17</sup> World Bank. 2016. Building Bridges in Guatemala: Systematic Country Diagnostic (SCD). Washington, DC.

<sup>18</sup> Convention on Biological Diversity, Country Profiles, Guatemala. <https://www.cbd.int/countries/profile/?country=gt>

<sup>19</sup> In 2010, the forest products with the most economic value included furniture (30 percent), timber (24 percent), fuelwood (18 percent), rubber/latex (11 percent), and seeds/oil fruits (7 percent).



Verapaz.<sup>20</sup> The main drivers and underlying conditions for deforestation vary across the country and include: (i) lack of rural employment opportunities, driving conversion of forested land into land used for agriculture or grazing; (ii) illegal logging; (iii) uncontrolled urban sprawl; (iv) forest fires; and (v) extensive use of firewood for cooking and heating. Invasions of communal lands, due to lack of secure land tenure and titling, also contribute to deforestation and degradation.<sup>21</sup> In addition, deforestation and unsustainable agricultural practices are significantly reducing the quality of water resources and increasing vulnerability to extreme climate events, which are predicted to increase in frequency and extremity, and which disproportionately impact IPLCs largely dependent on subsistence agriculture.<sup>22</sup>

6. **Whereas IPLCs play a critical role in sustainable forest management, this role is limited due to lack of secure land tenure and recognition of IPLCs' collective management models.** IPLCs contribute significantly to sustainable forest conservation, with 1.58 million hectares of land under community ownership, including: (i) over 500,000 hectares of lands that are traditionally managed by communities based on ancestral use; (ii) 300,000 hectares of communal municipal forests; (iii) 400,000 hectares of community forest concessions in the Mayan Biosphere Reserve<sup>23</sup>; and (iv) smaller extensions of land that include lands owned by cooperatives, sacred sites, and public lands with local access rights.<sup>24</sup> In Petén, IPLCs management of forest concessions have shown promising reductions in deforestation (0.4 percent per year compared to five percent per year in the buffer zone) and generated substantial incomes and revenues for IPLCs.<sup>25</sup> Historical inequality in land distribution, however, has resulted in the subdivision of Indigenous Peoples' (IPs) lands, leaving a large portion of forests registered under private ownership and concessions. Uncertainty over the formal recognition of communal lands has hindered the expansion of community forestry models, such as the successful experience of the community-managed forest model in the Mayan Biosphere Reserve, to other areas of the country (e.g., the highlands), due to uncertainty over the recognition of communal lands. The insecurity over communal land tenure has also<sup>26</sup>, in many cases, driven communities to have their collective lands titled to municipalities to act as the formal landowner as a means for protection.<sup>27</sup> While Guatemala's Constitution recognizes, in principle, Indigenous ancestral claims to lands and territories and the transfer of state lands for the well-being of Indigenous Peoples, in practice Guatemala's land tenure system only recognizes state and private lands, thus limiting public forestry incentives and compensation programs to only these categories. In some cases, this has driven IPLCs to adopt external management practices, leading to higher rates of

---

<sup>20</sup> National Forest Reference Level updated to 2016.

<sup>21</sup> National Forest Institute (*Instituto Nacional de Bosques*, INAB) 2017. Forest Investment Plan Guatemala. Guatemala City.

<sup>22</sup> United States Agency for International Development (USAID). 2017. Climate Change Risk Profile Guatemala. Retrieved 27 August 2019 from: <https://www.climatelinks.org/resources/climate-change-risk-profile-guatemala>

<sup>23</sup> Some of these concessions, which are given for a 25-year period, have been recently renewed, including the contracts for Carmelita community forestry and Suchitecos (signed on December 26, 2019 and September 28, 2020, respectively), while others are under the threat of being taken over by competing interests and remain pending.

<sup>24</sup> Guatemalan Group to Promote Communal Lands. Diagnostic for the Conservation and Natural Resource Management of Communal Lands. National Council of Protected Areas (*Consejo Nacional de Areas Protegidas*, CONAP). Guatemala, 2009.

<sup>25</sup> National Strategy to Address Deforestation and Forest Degradation (*Estrategia Nacional para el Abordaje de la Deforestación y Degradación de Bosques en Guatemala*, ENDDBG). Guatemala, 2018.

<sup>26</sup> World Bank. 2016. Building Bridges in Guatemala: Systematic Country Diagnostic (SCD). Washington, DC.

<sup>27</sup> World Bank. Social Assessment for the Guatemala DGM, 2019.



deforestation and displacement of traditional knowledge and culturally-based or collective systems for forest management.<sup>28</sup>

7. **Forestry governance in Guatemala is managed by a diverse set of stakeholders and continues to face challenges in delivering on commitments to recognize collective community management models.** The State owns the largest share of forests at 42 percent of forest lands, of which eight percent belong to municipalities. Private companies own 38 percent of the country's forests, communal groups 15 percent, and other stakeholders (such as individual property owners) five percent.<sup>29</sup> The public administration of forests in Guatemala is shared between the National Forest Institute (*Instituto Nacional de Bosques*, INAB) for forests outside of protected areas, and the National Council of Protected Areas (*Consejo Nacional de Áreas Protegidas*, CONAP) for 52 percent of forests (1.9 million hectares) that are within the Guatemala System of Protected Areas (*Sistema Guatemalteco de Áreas Protegidas*, SIGAP). Interinstitutional coordination for monitoring and enforcement is weak, with forest fires and multiple incidents of forest degradation for illegal activities taking place regularly. Low levels of prosecution and sentencing for illegal activities have eroded public trust in the Government of Guatemala (GoG)'s efforts to reduce deforestation and degradation. In 2009, the multi-stakeholder *Guatemala Group to Promote Communal Lands* (*Grupo Promotor Tierras Comunes de Guatemala*, GPTC), prepared the *National Strategy for Management and Conservation of Natural Resources in Communal Lands*. Subsequently GPTC prepared a law proposal that would introduce an Indigenous or community category within the SIGAP to recognize collective management of communal lands. The Strategy, which was launched by INAB, has yet to be implemented,<sup>30</sup> and the law proposal has been awaiting presentation to Congress for five years.
8. **Guatemala's broader strategy for forestry was advanced in 2019, with the GoG's launch of the National Strategy to Address Deforestation and Forest Degradation (*Estrategia Nacional para el Abordaje de la Deforestación y Degradación de Bosques en Guatemala*, ENDDBG).** The ENDDBG aims to promote forest sector public policy instruments to reverse the drivers of deforestation and forest degradation and enhance forest restoration. The ENDDBG promotes integrated land-use planning, building on existing forest incentive programs and the vast experience of local forest governance, while leveraging new finance. This includes the Mechanism for the Compensation of Ecosystem and Environmental Services Related to Forests (*Mecanismo para la Compensación de los Servicios Ecosistémicos y Ambientales asociados a los Bosques*, MCEES), which was created by the 2015 Pro-forest Law (2015 Ley Probosque) to compensate forest users for the environmental services their forests produce. It also includes the Program 31 Management Models, which offers co/joint management models for protected areas between CONAP and different stakeholders including Civil Society Organizations (CSOs), academia, and the private sector. The ENDDBG also integrates preexisting Reduced Emissions from Deforestation and forest Degradation (REDD+) projects implemented by IPLCs in collaboration with the GoG or CSOs. However, as noted above, these compensation programs do not recognize collective management models over community lands.

<sup>28</sup> Social Assessment for the Guatemala DGM, 2019.

<sup>29</sup> 2019. Government of Guatemala, Emission Reductions Program Document.

[https://forestcarbonpartnership.org/system/files/documents/Guatemala\\_ERPD\\_11\\_05\\_2019.pdf](https://forestcarbonpartnership.org/system/files/documents/Guatemala_ERPD_11_05_2019.pdf)

<sup>30</sup> Reasons for delay in implementation include: (i) discrepancies between SIGAP's recognized conservation models and IPLCs governance systems and traditional forest management practices; (ii) a lack of structured platforms that allow for the direct participation of IPLCs to design national conservation policies; and (iii) limited resource allocation for the implementation of the Strategy.



9. **The ENDDBG is supported by Guatemala's broader forestry investment and climate change program, which comprises an Emissions Reduction Program (ERP).** Guatemala's ERP will include a results-based payment mechanism (under preparation) to be financed by the Forest Carbon Partnership Facility (FCPF) against emissions reductions, covering most of the country's forested areas and therefore accessible to IPLCs through benefit-sharing arrangements. The ERP will also include three investment projects that comprise the Forest Investment Program (FIP). The FIP, which supports developing countries in addressing the underlying causes of deforestation and forest degradation, will allocate a total of US\$24 million through one project under preparation and supported by the World Bank and two supported by the Inter-American Development Bank (IDB).<sup>31</sup> These projects will finance sustainable forestry management to reduce emissions and hence promote access to ERP payments through strengthening, replicating, or scaling-up the existing ecosystem compensation mechanisms and Program 31 Management models.
10. **The proposed Dedicated Grant Mechanism (DGM), also financed by the FIP, is a grant mechanism directly managed by IPLCs that aims to enhance IPLCs' capacity and strengthen their participation in FIP and other REDD+ processes.** The global DGM program finances US\$80 million in direct grants for IPLCs in 12 countries, as well as one global DGM grant. In LCR there are currently three DGMs under implementation in Brazil, Mexico, and Peru, with this proposed DGM for Guatemala being the fourth and last DGM within the Region. The proposed DGM for Guatemala will complement the ENDDBG and other FIP and ERP financing by supporting pilot activities to advance the recognition of traditional and collective IPLCs forest management systems within Guatemala's broader forest conservation initiatives. The pilot supported by the DGM could potentially be adopted by the GoG or scaled-up and replicated by other donors. The DGM will also invest in IPLCs' priorities to improve the enabling conditions for forest stewardship, facilitate their participation in relevant climate change or REDD+ dialogues, and support their forest-related productive and food security activities. The latter is of particular importance given the recent impacts of the COVID-19 pandemic and Hurricanes Eta and Iota on IPLCs in Guatemala. See Annex IV.

### C. Higher Level Objectives to which the Project Contributes

**The Project is aligned with Guatemala's Country Partnership Framework (CPF) FY17-20 (Report No. 103738-GT), discussed by the Board of Directors of the World Bank on November 17, 2016, and revised in the Performance and Learning Review of the CPF for the Period of FY17-20 on October 23, 2019.** Specifically, the proposed Project is aligned with "Pillar 1. Fostering inclusion of vulnerable groups" of the CPF by increasing the capacity of IPLCs to identify, advocate for, and obtain resources to support their livelihoods and food security. The Project also contributes to "Pillar 2. Addressing Bottlenecks to Sustainable Growth" and "Objective 3. Enhance the enabling environment and increase access to finance for MSMEs" by supporting upstream investments and business development support for forest-dependent IPLCs' livelihoods. The Project is also aligned with "Objective 5. Build institutional capacity to manage and adapt to climate change" by strengthening and recognizing IPLCs' role in forest conservation and enhancing IPLCs' dialogue with the GoG and their participation within national forestry and climate

---

<sup>31</sup> The two IDB-supported FIP projects, approved in December 2019 and January 2020, will focus on: (i) Institutional strengthening, links among forest, industry, and markets, as well as sustainable forest management, and (ii) Facilitating access to public and private finance.



change policies and programs. The Project is also aligned with the World Bank Group (WBG) COVID-19 Crisis Response Approach Paper – Saving Lives, Scaling-Up Impact and Getting Back on Track and contributes to the overall efforts to adjust the Country Program to respond to COVID-19 as detailed in Annex IV. The Project will be particularly instrumental in advancing Pillar 2 “Protecting Poor and Vulnerable People” and Pillar 4 “Strengthening Policies, Institutions, and Investments for Rebuilding Better” by prioritizing IPLCs who have been disproportionately affected by the pandemic within project benefits and promoting models for IPLC recognition and inclusion in national forestry and climate change programs.

11. **The Project is fully aligned with advancing the World Bank’s twin goals of ending extreme poverty and boosting shared prosperity, as well as contributing to the corporate commitments on Forests and Climate Change.** By investing in the sustainable livelihoods of Guatemala’s IPLCs, the Project will directly benefit groups that are over-represented among the extreme poor. Moreover, the Project puts IPLCs in the front seat of defining the development priorities to be financed and engages them directly as implementation partners. These features are critical for ownership and sustainability of results. The Project will strengthen capacity of IPLCs to participate in programs that increase the economic value of forests (through sustainable forest management, non-timber forest products, and payments for ecosystem services (PES)). It will help revitalize and promote official recognition of traditional knowledge and practices for forest management and build capacity of communities and stakeholders who are often marginalized and disproportionately affected by the impacts of climate change. The Project will also contribute to two of the three cross-cutting themes in the WBG Forest Action Plan FY16-20 Focus Areas (Sustainable Forestry and Forest-Smart Interventions) which include: climate change mitigation and increased resilience through sustainable forest management and forest conservation; and strengthening the capacity of IPLCs in understanding and applying land tenure rights to improve access to public and private resources, while increasing capacity for territorial management and development.
12. **The Project will also contribute to advancing the implementation of Guatemala’s national strategies on Indigenous and community forest management and provide urgent livelihood support for forest-dependent IPLCs who have been greatly impacted by COVID-19 and Hurricanes Eta and Iota.** The Project is fully aligned with the ENDDBG and complements the GoG’s programmatic approach to the forest sector, as described above regarding the ERP and the FIP projects. The Project will specifically advance the implementation of the *National Strategy for Management and Conservation of Natural Resources in Communal Lands* through the piloting of a MCEES specifically designed to recognize conservation results produced under customary and collective management models. The Project will also advance implementation of INAB’s Institutional Strategy for Attention to Indigenous Peoples in the Forestry Sector of Guatemala and aligns with the following priorities of the National Development Plan, *K’atun, Our Guatemala 2032*<sup>32</sup>, through: (i) the conservation and sustainable use of forests and biodiversity; and (ii) land-use planning for sustainable use of natural resources, agriculture, and livestock production. Finally, the Project is fully aligned with the regional project, Supporting Central American Countries in Implementing the COP21<sup>33</sup> Commitments (P160325), which provides technical assistance to prioritize Nationally Determined Contributions (NDC) policy actions and investments.

---

<sup>32</sup> K’atun, Our Guatemala 2032 (or K’atun, Nuestra Guatemala 2032) is the official title of the Guatemala National Development Plan, which constitutes the national long-term development policy and articulates the policies, plans, programs, projects, and investments in the country.

<sup>33</sup> 2015, United Nations Climate Change Conference.



## II. PROJECT DEVELOPMENT OBJECTIVES

### A. Project Development Objective

13. **The Project Development Objective (PDO)** is to strengthen the capacity of, and benefits gained by, Indigenous Peoples and Local Communities in their role in sustainable forest and natural resource management.

### B. Project Beneficiaries

14. **The Project will directly benefit approximately 17,000<sup>34</sup> forest-dependent IPLC members** through support for their subprojects in cultural and sustainable forest management, productive activities, development of forest-products, and/or food security. Approximately 100,000 IPLC members will benefit indirectly through improved conditions for sustainable forest and natural resource management that results from enhanced IPLCs' participation in local, national, and international dialogues and processes related to FIP, REDD+, and climate change. Gender-specific activities and indicators to measure progress have been included to promote the inclusion of women as direct beneficiaries, both in the participation processes to be supported (30 percent of delegations of dialogue processes shall be made up of women) and through the livelihood and food security subprojects (30 percent of subprojects should be led by women or have women as the majority of their direct beneficiaries).
15. **The Project's beneficiaries will be the IPLCs that are actively involved in forest management and form part of, or receive support from the Project's National Steering Committee (NSC), which consists of the three national networks<sup>35</sup> that represent IPLCs within the forestry, REDD+, and climate change sectors in Guatemala,<sup>36</sup> namely:** (i) the National Alliance of Community Forest Organizations of Guatemala (*Alianza de Organizaciones Forestales Comunitarias*, ANOFCG), which represents ten second-tier networks and 224 first-tier or community based IPLC organizations that manage 427,000 hectares of forests throughout the country—including the 400,000 hectares of community forest concessions in Petén; (ii) the National Network of Beneficiaries of the Incentives Program for Forestry and Agroforestry Small Landholders (*Red de beneficiarios del programa de incentivos para pequeños poseedores de tierras de vocación forestal o agroforestal*, RED PINPEP), which represents at least 35,000 individual IPLC

<sup>34</sup>The numbers presented here assume an average of 300 people per community with 50 communities (15,000 IPLC members) benefiting under Component 1 (Subcomponent 1.1 will directly benefit at least 40 communities through the 6 CFMPs and pilot IPLC MCEES and Subcomponent 1.2 will directly benefit at least 10 communities with TA and capacity building), and 2,000 IPLCs will directly benefit under Component 2 through 47 subprojects with an average of 45 affiliated members per subproject. Indirect benefits derived under the Participatory Action Plans (PAPs) are estimated based on the approximate number of base IPLCs members that are affiliated with the three networks participating in the DGM.

<sup>35</sup> A network is an organization comprised of other organizations or communities that share a common objective/purpose that they aim to mutually advance. In Guatemala, many IPLCs belong at the most local level to community organizations or organizations of producers, which could be referred to as first-tier organizations. Those community or producer organizations often affiliate with other community or producer organizations into regional networks, cooperatives, or producer organizations, referred to as second-tier networks. These second-tier networks affiliate with other similar second-tier networks that form national IPLC networks or groups, referred to as third-tier networks.

<sup>36</sup> Annex 1 includes a map with the territorial areas where the three IPLC networks that conform the NSC have community and territorial presence.



beneficiaries participating in forestry incentives who manage 118,000 hectares of forests and who have a long track record of working with systems for PES; and (iii) the Indigenous Roundtable on Climate Change in Guatemala (*Mesa Indígena de Cambio Climático de Guatemala*, MICCG), which represents 37 IP organizations and over 40,000 IP households, with extensive experience in cultural forest management of over 350,000 hectares and in promoting IPs' rights and participation in climate change policy dialogues.

### C. PDO-Level Results Indicators

16. **The PDO-level indicators measure improved capacity, benefits, and participation.** They include:
  - Forest area with IPLCs' systems for sustainable management strengthened as a result of the Project (hectares)
  - Beneficiaries of livelihood and food security subprojects (number), disaggregated by gender
  - Implementation of Annual IPLC Participatory Action Plans (percent)

## III. PROJECT DESCRIPTION

### A. Project Components

17. **The Project will provide US\$4.5 million to IPLCs that are actively engaged in sustainable forest management through three components.** The first component will finance the strengthening of IPLCs' traditional knowledge and systems for forest and ecosystem conservation and promote the enabling conditions for IPLCs' role in sustainable forest management. Component 2 will complement this by supporting forest-based livelihoods or sustainable alternatives and food security subprojects. Component 3 will finance project implementation, coordination, and supervision.
18. **Component 1: Support for traditional IPLCs' forest management systems and enabling conditions for their sustainability (US\$1.6 million).** This component aims to strengthen the documentation, implementation, and recognition of IPLCs' traditional forest management systems while addressing critical outstanding issues for IPLCs in forest management capacity, planning, land administration, and/or dialogue with other stakeholders. It will encourage the participation of IPLC elders, women, and youth in the preparation and implementation of cultural forest management plans (CFMPs).
  - a. **Subcomponent 1.1: Cultural forest management plans and pilot IPLC compensation mechanism (US\$1 million).** This subcomponent will finance six subprojects, two per IPLC network, to prepare and implement traditional and/or cultural forest management plans (CFMPs) that will benefit approximately 12,000 IPLC members and contribute to sustainable management of approximately 1,000 hectares based on collective management schemes driven by cultural and/or traditional practices. In addition, this subcomponent will finance a pilot IPLC MCEES to compensate ecosystem service results delivered through the CFMPs, in the form of cash transfers to the six beneficiary organizations. This pilot MCEES is designed for potential GoG adoption/inclusion as part of the national PES programs that are currently offered through cash transfers to individual land holders.<sup>37</sup>

<sup>37</sup> Annex V provides further detail on the Pilot IPLCs MCEES. The objective of the pilot is to demonstrate the potential conservation results that can be achieved through the recognition and strengthening of collective forest management models that are based in many cases on cultural practices and traditional knowledge.



- (i) **CFMP Subprojects.** The CFMP subprojects will be implemented in a two-phase process that includes: (i) Phase 1 - participation, documentation, and planning phase (estimated six months), including the documentation of the historical memory and knowledge of traditional, Indigenous, and customary systems for sustainable forest management and participatory preparation of the CFMP; and (ii) Phase 2 - investment phase for implementation of the CFMP (estimated 12 months) involving the identification and financing of necessary investments (capacity building, technical assistance, small works, and goods) for priority actions to implement each CFMP in line with the eligible expenditures established in the Project Operations Manual (POM). The CFMPs will establish the cultural categories and customary rules of access and use of forest spaces and their links to cultural and customary norms.
  - (ii) **Pilot IPLC MCEES.** The IPLC organizations with CFMPs successfully under implementation will then be eligible to participate in the pilot IPLC MCEES for compensation for ecosystem service results. The IPLC organization will enter into an individual conservation agreement with the national executing agency (NEA). These agreements will outline the forestry, water and biodiversity indicators and targets that will be achieved and measured against baselines (established within the CFMPs) on a bi-annual basis over two to three years. Compensation will be made through cash transfers to the IPLC organization based on the criteria and procedures established in the POM and outlined in the specific conservation agreement. The compensation received by the IPLC organizations can be used for eligible expenditures as established within the POM. Annex V provides further details on the pilot IPLCs MCEES. Different from the existing mechanisms, the pilot IPLC MCEES will compensate ecosystem services based on collective planning and management under the CFMPs, and provide compensation through payments to the IPLC organizations (instead of individuals), which will in turn be used to support to participating IPLCs to enhance their conservation efforts.
- b. **Subcomponent 1.2: Strengthen enabling conditions for sustainable forest management (US\$0.6 million).** This subcomponent will provide support to at least 10 Indigenous and local communities, nominated by each network, to overcome outstanding legal, administrative, or technical issues for strengthened land tenure and more sustainable communal forest management. In addition, it will support IPLCs' participation in local, national, and international dialogue processes relevant for FIP, REDD+, and climate change through structured annual Participatory Action Plans (PAPs) to be prepared and supported by the three participating IPLC networks, all in accordance with the POM.
- (i) **For capacity building of eligible Indigenous and local communities<sup>38</sup>, this subcomponent will finance:** (i) technical assistance in legal and technical services to resolve pending administrative land tenure issues; (ii) support for surveying and cadastral activities to strengthen territorial management; (iii) knowledge exchange among communities to share best practices of successful communal land management; (iv) recovery, microfilming, transcription, classification, and archival of historical documents to support clarity regarding ancestral land possession; and (v) creation of accessible multimedia/virtual resource and databases with historical land tenure

<sup>38</sup> The POM's selection criteria for this activity include, at a minimum: (i) IPLCs that are actively managing or have within their legal possession/title forest coverage of 50 hectares or more; (ii) IPLCs where a clear gap or obstacle for sustainable management is present and is founded in an outstanding capacity or legal issue or conflict with other users/bordering communities; and (iii) IPLCs where the DGM's scale and type of intervention can make a substantive contribution towards resolving the identified gap or obstacle. This subcomponent will not finance interventions in long-standing or high-risk conflict cases within or among IPLCs, as the DGM is not the adequate vehicle to handle such cases.



information that is easily accessible to the project beneficiaries, including through Mayan languages.

- (ii) **For participatory dialogues,**<sup>39</sup> **this subcomponent will finance subgrants** for the implementation of annual PAPs for each IPLC network that will outline key processes at local, national, and international levels where the network wants to participate, as well as the objectives and desired results of this participation. The PAPs will also identify the proposed delegations or participants from the organizations, including the participation and the activities and costs for implementation, in line with the preestablished amounts for travel and per diem costs outlined in the POM. Priority themes for participation processes include sustainable forest management incentives, communal lands, forest concessions, and IPLCs rights around forest tenure and management.
- (iii) **For institutional strengthening of national-level IPLC networks, this subcomponent will finance activities to enhance the institutional capacity** of each of the three networks as well as their participation in key international conferences and events around forestry and climate change, such as the United Nations' Climate Change Conference of the Parties' meetings (UNFCCC COPs), the International Tropical Timber Organization (ITTO), and the United Nations Forum on Forests (UNFF), among others.

**19. Component 2: Support for forest-dependent IPLCs' economies and food security (US\$2.225 million).**

This component will finance approximately 47 subprojects to support and enhance new and existing sustainable livelihood alternatives, as well as small-scale food security initiatives for forest dependent IPLCs. It will also finance technical assistance, capacity building, and operational costs incurred by the NEA to support community-level organizations to prepare, assess capacity and viability, and provide ongoing implementation support to subprojects during implementation. It is envisioned that the productive subprojects would be implemented by the beneficiary organizations, whereas the small-scale food security initiatives would be implemented by the NEA in line with the proposals and priorities established by the beneficiary organizations.

**a. Subcomponent 2.1: Strengthen productive activities and improve food security (US\$ 1.925 million).**

The NEA will carry out two calls for proposals for subprojects under the three windows listed below, each with their own detailed eligibility and selection criteria as set forth in the POM.<sup>40</sup>

- (i) **Subgrants for new productive initiatives or sustainable livelihood alternatives.**<sup>41</sup> This window

<sup>39</sup> Examples of specific types of dialogues that could be supported include: (i) promotion of the adoption of the pilot IPLC MCEES by the GoG; (ii) promoting the implementation of the National Strategy for the Management and Conservation of Natural Resources in Communal Lands and the Institutional Strategy for Attention to Indigenous Peoples in the Forestry Sector; and (iii) support for local/regional dialogues between IPLCs and the agricultural or tourism sectors to balance forest conservation, water management, economic, and environmental goals.

<sup>40</sup> The POM is currently in draft form although a final version, deemed acceptable to the Bank, will be an Effectiveness Condition. For this Subcomponent, the final POM will include selection criteria that incentivize: (i) subprojects that are proposed from forest-dependent IPLCs that live in areas disproportionately affected by Eta, Iota and/or COVID-19; (ii) overlap with the FIP and ERP project areas to promote possible access to the related MCEES implemented by GoG agencies, and the emissions reduction payment mechanism; and (iii) equal share of Project benefits for each IPLC national network.

<sup>41</sup> The social assessment carried out for this DGM identified, with IPLCs organizations, several potential products and services where pre-investments were critical, including: genetic improvements and a market study for the Ramón nut; development of products derived from Kanak leaves; development of organic chicle (gum) production; improved fuelwood production linked to reforestation; economically-profitable trees (e.g., fruits, resins, or other products) for reforestation; improvement of infrastructure to access culturally important ceremonial sites and hot springs, among others.



will support approximately 12 subprojects (approximately US\$50,000 each), that will be managed by IPLC organizations for pre-investments in forest-related products and/or services or livelihood alternatives that reduce pressure on forests and their supporting eco-systems. Eligible investments under this window will include: (i) pre-feasibility studies, research and development, market analysis; (ii) small community works; (iii) specialized training or consulting services for tailored technical assistance; (iv) equipment for forest monitoring; (v) small-scale infrastructure; and (vi) plans for communities to secure intellectual property rights and patents, among others.

**(ii) Subgrants for existing livelihood subprojects.** This window will support approximately 15 livelihood subprojects (around \$75,000 each) managed by IPLC organizations that aim to strengthen IPLCs' income generating activities related to forestry management, forest and non-timber products or sustainable livelihood alternatives for forest dependent IPLCs. Eligible investments under this window will include: (i) inputs (seeds/tools/small-scale infrastructure or machinery); (ii) adoption of technologies; (iii) support and strengthening of producer associations; (iv) technical assistance or capacity building to improve quality or gain certifications; (v) establishment and/or consolidation of commercial partners; and (vi) support to access financial services, among others.

**(iii) Food security initiatives.** This window will support 20 women-led small-scale food security initiatives (approximately US\$10,000 each) managed by the NEA to support food production among forest-dependent families and communities. Eligible investments under this window will include: (i) the purchase of tools and supplies, seeds, and/or small livestock; (ii) promotion of community gardens; and (iii) post-harvest processing and storage equipment for community and family consumption needs. The purchase of food is not eligible under the Project.

**b. Subcomponent 2.2: Capacity building, technical assistance, and implementation support for subprojects (US\$0.3 million).** Based on lessons learned from other DGM projects and community driven development (CDD) projects, this subcomponent will finance capacity building and technical assistance to subproject beneficiary organizations throughout the subproject cycle. The extent of technical assistance provided will depend on the size and complexity of the subproject and the capacity of the subproject organization. Considering the specific needs for selected subprojects, this subcomponent will also finance the NEA's work to forge and facilitate alliances with certification agencies, donors, or other key partners. This component will finance consultants, travel costs, and operational costs related specifically to subproject preparation and implementation for the following:

**(i) the design and implementation of a communications strategy** to disseminate key information regarding eligibility, selection criteria, and processing steps for submission of subproject proposals.

**(ii) capacity building activities and technical support to prepare subproject proposals** and support the NEA in the assessments of eligible subgrantee capacity to manage technical, operational, fiduciary, and environmental and social (E&S) risks; and

**(iii) implementation support for subprojects** and provision of ongoing technical, fiduciary, and E&S supervision, and in-person follow-up with subproject beneficiaries to facilitate communication and resolution of concerns, issues, and questions during implementation.

**20. Component 3: Project administration, monitoring, and evaluation (US\$0.675 million).** This component will finance operational and administrative fees of the NEA's Project Implementation Unit (PIU) to carry out the following project implementation responsibilities: (i) coordination and engagement with all



relevant stakeholders; (ii) preparation and implementation of calls for subproject proposals; (iii) subproject and beneficiary organizational assessments; (iv) supervision of technical, fiduciary, and E&S aspects for all investments; (v) coordination of meetings, provision of support, and reporting; (vi) project audits; (vii) operational costs of the NSC; and (viii) monitoring, evaluation, and reporting to the World Bank and the NSC.

## B. Project Cost and Financing

Project Components	Project cost US\$	Trust Funds US\$	Counterpart Funding US\$
<b>Component 1. Support for traditional IPLCs' forest management systems and enabling conditions for their sustainability</b>	<b>1,600,000</b>	<b>1,600,000</b>	<b>0</b>
Subcomponent 1.1: Cultural forest management plans and pilot IPLC compensation mechanism	1,000,000	1,000,000	0
Subcomponent 1.2: Strengthen enabling conditions for sustainable forest management	600,000	600,000	0
<b>Component 2: Support for forest dependent IPLCs' economies and food security</b>	<b>2,225,000</b>	<b>2,225,000</b>	<b>0</b>
Subcomponent 2.1: Strengthen productive activities and improve food security	1,925,000	1,925,000	0
Subcomponent 2.2: Capacity building, technical assistance, and implementation support for subprojects	300,000	300,000	0
<b>Component 3: Project administration, monitoring, and evaluation</b>	<b>675,000</b>	<b>675,000</b>	<b>0</b>
<b>Total Costs</b>	<b>4,500,000</b>	<b>4,500,000</b>	<b>\$ 0</b>
Total Project Costs	4,500,000	4,500,000	\$ 0
Total Financing Required	4,500,000	4,500,000	\$ 0

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

- The Project's implementation arrangements are built on a CDD approach, focused on building capacity of beneficiary Indigenous and local communities and organizations in the identification and solution of their priority development challenges related to sustainable and culturally pertinent forestry

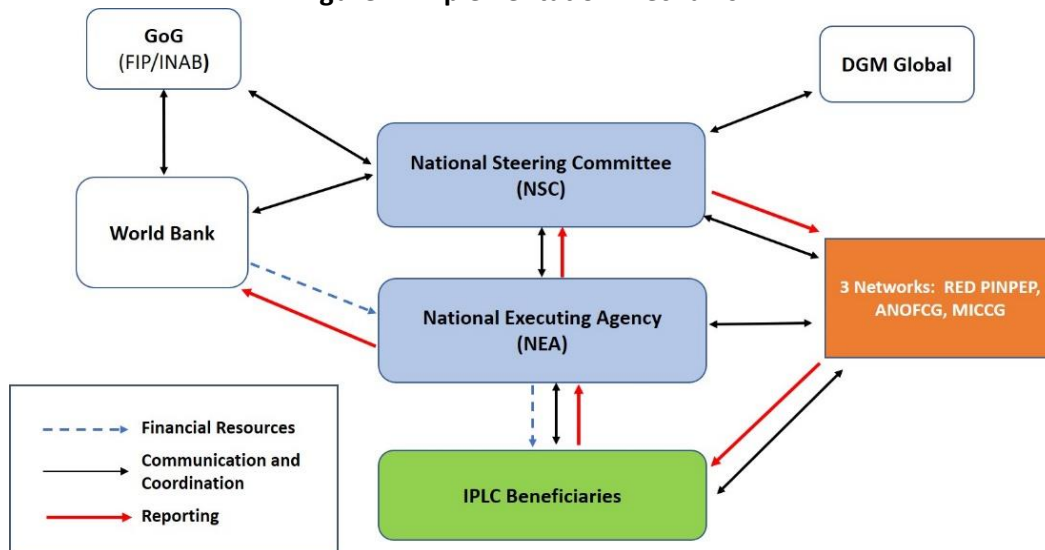


**management.** As with all DGMs, a NSC will oversee and closely accompany project implementation, acting as Guatemala DGM's decision-making body. An NEA was selected by the NSC to implement Project activities in line with the priorities established and approved by the NSC. The detailed roles and responsibilities of all parties are summarized in Figure 1 and described in detail in Annex 1.

22. **The NSC was established by an agreement between three national IPLC networks, as described in paragraph 16, that work in forestry and climate change and bring complementary strengths and experiences.** The NSC is comprised of five representatives nominated from each of the three IPLC networks, or 15 members in total. The NSC's responsibilities will include the following: (i) approval of the Project's operations plans, and eligibility and selection criteria for funding; (ii) promotion of calls for subproject proposals; (iii) approval of eligible subprojects and activities; (iv) support to the NEA on emerging project implementation issues; (v) sharing and dissemination of project lessons and promotion of the DGM with external stakeholders and donors; and (vi) submission of annual progress reports to the Global Steering Committee (GSC) and Global Executing Agency (GEA). The NSC has coordinated all aspects of Project design with the GoG. The GoG will continue to participate in Project implementation by participating as an observer on the NSC, represented by INAB, to facilitate coordination and fluid communication between the Project and the GoG's broader forestry and climate change programs.
23. **The three national IPLC networks, beyond their representation within the NSC, will facilitate the active participation of IPLC communities and organizations within the Project.** The networks will actively promote calls for proposals, identify potential beneficiary projects and communities, and facilitate communication between the NEA and IPLC community and regional organizations to resolve any outstanding issues.
24. **The NEA of the Project, selected by the NSC, is the Asociación Sotz'il (Sotz'il), an Indigenous Peoples' organization in Guatemala with a mission to contribute to the comprehensive development of Indigenous Peoples.** Sotz'il was selected through a competitive process supported by the World Bank and carried out by the NSC in line with the Global DGM Framework Guidelines and will have the following primary responsibilities, including: (i) serving as the secretariat for the NSC; (ii) implementing all technical, operational, fiduciary, and E&S aspects of the Project; (iii) monitoring project activities and results; (iv) reporting to the NSC and the World Bank; (v) managing the Project's Grievance Redress Mechanism (GRM); and (vi) proactively coordinating, communicating and consulting with all stakeholders.
25. **A PIU will be established within Sotz'il and staffed with the following specialists:** (i) a project manager; (ii) a cultural and community forest management specialist; (iii) a specialist in forest management and climate change; (iv) a livelihoods and food security specialist; (v) a procurement specialist; (vi) a financial management specialist; (vii) an environmental and social management specialist; and (viii) a project monitoring and evaluation specialist. The PIU will be supported by a team of consultants hired under Subcomponent 2.2 to prepare, assess, and provide ongoing support to subprojects. The detailed composition and profiles required of the consulting team is described within the POM's implementation arrangements for Component 2.



**Figure 1. Implementation Mechanism**



26. **Sotz'il has experience working with the World Bank both as a project implementing agency and as a strategic partner in the dialogue with Indigenous Peoples in the Latin America and Caribbean region (LCR).** Sotz'il's experience includes designing and implementing community consultation processes, participatory formulation of management instruments for the use, management, and protection of natural resources in community lands, and the strengthening of traditional Indigenous governance structures. Sotz'il led the coordination and implementation of the World Bank-financed COVID-19 IP impact assessments, leading 10 other IP organizations from seven countries to prepare rapid qualitative assessments (P172512 in FY20) to inform the Bank's inclusion of IPs within COVID-19 response and recovery projects. Sotz'il has also led many other upstream engagements between Indigenous organizations and the World Bank since 2013, facilitating the building of mutual trust and understanding through the LCR IP Dialogue. As the Executing Agency for the FCPF Capacity Building on REDD+ for Indigenous Peoples in LCR Project (P155976, RETF, US\$1.77 million), Sotz'il is managing multiple subprojects with IP organizations throughout the region. Sotz'il has been assessed by the World Bank to hold the financial management (FM) capacity that satisfies the legal and administrative requirements for managing funds from international cooperation and private entities. Regarding the management of both national and international funds, Sotz'il has an administrative procedure manual, in which roles and responsibilities of the technical and administrative staff are specified, as well as procurement procedures for goods and services. In addition, Sotz'il has worked with the World Bank and the GoG on analytical work and technical assistance for Bank-financing policy lending to the GoG and has supported the GoG in the implementation of the World Bank's Environmental and Social Framework (ESF) for World Bank-financed investment projects in the country.
27. **A Grant Agreement will be signed between Sotz'il and the World Bank and resources allocated for the DGM will be disbursed according to the provisions of the Grant Agreement.** As with all grant recipients, Sotz'il will assume full and primary responsibility for the administration of grant resources, compliance with the World Bank's fiduciary and E&S standards and procedures, and all project-related monitoring



and reporting. Sotz'il has led and will finalize, per the agreed timeframes, the preparation of the POM, the Environmental and Social Management Framework (ESMF), and other Environmental and Social (E&S) instruments agreed with the World Bank per the Environmental and Social Commitment Plan (ESCP), including the GRM and complaints procedures in accordance with the DGM Framework Operational Guidelines. The administrative costs for Sotz'il (and any eligible costs incurred for the process of deliberation by the NSC) will be financed through Component 3 of this Project.

## **B. Results Monitoring and Evaluation**

28. **The NEA will be responsible for overall project monitoring and evaluation (M&E).** In close collaboration with the World Bank and the NSC, the NEA will implement M&E based on the indicators established in the Project's Results Framework and other indicators of interest. The M&E plan will include a process evaluation, including beneficiary surveys, after two years of implementation, as well as a final evaluation. Baseline data will be established within subproject profiles through an initial assessment to record information regarding beneficiary communities and people, such as ethnicity and gender, current income levels derived from activities to be supported, levels of participation and knowledge of the FIP, REDD+, and climate change initiatives, among other data relevant to track progress on indicators in the Results Framework. Supervision missions, estimated to be carried out at least twice per year, will measure the progress being made and identify strengths and weaknesses within the first year with the aim of reinforcing positive aspects and adopting an adaptive management approach as needed. The final evaluation will assess the achievement of indicators and the sustainability of results and will identify lessons learned that can be shared with similar projects. The NEA will also be responsible for validating subproject reports and results prepared by beneficiary organizations and for providing regular progress updates to the NSC and the World Bank. The NEA will coordinate virtual and/or physical (as feasible) implementation support missions and the use of technologies for remote supervision.
29. **To effectively monitor results of diverse stakeholders toward common development objectives, the NEA, in coordination with the NSC, will work with beneficiary organizations to strengthen M&E capacity and accountability.** Subproject agreements between the NEA and beneficiary organizations would include the project indicators relevant to the activities to be financed. Capacity building and technical assistance provided to beneficiary organizations under Subcomponent 2.2 will include M&E capacity building and development of monitoring and reporting mechanisms, including the use of geo-referenced technologies for reporting on real-time tracking of subproject results, challenges, and grievances. The NSC's three networks will also play a critical role in facilitating coordination between the NEA and beneficiary organizations and promoting their base organizations' ownership of interventions and implementation of shared responsibilities, such as gathering and reporting information on indicators and results.

## **C. Sustainability**

30. **Sustainability of the Guatemala DGM is grounded in four key factors:** (i) alignment and coordination with the GoG's strategies on forest conservation, forest management, and climate change mitigation; (ii) strong ownership by partner IPLC networks and organizations of both the scope of what the DGM finances as well as how it is implemented; (iii) investments in traditional, existing, and new sustainable forest management models and livelihoods that should produce benefits that last beyond the scope of the DGM's implementation; and (iv) support to overcome issues critical for the facilitation of an enabling



environment for IPLC sustainable forest management.

31. **The investments to be supported under the Project will pilot activities to advance the recognition of traditional IPLC forest management systems in Guatemala's broader forest conservation initiatives, that could either be adopted by the GoG or scaled up and replicated by other donors.** The three participating IPLCs networks in the NSC are all involved in the country's FIP, REDD+, and climate change dialogues and work at community levels, thus providing a natural link to the national practice and policy. Support for IPLCs self-determination and ownership in their role as forest stewards is inherent in the design of the Project. Experience demonstrates how critical these elements are for sustainability. The Project's investments in strengthening the enabling conditions, forest management capacity, and new and existing livelihood activities, especially in high-potential forest products, should continue to generate benefits far beyond the life of the Project. Capacity building of the IPLCs to implement subprojects will also have transformative effects as they will build experience in operational planning, E&S risk management, and management of financial resources, which are factors that could attract additional resources.

## V. KEY RISKS

### A. Overall Risk Rating and Explanation of Key Risks

32. **The overall risk for this Project is Substantial.** Key risks and their corresponding mitigation measures are detailed below.
33. **Political and governance risks are Substantial.** Sustainable forest management is closely tied with secure land tenure for IPLCs, an issue that is complex and comes with historical legacies of conflict in Guatemala. Although the GoG has made some progress in the last decades in strengthening forest governance and engaging IPLCs in policy dialogue, recognition of IPLCs' collective rights over lands and forests remains challenging. The Project will also need to ensure ongoing participation of the GoG to promote collaboration and sustainability of results, which could prove challenging as the GoG will not receive funds directly. This risk will be mitigated by: (i) limiting the Project's scope to activities which the Project can fully address or control; (ii) direct implementation by IPLC organizations; and (iii) active participation of the GoG as an observer to the NSC and investing in broader ongoing dialogue with the GoG and other stakeholders.
34. **Technical design risks are Substantial.** The Project design entails the financing of multiple subprojects to be implemented by various IPLC organizations with varying levels of implementation capacity. Given the CDD nature of subprojects, capacity of these organizations can only be assessed when subproject proposals are submitted. Limited capacity or mismanagement of resources could result in the need to replace subprojects with others, potentially causing conflict with beneficiary organizations and implementation delays. Mitigation measures for this risk include: (i) the provision of dedicated resources to support the NEA to ensure viability of sub-project proposals; (ii) design features that build on other DGM and CDD operations, such as limiting the number of calls for proposals, working through IPLCs' network organizations, and assigning specific funds for technical assistance for subprojects; and (iii) Sotz'il's experience managing similar types of subprojects for a World Bank-financed RETF in LCR.



35. **Institutional capacity risks are Substantial.** Implementation of subprojects will involve various locations and relatively small transactions, making implementation and supervision more challenging. Moreover, Sotz'il is among few Indigenous organizations in LCR with experience managing bilateral and multilateral funds of this size, which in turn means that it is currently administering several projects for many donors, introducing the risk of being overstretched. Finally, although Sotz'il has the requisite fiduciary and technical experience, its operational planning experience, per World Bank standards, is more limited. These institutional risks will be reduced through: (i) the hiring of external consultants to support and build Sotz'il's operational planning capacity and tools; (ii) the preparation of a detailed POM with subproject assessment criteria, eligible expenditures, and reporting and supervision procedures and requirements; (iii) the hiring of a dedicated PIU, whose profiles and terms of reference (TORs) have been reviewed by the World Bank; and (iv) Sotz'il's in-depth knowledge of the country, sector, and range of organizations and stakeholders, issues, and the required legal/administrative processes.
36. **Fiduciary risk is considered Substantial.** This is due to : (i) the fact that Sotz'il's procurement management capacity will be stretched as they will be managing two World Bank financed projects simultaneously and need to hire a new procurement specialist to support this Project; (ii) risks of significant price increases, distribution challenges, and/or reduced market availability resulting from the current pandemic situation and associated mobility restrictions; and (iii) financial management risks related to lack of sub-grantees capacity for FM of subprojects and cash transfers. Mitigation measures include: (i) maintaining the fiduciary roles and experienced specialists within Sotz'il to manage and supervise project fiduciary activities; (ii) use of a detailed POM that includes clear roles and responsibilities of fiduciary staff of the NEA and sub-grant recipients, including fiduciary functions for subprojects; (iii) periodic training on FM, procurement and disbursement for fiduciary staff including subgrant recipients, particularly in emergency situations; and (iv) updating market assessments, identifying possible constraints, and further developing the Procurement Strategy for Development (PPSD) for riskier procurement processes.
37. **Social risks are Substantial.** Although the Project is expected to generate mainly positive social impacts, potential social risks include: (i) exacerbation of land tenure conflicts if project activities are not well screened; (ii) elite capture and thus possible exclusion of the most vulnerable or underrepresented groups; (iii) limited experience and technical capacities of NSC and Sotz'il to comply with the World Bank's ESF; (iv) difficulty in managing beneficiary expectations given the limited project funds; (v) participation of children (child labor) in productive activities at the community level; and (vi) participation and engagement limitations brought on by the COVID-19 pandemic. The mitigation of these risks will be managed through an ESMF and complemented by an Indigenous Peoples Planning Framework (IPPF), and Stakeholder Engagement Plan (SEP), to be prepared and monitored by the NEA's technical team. The SEP and IPPF foresee constant stakeholder participation to ensure a feedback loop with IPLCs, through interviews, community meetings, digital media, and social media using tailored messages and different languages to ensure inclusive communication and culturally relevant consultation and decision-making practices.
38. **Stakeholder risks are Substantial.** The Project's design is rooted in broad and inclusive participation of IPLCs in all aspects of project preparation and implementation. This approach ensures strong local ownership and alignment with the needs and interests of the intended beneficiaries. Nonetheless, this



approach could raise stakeholder expectations and lead to confrontations between the different networks that constitute the NSC due to the Project's limited resources. It could also be challenging for NSC members to maintain neutrality between governance functions and personal/political relationships with the potential beneficiaries at the community level. In addition, there could be complaints by organizations that do not form part of the NSC and who might feel the Project fails to represent their communities or interests which could affect decision-making and project implementation. These risks will be mitigated through the application of approved NSC Rules of Operation and a Conflict-of-Interest Policy, as well as through the eligibility and selection projects criteria, which have been agreed upon between the members of the NSC. In addition, IPLC understanding and broad support for the Project has been garnered by employing a fully collaborative approach to project preparation, including the regular flow of information and communication on the Project's objectives between the NSC, NEA, and the potential beneficiaries.

39. **Other risks related to the COVID-19 pandemic and Hurricanes Eta and Iota are Substantial.** The contention measures related to preventing the spread of COVID-19 may pose a risk to implementation given the potential restrictions in mobility and limitations to in-person gatherings. In addition, the Project is expected to begin its execution in a context dominated by the effects of the COVID-19 pandemic and Hurricanes Eta and Iota, which have left many communities in dire conditions, exacerbating the economic crisis generated by the pandemic. Given this situation, many IPLCs may require basic emergency relief that could shift, their priorities away from the objectives of the Project. This risk would be minimized by the design of the Project, which is informed by consultations on the NSC's three networks on emergency priorities. Feedback from these consultations reinforced that the Project's focus should remain on medium and long-term forestry and climate change needs, while prioritizing, where feasible, benefits for IPLCs disproportionately affected by COVID-19 and the hurricanes with food security and livelihood subprojects. At the same time, the use of technology and tools for participation and remote supervision will be employed as necessary when mobility and in-person activities are restricted. For all in-person activities and participatory processes, the Project will ensure the application of Occupational Health and Safety (OHS) measures as outlined in the World Health Organization (WHO)'s guidelines and CDD project protocols for COVID-19, which will all be referred to in the ESMF. During implementation, the ESMF will be reviewed and updated regularly to integrate the latest guidance from the WHO.

## VI. APPRAISAL SUMMARY

### A. Technical and Economic Analysis

40. **The Project's design builds on the experience of other DGMs and CDD projects, the World Bank's extensive experience with Indigenous Peoples, and forms part of the Bank's largest direct financing mechanism for IPLCs.** The Project aims to build on IPLCs' broad and deep social/governance structures and networks and traditional knowledge. It will support pilot innovations, enhance livelihoods, and build organizational capacity of IPLCs. This Project provides resources to finance activities and investments that have been prioritized by IPLCs through the NSC, including: (i) compensation for IPLCs' collective and cultural forest management systems; (ii) support to overcome several factors critical to create an enabling environment for IPLCs to effectively contribute to sustainable forestry management; and (iii) seed capital and technical assistance to promote sustainable livelihoods. Once these priorities were established, extensive field visits to community organizations represented by all three networks were carried out by



the NSC and a World Bank consultant, to see the potential projects, listen to their ideas, and assess the viability and relevance of proposed project activities. Project preparation has subsequently been dedicated to refining the proposed activities, their operational procedures, and indicators, assessing E&S, legal, and fiduciary implications, and the selection and assessment of the NEA.

41. **The economic analysis presents the economic benefits expected to be generated by the Project (see Annex III).** Three benefit streams have been measured: (i) the first is related to ecosystem services benefits; (ii) the second is linked to carbon storage and sequestration; and (iii) the third is associated with potential future incomes resulting from the adoption of sustainable productive activities, enabling IPLC beneficiaries to transition to more sustainable livelihood activities that generate positive social and private returns.
42. **For the economic and financial analysis, a “business-as-usual” baseline case is used that assumes that future development trends follow those of the past and that no changes in policies and practices will take place.** A 20-year period has been assumed to assess the economic feasibility of the Project. While the project costs are only assumed to emerge for the five years of project implementation, the benefits (from the increased area under IPLCs’ forest management systems) and opportunity costs are assumed to be generated beyond the five-year implementation period.
43. **The incremental economic analysis shows that the net present value (NPV) is projected to reach US\$ 12.17 million (lower bound), and US\$ 12.55 million (upper bound) in the baseline scenario (20 years, social cost of carbon (SCC) of US\$60, and 6 percent discount rate).** The investments evaluated for the economic and financial analysis will generate a benefit-cost ratio between 3.59 and 3.67; and an internal rate of return (IRR) between 41.59 and 42.93 percent. Thus, the economic and financial analysis shows that, if project implementation is effective and efficient, project-supported investments will bring substantial financial and economic benefits to IPLCs in the project area and to the Guatemalan society in general. The results of the quantitative simulations are robust in terms of sensitivity analyses. Increasing the discount rate from 6 to 9 percent, reducing the SCC by 33 percent (from US\$60 to US\$40), adopting the value of voluntary carbon market (US\$5), and using more conservative estimates regarding the value of ecosystem services provided, do not affect the conclusions.
44. **These estimates correspond to a lower bound as they represent the benefit streams derived from the Project applying a very conservative approach.** The Project's economic value is likely to be higher, as the analysis does not include other non-economic global and local benefits, such as resulting improvements in restoration.

## B. Financial Management

45. **Financial Management Assessment (FMA):** The World Bank carried out an FMA during October, 2020 to evaluate the adequacy of FM arrangements of Sotz’il as the implementing entity of the Project.<sup>42</sup> The objective of the assessment was to determine whether Sotz’il has acceptable FM and disbursement

---

<sup>42</sup> Given COVID-19 restrictions, the assessment was done virtually, upon desk review of documentation shared by Sotz’il. The FMA was performed in accordance with the World Bank’s Investment Project Financing policy and the Financial Management Practice Manual.



arrangements in place to adequately control, manage, account for, and report on the use of project funds. The scope of the assessment included reviews and evaluation of: (i) existing FM systems to be used for project monitoring, accounting, and reporting; (ii) the staffing requirements of the Project; (iii) the flow-of-funds arrangements currently in place; (iv) the current internal control mechanisms; (v) the systems reports and the World Bank's reporting requirements, including the format and content of Interim Unaudited Financial Reports (IFRs); and (vi) the internal and external audit arrangements.

46. **Implementing Agency Staffing and Institutional Arrangements:** Sotz'il will undertake the primary fiduciary responsibilities for the Project: (i) preparing and obtaining approval of project FM arrangements; (ii) coordinating and supervising project implementation; (iii) submitting disbursement requests and documentation of statement of expenditures (SOEs) to the World Bank; (iv) preparing and submitting IFRs to the Word Bank; (v) preparing and providing all financial documentation and project reports requested by external auditors and the World Bank; and (vi) preparing, updating and ensuring that all project executors follow the POM. Sotz'il has an established FM unit staffed with experienced professionals who are familiar with local FM and World Bank fiduciary requirements. Project design involves several different activities that require coordination at the IPLC organization and community level. Such design features call for strong operational arrangements to fully implement the cash-transfer flow of funds to the selected IPLC organizations.
47. **Budgeting, Accounting Systems:** Activities to be financed by the Project will form part of Sotz'il's budget framework. Based on the approved budget, Sotz'il will adjust as needed its annual operations plan (AOP) and procurement plan, which will be reviewed by the World Bank. It will be Sotz'il's responsibility to maintain accounting records specific to the Project, recording all project transactions in their integrated accounting system (EasyCount System). It has been verified that the budget classification used by Sotz'il will allow incorporation of project components/cost categories, which will facilitate the preparation of financial reports. The EasyCount System is a practical and manageable computerized system that records all operations and transactions by projects, generating reports for tax reporting, as well as for the donor who requests it, detailing the expenses generated during the fiscal year or the period for which reporting is required. The EasyCount System complies with the requirements of Guatemalan legislation.
48. **FM Systems:** During appraisal the Bank team assessed Sotz'il's capacity and the need to adopt a system specifically designed for subproject monitoring, physical progress, payments, and reporting, which is highly recommended, especially considering the granularity of payments to subprojects. Preferably, this FM system should be able to communicate electronically with the Easy Count System so financial data (i.e. payments), can be periodically reconciled. There is still the need to define and agree on the specific content and format of the financial reports, and the process to be followed by Sotz'il for its preparation using the information available in the Easy Count System together with the information related to financial contributions to beneficiaries. Therefore, it is expected that the use of the Easy Count System will be complemented with Excel Spreadsheets to record project transactions by component/subcomponent in United States Dollars (USD). Those auxiliary records will be used for the preparation of financial and disbursement reports (SOEs). The recording and maintenance of up-to-date Excel records will be one of the responsibilities assigned to Sotz'il. The POM will include the internal controls mechanisms required to ensure integrity of the information, as well as specific content and format of the financial reports.
49. **Internal Controls:** Sotz'il has in place procedures for processing of payments, with clear roles and

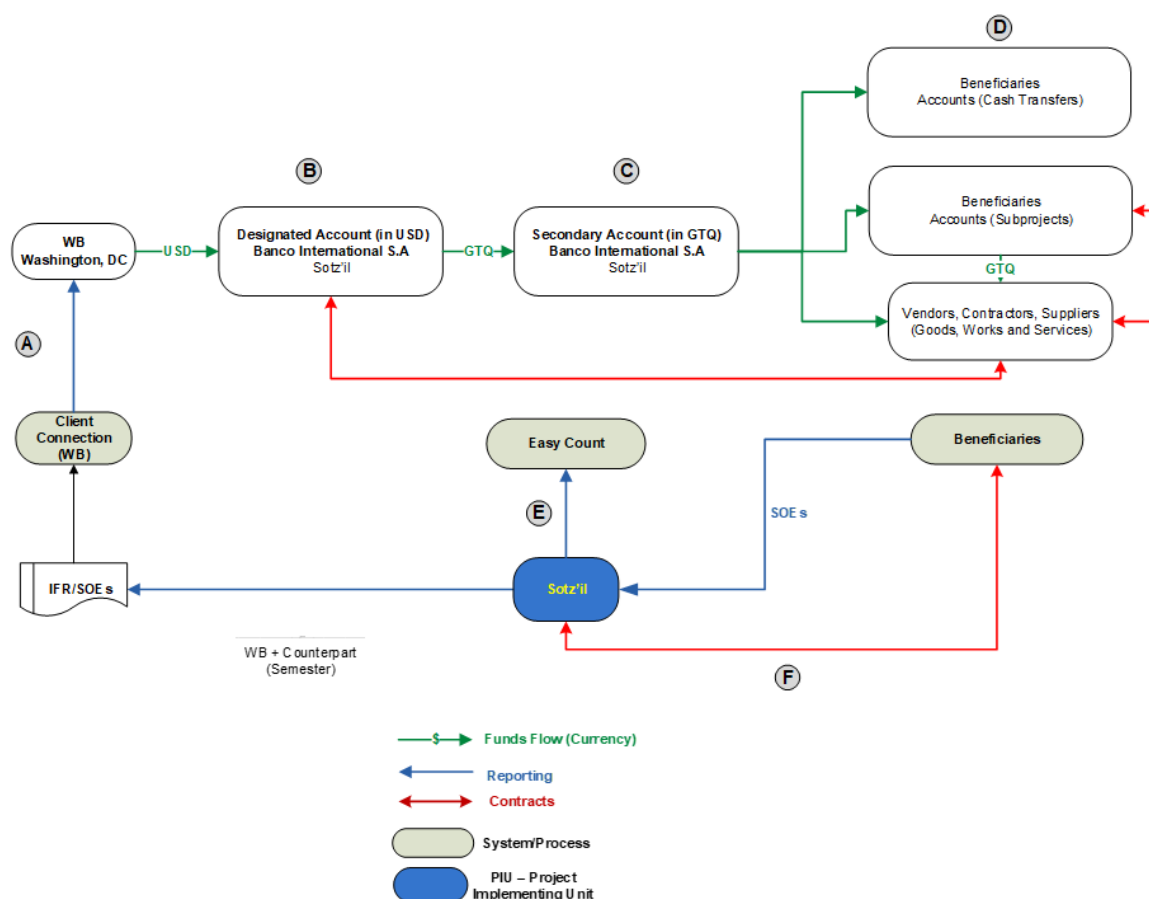


responsibilities, including recording and approval of payments, and specific flowcharts for procurement and FM processes, which will be reflected in the POM. The internal control environment of the Project is adequate. All transaction processing uses Sotz'il's processes, which provide for segregation of duties, supervision, quality control reviews, reconciliations, and independent external audits. Process flows appear to be clear and well understood by personnel. All project budgeting and accounting transactions will run through the Easy Count System, following the commitment, verification/accrual, and payment routine.

50. **Disbursement Arrangements:** Disbursement methods that may be used to withdraw funds are reimbursement, advances, and direct payments. Under the advance method, a Designated Account will be opened, in USD, to be used exclusively for deposits and withdrawals of grant proceeds for eligible expenditures. Funds deposited into the Designated Account as advances will follow the World Bank's disbursement policies and procedures, described in the Grant Agreement and Disbursement and Financial Information Letter (DFIL). Following current practices, advances made to the Designated Account will be documented through the use of SOEs and supporting documents defined in the DFIL. Documentation of eligible expenditures paid out of the Designated Account is expected to be carried out on a biannual basis. Supporting documentation requirements for project expenditures (thresholds for the use of SOEs) as well as the minimum value for direct payments and reimbursements are defined in the DFIL.
51. **Flow of funds:** The flow of funds will proceed as shown in Figure 2.



**Figure 2. Flow of Funds**



- i. The primary World Bank disbursement method will be Advances to the Designated Account which will have a variable ceiling, with disbursements based on expenditure forecast for six-month subject to Bank's approval.
- ii. Resources will be transferred from the World Bank to the Designated Account in Bank Internacional S.A in USD, and then funds will be converted into an operating account (in local currency - GTQ).
- iii. From the Designated Account, funds will be transferred into the operating account opened to manage the World Bank funds.
- iv. Beneficiaries will open new bank accounts exclusively for the Project, where proceeds will be deposited upon payment instructions from Sotz'il, for eligible and duly approved subprojects. Disbursements for eligible subproject expenditures will be sequenced and made in line with physical progress. Such payments will require authorization by Sotz'il. The subprojects will be defined in the agreement between Sotz'il and the beneficiaries. Simple, standard records, whose formats are included in the POM, will be completed by a designated beneficiary representative. They will be used to record transfers from Sotz'il as well as any project beneficiaries' contributions – whether in cash or in kind – as well as funds directly paid to suppliers, materials, and labor inputs. These records will be subject to project audit procedures.

**52. Financial Reporting:** Sotz'il will submit bi-annual IFRs. These will be submitted no later than 45 days after



the end of each semester and will contain: (i) the sources and uses of funds, reconciling items, and cash balances, with expenditures classified by project component/cost category of the multiple sources of external funds which will be required within this Project; and (ii) a statement of uses of funds reporting the current semester and the accumulated operations against ongoing plans, as well as footnotes explaining the important variances. Since project reports will be prepared using supplementary records, the POM will include the required internal controls to ensure that transactions processed in the Easy Count System are timely and systematically updated in the supplementary records. Sotz'il must have a specific FM information system in place to manage the subprojects and the cash transfers in order to generate the financial reports. In addition, monthly reconciliation will be carried out for the subprojects. Sotz'il will prepare annual project financial statements, including cumulative figures, for the year and as of the end of the fiscal year (December 31). All documentation for a consolidated SOE will be maintained for post review and audit purposes for up to three years after the closing date of the Project, or for 18 months after receipt by the World Bank of an acceptable final financial audit, whichever is later.

53. **External Auditing:** An external, independent, private audit firm, acceptable to the World Bank, will be contracted by Sotz'il. The audited financial statements shall be furnished to the World Bank no later than six months after the end of every fiscal year. According to the World Bank's policy on access to information, audited financial statements shall be made public. Specifically, the audit of the Budget Execution Report of the subprojects will need to verify that the amount shown as paid to the subproject beneficiaries corresponds to actual payments made to beneficiaries who complied with the co-responsibilities defined in the Project.

## **C. Procurement**

54. **Procurement Procedures.** The Recipient will carry out procurement under the Project in accordance with the WBG's Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services, dated July 2016, revised in November 2017, July 2018 and November 2020 (Procurement Regulations). The Project will be subject to the WBG's Anti-Corruption Guidelines, dated October 15, 2006, revised in January 2011 and as of July 1, 2016. The Systematic Tracking of Exchanges in Procurement (STEP) will be used to plan, record, and track procurement transactions.
55. **Project Procurement Strategy for Development (PPSD) Summary.** A simplified PSD has been prepared as part of project preparation, including a procurement plan for the first eighteen months of implementation. No major procurement risk activities are envisioned for this Project. Most of the processes will be subject to procurement post review since activities are under the thresholds applicable for prior review; however, technical specifications as well as TORs will be reviewed by the technical team of the World Bank accordingly.
56. **Community Driven Development.** This procurement arrangement will be used in components related to subprojects. As subprojects envisage many small-value contracts for goods, non-consulting and/or consulting services scattered in remote areas, the CDD arrangement is found appropriate. This will mostly use requests for quotations, local competitive bidding, direct contracting, and the use of community labor and resources as appropriate.
57. **Procurement Arrangements.** The Project's PIU within Sotz'il will be responsible for procurement. A virtual



procurement capacity assessment was concluded in October 2020 as part of project preparation. Sotz'il has previous exposure to the World Bank's procurement framework but limited procurement capacity. Some of the procurement challenges envisioned are: (i) lack of availability of certain goods or services and/or significant price increases due to the current pandemic situation; (ii) problems with the timely distribution of all the procured goods/services due to limited mobility; and (iii) governance-related issues common in emergency situations. A series of mitigation measures will be implemented to ensure that the procurement functions are carried out satisfactorily, including: (i) hiring a qualified and trained procurement specialist to Sotz'il within 30 days of project effectiveness to manage project procurement activities; (ii) a procurement section in the POM that defines roles and responsibilities as well as the procurement-related functions for subprojects; (iii) inclusion of World Bank procurement documents in the POM, including the World Bank's standard fraud and anti-corruption clauses; and (iv) further development of the PPSD, including the updating of market assessments and identification of possible constraints, to support riskier procurement processes. Additional details on procurement are provided in Annex 1.

#### **D. Legal Operational Policies**

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

#### **E. Environmental and Social**

58. **The Environmental and Social Risk Classification is Substantial, yet the Project is expected to generate overall positive social and environmental impacts**, since the proposed activities will promote sustainable management of natural resources, including forests in areas where IPLCs depend on these resources to sustain their livelihoods. The following environment and social standards (ESS) are relevant for the Project: ESS1. Assessment and Management of Environmental and Social Risks and Impacts; ESS2. Labor and Working Conditions; ESS3. Resource Efficiency and Pollution Prevention and Management; ESS4. Community Health and Safety; ESS5. Land Acquisition, Restrictions on Land Use and Involuntary Resettlement; ESS6. Biodiversity Conservation and Sustainable Management of Living Natural Resources; ESS7. Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities; ESS8. Cultural Heritage; and ESS10. Stakeholder Engagement and Information Disclosure.
59. **Environmental.** The environmental risk classification is Moderate and overall project environmental impacts are expected to be positive. Given the nature of the potential subprojects described, there may be some adverse effects on biodiversity or natural habitats through clearing of secondary vegetation to facilitate planting of crops, pesticide and fertilizer use, resource efficiency, pollution, and demand for water through small-scale irrigation. These impacts would be addressed in the ESMF.
60. **Social.** The Project is expected to have overall positive social impacts, including a greater inclusion of IPLCs in activities that seek to reduce deforestation and degradation. The Project's Substantial Social risk classification is



derived from the following potential risks: (i) planned implementation of project activities in areas with land tenure issues or under dispute; (ii) possible exclusion of specific vulnerable groups or groups whose interests are traditionally underrepresented if targeted strategies to ensure their active engagement are not incorporated into the project design; (iii) lack of experience and technical capacities of members of the NSC and Sotz'il to comply with the World Bank's ESF; (iv) difficulty in meeting expectations and demands of IPLCs that may want to benefit from the Project due to the limited project funds; (v) conflicts within the NSC, between the NSC and the Sotz'il, and/or complaints by organizations that do not form part of the NSC, and that may feel the Project fails to represent their communities or interests; (vi) the participation of children in productive activities, as well as inconsistent implementation of local labor laws; (vii) potential barriers, including contextual crime and violence, gender-based violence and domestic violence; and (viii) the social impacts brought by the COVID-19 pandemic, including limitations in beneficiaries engaging and/or accessing project activities.

61. **To adequately address and mitigate project environmental and social risks and impacts, Sotz'il will prepare specific environmental and social instruments aligned with ESF requirements and the relevant ESSs.** These include an ESMF, which will describe the strategic measures for avoiding, minimizing, preventing, or mitigating risks and impacts in accordance with the applicable ESS's and proportional to their scale and complexity; a SEP that includes a stakeholder mapping and a participation and consultation strategy; a GRM for the public and another GRM for workers related to the Project; an Indigenous Peoples Planning Framework (IPPF); and Labor Management Procedures (LMP). The draft SEP and the Environmental and Social Commitment Plan (ESCP) were disclosed by the Bank on January 28, 2021 and on Sotz'il's project-dedicated website on January 30, 2021.<sup>43</sup> The ESMF, LMP and IPPF are being drafted and their final versions will be disclosed and adopted no later than 60 days after Effectiveness, as described in the ESCP. The site includes an operational grievance platform, which is the first of the planned channels available to the public as part of the GRM. As described in the ESCP, the final version of the SEP is a condition of effectiveness, and the final versions of the ESMF, IPPF and LMP will be consulted, disclosed, and adopted within 60 days of Grant Effectiveness.
62. **The Project has been designed in a participatory manner with IPLC representatives from the NSC's three networks and Sotz'il since 2019.** The NSC has defined the Project's scope and activities to finance and selected Sotz'il to serve as the NEA. The NSC's focal points and technical advisors have participated in all project design decisions, reporting back to their broader national-level IPLC networks at key preparation milestones. Once the final set of Project components, indicators and targets were established, the NSC called separate meetings with each IPLC Network on November 20, 2020 to solicit feedback and describe critical steps for E&S and project processing, reporting back on December 16, 2020. Subsequently, as part of the preparation of the draft SEP, the NEA has carried out a periodic engagement and consultation process with several groups, including with representatives from the NSC and its member organizations and GoG officials from INAB. In January 2021, the draft version of the SEP was consulted and validated in sessions with the NSC and representatives of member organizations that are potential beneficiaries. Participatory dialogues with stakeholders that represent interested groups who are not direct beneficiaries, and with organizations that represent vulnerable populations within beneficiary IPLC groups, will be carried out between April and May 2021. During implementation, specific consultations with beneficiary IPLCs and potentially affected parties will be carried out when subprojects are identified, prepared, and approved for support, in line with the provisions established within the ESMF, IPPF, and SEP.

<sup>43</sup> See: <https://sotzil-guatemala.org/toonik-qawinaq-mecanismo-dedicado-para-pueblos-indigenas-y-comunidades-locales-mde-guatemala/> and <https://projects.worldbank.org/en/projects-operations/document-detail/P170391?type=projects>



## **Gender**

63. **The key constraints that hinder Indigenous and rural women's participation in forestry activities are :** (i) deeply rooted biases stemming from traditional gender roles; (ii) the historical inequality of women's access and ownership of land; and (iii) limited access to financing and opportunities to support their role in income-generating activities. Promoting gender inclusiveness in the forestry sector will require a proactive approach to encourage and enable the participation of women by building their capacity, providing access to financing, supporting productive initiatives that they lead and in which they are actively engaged, and ensuring their effective participation in relevant fora where they can voice their needs and priorities. Under Component 1, the Project will promote the recognition and role of women in cultural land use management, through the specific articulation of this role within the CFMPs. It will also finance the implementation of PAPs for each IPLC network and participation in key international conferences and events. A quota to ensure the participation of women within the selected delegations of IPLC organizations for each PAP will be included as eligibility criteria and an indicator target for subcomponent 2.2. Under Component 2, the Project design includes a dedicated subgrant window to support food security initiatives that are led by women, prioritizing communities directly affected by the COVID-19 pandemic and its associated containment measures and Hurricanes Eta and Iota. Component 2 will also promote women-led productive initiatives by including selection criteria that promote initiatives led by, or with high levels of women's participation, some of which were already identified during the Project's social assessment.
64. **The Project's ESMF will also include a Gender Assessment and Gender Action Plan** to identify specific risks and actions that can be adopted within subproject calls for proposals, selection criteria, TORs for specific activities, and the social management plans for specific subprojects to mitigate potential risks of exclusion and adoption of strategies to enhance women's participation. The inclusion of women will be directly measured by the Results Framework (RF) through gender indicators and targets, namely, delegations within PAPs should have membership that is 30 percent women and 30 percent of subprojects should be led by women or have women as the majority of their direct beneficiaries.

## **VII. World Bank Grievance Redress**

65. **Communities and individuals who believe that they are adversely affected by a World Bank-supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit [http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service\\_](http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service_). For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).



## VII. RESULTS FRAMEWORK AND MONITORING

### Results Framework

COUNTRY : Guatemala

Guatemala Dedicated Grant Mechanism for Indigenous Peoples and Local Communities Project

#### Project Development Objectives

The Project Development Objective is to strengthen the capacity of, and benefits gained by, Indigenous Peoples and Local Communities in their role in sustainable forest and natural resource management.

#### Project Development Objective Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
<b>Name:</b> Forest area with IPLCs' systems for sustainable management strengthened as a result of the Project		Hectare(Ha)	0.00	6,000.00	Annual	Subproject profiles and Participation Plans & their progress reports and M&E system implementation reports	NEA and beneficiary organizations for subprojects and NEA and three IP Networks for PAP.

**Description:** This indicator measures the number of hectares of forests where IPLC's role in sustainable forest management has been strengthened through the project. Strengthening IPLCs' forest management capacity is defined as: improved IPLCs' understanding for planning, implementing, and tracking results from good practices in forest and ecosystem management; the documentation and adoption of culturally relevant practices and systems for forest management and tracking conservation and biodiversity results; resolving outstanding legal, administrative, or conflict issues; and achieving greater clarity for IPLCs and with external parties over boundaries, roles, tenure status and security. The Project will support this through: (i) the preparation and implementation of cultural forest management plans, (ii) exchanges among IPLCs to promote cross-learning on good practices for forestry management; (iii) technical assistance, recording of historical memory and digitalizing critical tenure documents,

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
and supporting mediation services to support resolution of outstanding legal and administrative issues around land and territorial tenure and management; (iv) enhanced participation of IPLCs in structured dialogues and relevant policy processes with other key stakeholders at local, national, and international levels, and (v) livelihoods and food security subprojects. Hectares under current management and for which strengthening activities will be directed will be included as baseline information within subproject profiles and for the participatory processes, each PAP, as relevant will calculate the total number of hectares over which the dialogue process aims to strengthen management arrangements.							
<b>Name:</b> Beneficiaries of livelihood and food security subprojects		Number (Thousand)	0.00	2,000.00	Annual	Subproject progress reports and M&E system implementation reports	NEA and beneficiary organizations
Women beneficiaries of livelihood and food security subprojects		Number (Thousand)	0.00	600.00	Annual	Subproject profiles, progress and completion reports.	Beneficiary organizations and NEA
<b>Description:</b> This indicator measures the number of direct beneficiaries who are actively affiliated and participating in subprojects that support existing or new livelihood or food security projects. Funds would allow for approximately 47 subprojects to be approved, depending on the size of sub-grants for each subproject. The target assumes that on average there would be 45 direct beneficiaries per subproject. Baseline data will be established within the subproject profiles and will be tracked through their implementation progress reports through the M&E system.							
<b>Name:</b> Implementation of Annual IPLC PAP		Percentage	0.00	75.00	Annual	Annual Participatory Action Plans and their progress reports to be included within the Project M&E System. Specific meeting reports will also serve as a source of verification of agreed actions and results.	NEA and third-level networks

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
<p><b>Description:</b> Each IPLCs network will prepare an Annual Participatory Action Plan that will identify key strategic dialogues at local, national and international levels within which they want to participate. The Plans should identify the process within which they want to participate, the objectives or desired results of this participation, i.e., issue that needs to be resolved or specific policy reform towards which they aim to contribute, etc; identify the conformation of the delegation/organizations to participate, including the participation of at least 30% of women within these delegations; and include the activities and costs related to that participation. The implementation of these plans for well-planned and structured participation, and achievement of their objectives to influence key processes, should result in improved voice and visibility of IPLC priorities in relevant forestry and climate change dialogues and negotiations. Each IPLCs network is expected to implement 75 percent of their Annual Participatory Action Plan.</p>							
<b>Intermediate Results Indicators</b>							
Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
<b>Name:</b> Cultural forestry management plans adopted by community organizations and under implementation		Number	0.00	6.00	Annual	CFMPs approved by NSC and Subcomponent 1.1 Subproject Progress Reports as part of M&E System Implementation Reports	NEA and beneficiary organizations of Subcomponent 1.1.
<p><b>Description:</b> This indicator measures the number of CFMPs which have been prepared, adopted by the relevant communities and/or their representative organizations, and are under implementation.</p>							
<b>Name:</b> Pilot IPLCs' Mechanism for the Compensation of Ecosystem and		Yes/No	N	Y	Annual	Pilot IPLCs MCEES operating regulations and procedures approved by	NEA and beneficiary organizations

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Environmental Services (MCEES) designed and operational						the NSC and sent to the Bank for No-Objection.	
<b>Description:</b> This indicator measures the establishment of an operational MCEES that would compensate IPLCs for the ecosystem services delivered under culturally based and collective models of forest management as established within the CFMPs. The NEA will prepare the pilot IPLCs' MCEES operating regulations and procedures, which will be approved by the NSC and sent to the Bank for No-Objection. Operational means that the mechanism should be ready to track results and distribute incentives against the CFMPs and compensation agreements.							
<b>Name:</b> Beneficiary IPLCs or organizations which have received TA and capacity building to strengthen their sustainable forest management capacity		Number	0.00	10.00	Annual	Progress reports by NEA contractors providing legal and technical services verified by the NEA, and M&E System implementation reports	NEA and beneficiary communities and organizations
<b>Description:</b> This indicator measures the number of communities or organizations that have received legal services and/or technical services hired by NEA. Legal services include legal counsel, issuance or processing of land documents, certifications, surveys, inspections, mediation. Technical service includes mediation, topographic and cadaster services, digitization of key documents, recording of historical memory, good practice exchanges with other IPLCs, among others.							
<b>Name:</b> IPLCs' livelihood and food security subprojects prepared and approved by the NSC		Number	0.00	40.00	Annual	Livelihood and food security subprojects approved by the NSC	NEA and beneficiary organizations
<b>Description:</b> This indicator measures the capacity of the IPLCs' organizations and the NEA to prepare viable livelihood and food security subprojects that meet the Project's technical, operational, fiduciary and E&S requirements and that will contribute to the Project's overall results indicators and objectives.							

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
<b>Name:</b> Percentage of approved livelihood and food security subprojects implemented		Percentage	0.00	80.00	Annual	Subproject completion reports and M&E System	Subproject beneficiaries and NEA
<b>Description:</b> This indicator tracks the quality and feasibility of approved livelihood and food security subprojects to be implemented. It assumes that 80% of approved subprojects will complete implementation.							
<b>Name:</b> Percentage of livelihood and food security subprojects implemented that are led by women or where women represent the majority of direct beneficiaries		Percentage	0.00	30.00	Annual	Subproject profiles and completion reports.	Project beneficiary organizations and NEA
<b>Description:</b> This indicator aims to promote women's direct participation or leadership in livelihood and food security subprojects. Baseline information will be established in subproject profiles and tracked in subproject progress and completion reports.							
<b>Name:</b> Number of dialogues and planning processes related to FIP, REDD+ and Climate Change where IPLCs participate supported by the project		Number	0.00	20.00	Annual	Annual PAP progress reports and M&E System Implementation Reports	NEA and third-level networks
<b>Description:</b> The annual PAPs of each third-level network will indicate the strategic processes in which their IPLCs members will participate and the objectives or desired							

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
results of this participation. The project aims to support at least 5 processes at the local, national and international level per Network.							
<b>Name:</b> Percentage of women participating within IPLCs' delegations in strategic dialogue processes		Percentage	0.00	30.00	Annual	PAPs and related Progress Reports	NEA and third-level networks
<b>Description:</b> This indicator will track women's participation in IPLCs' delegations within strategic dialogues and negotiation processes, per the PAPs and progress reports.							
<b>Name:</b> Requests for information, complaints or grievances presented by members of participating networks or other IPLCs in Guatemala that have been resolved in 20 days, in line with GRM procedures in the POM		Percentage	0.00	85.00	Every six months	GRM Report	NEA
<b>Description:</b> This indicator measures the capacity of the Project Grievance Redress Mechanism to attend and resolve, in 20 days, information requests, complaints and grievances that are presented by direct project beneficiaries or other IPLCs in Guatemala. When applicable, resolution to grievances or complaints will be considered and incorporated into project implementation.							

## Target Values

### Project Development Objective Indicators

Indicator Name	End Target
Forest area with IPLCs' systems for sustainable management strengthened as a result of the Project	6,000.00
Beneficiaries of livelihood and food security subprojects	2,000.00
Implementation of Annual IPLC PAP	75.00
Women beneficiaries of livelihood and food security subprojects	600.00

### Intermediate Results Indicators

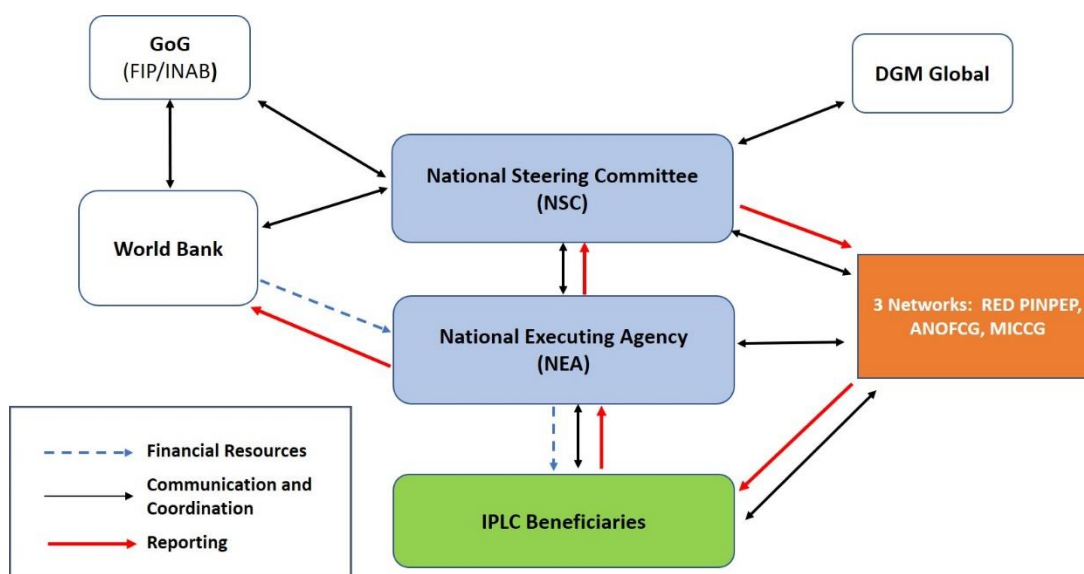
Indicator Name	Baseline	End Target
Cultural forestry management plans adopted by community organizations and under implementation	0.00	6.00
Pilot IPLCs' Mechanism for the Compensation of Ecosystem and Environmental Services (MCEES) designed and operational	N	Y
Beneficiary IPLCs or organizations which have received TA and capacity building to strengthen their sustainable forest management capacity	0.00	10.00
IPLCs' livelihood and food security subprojects prepared and approved by the NSC	0.00	40.00
Percentage of approved livelihood and food security subprojects implemented	0.00	80.00

Indicator Name	Baseline	End Target
Percentage of livelihood and food security subprojects implemented that are led by women or where women represent the majority of direct beneficiaries	0.00	30.00
Number of dialogues and planning processes related to FIP, REDD+ and Climate Change where IPLCs participate supported by the project	0.00	20.00
Percentage of women participating within IPLCs' delegations in strategic dialogue processes	0.00	30.00
Requests for information, complaints or grievances presented by members of participating networks or other IPLCs in Guatemala that have been resolved in 20 days, in line with GRM procedures in the POM	0.00	85.00

## ANNEX I. IMPLEMENTATION ARRANGEMENTS

1. **In accordance with the Global DGM guidelines, the Guatemala DGM has developed a governance and management arrangement for coordination, partnership, and synergies.** The NSC will oversee project implementation and Sotz'il, the selected NEA, will enter into a Grant Agreement with the World Bank to implement project activities. The institutional roles and responsibilities of these institutions are described below and demonstrated in Figure 1.1.
2. **Based on lessons learned in other projects and in collaboration with the NSC, the implementation arrangements for the Project reflect a strong commitment to a CDD approach** that builds the capacity of beneficiary IPLCs and organizations to identify their own priorities and improve governance and capacity through supporting their direct participation in the implementation of project activities. These implementation arrangements should contribute to building capacity for more sustainable forest management while enhancing overall recognition and strengthening of IPLCs' roles in forest stewardship.

**Figure 1.1. GU DGM Implementation Mechanism**

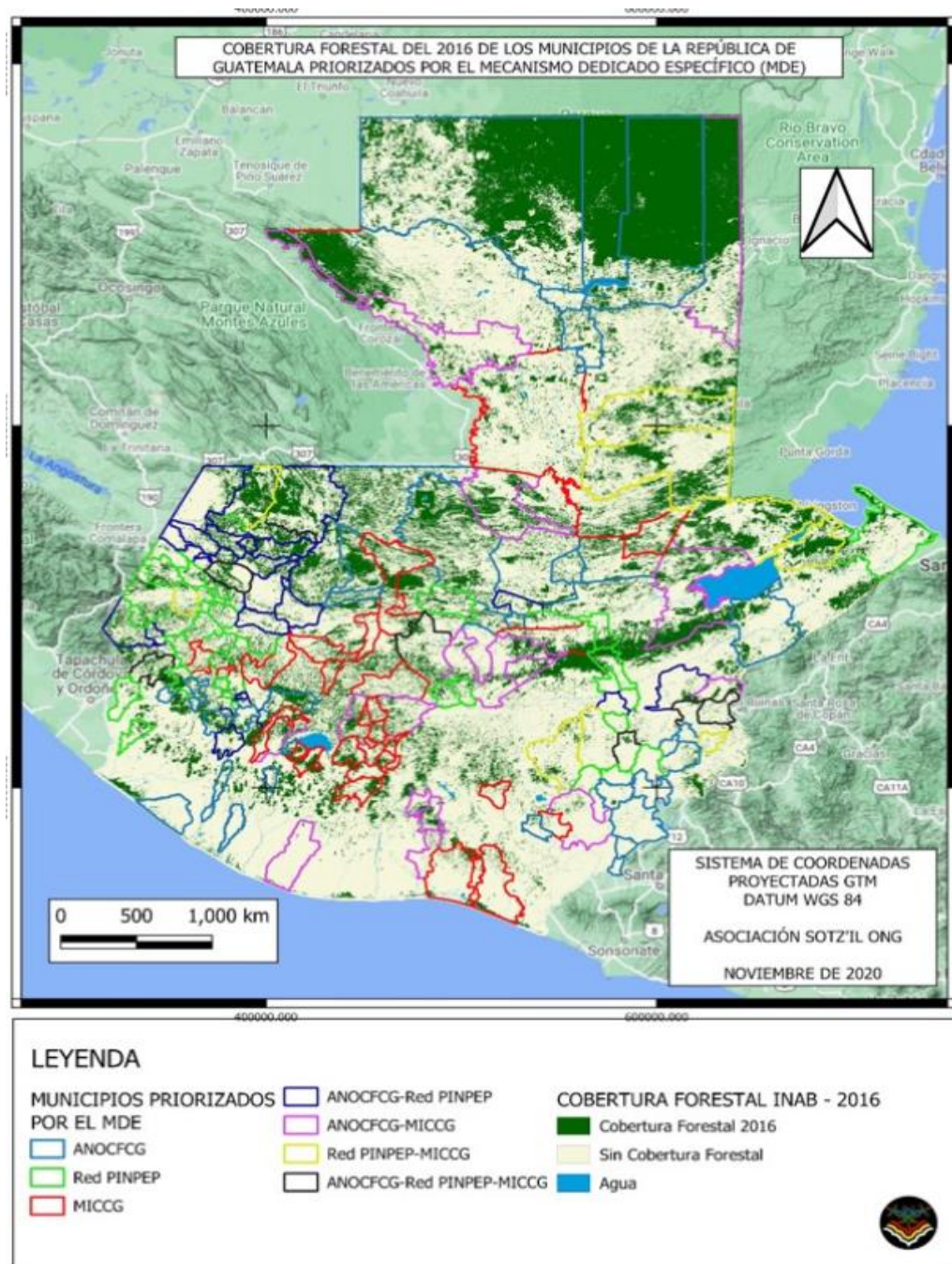


### A. National Steering Committee (NSC)

3. **The NSC is composed of the three primary national networks of IPLCs' forestry stakeholders.** Each of these three networks represents a group of organizations and have complementary strengths and experiences. Although these networks have common strategies, including strengthening institutional and governance capacity, improving access to finance, and strengthening and scaling up the IPLCs enterprises that they represent, their experience and strengths are different. ANOFCG represents ten second-tier organizations managing 427,000 hectares of forests throughout the country—including the 400,000 hectares of community forest concessions in Petén—and has the most experience in business development. The RED PINPEP network represents at least 35,000 individual beneficiaries participating in

forestry incentives and manages 118,000 hectares of land with a long track record of working with payments for ecosystem services. MICCG represents 37 IP organizations, with extensive experience in traditional cultural forest management and policy participation on climate change issues and Indigenous Peoples' rights.

**Map 1.1: Areas where the NSC's three IPLCs networks are working in forestry management**



Source: Prepared by Asociación Sotz'il



4. **The NSC's key roles and responsibilities are to:**

- Approve the Project's AOP, eligibility and selection criteria for funding in accordance with the criteria established by the Global DGM Framework Guidelines for Operations and the Project's POM;
- Call for proposals and ensure adequate support and facilitation of the three national IPLC networks with their base organizations;
- Review and approve eligible activities proposed for financing, and support the NEA in addressing implementation issues as they arise;
- Oversee and provide feedback to the NEA on project implementation, including the review of progress of the indicator targets established in the Results Frameworks and propose implementation adjustments;
- Identify, analyze and share lessons learned and promote the DGM to external stakeholders.
- Furnish the DGM's GSC and GEA with semi-annual progress reports; and
- Support the resolution of conflicts and grievances related to the DGM.

5. **The NSC is also expected to:** (i) participate in meetings of other national REDD+ committees and FIP institutions, thus ensuring that DGM lessons are transmitted and coordination takes place to leverage synergies with relevant ongoing national processes; (ii) seek feedback from IPLCs on the DGM, identify needs, collect and send ideas to the GSC to be supported by the Global DGM; and (iii) raise funds through other programs and mechanisms to complement the DGM and promote its sustainability.

6. **Representatives from INAB or other agencies deemed relevant by the NSC, may also be invited by the NSC to serve as observers without participating in NSC's decision-making processes.** The NEA will serve as the NSC's secretariat. To incorporate appropriate principles of transparency and accountability into the decision-making processes, the NSC has developed Rules of Operation and a Conflict of Interest Policy. These seek to preserve a neutral separation between the governance function of the NSC and NSC members' roles as representatives of specific organizations and networks, including personal and/or political relationships with the potential beneficiaries at the community level. These instruments are especially relevant to avoid bias in the approval of annual workplans and subprojects.

**B. National Executing Agency, Sotz'il**

7. **The NSC selected Sotz'il to serve as the Project's NEA through a competitive and transparent process in line with the Global DGM Framework Guidelines, including:** (i) a call for Expressions of Interest; (ii) a technical review by the NSC to create a short list of proposals that met the eligibility criteria; (iii) an agreement by each network on the composition of the final evaluation committee, which was made up of the three technical advisors supporting the NSC and three external evaluators proposed by the DGM GEA who reviewed and evaluated the technical and financial proposals submitted; and (iv) a formal notification of the results of the selection process. Sotz'il is charged with all aspects of implementation of the DGM and will report directly to the NSC.

8. **Sotz'il is an Indigenous organization that contributes to the comprehensive development of Indigenous Peoples,** by fostering Indigenous Peoples' capacity for the use, management, and protection of natural resources based on their systems, institutions, regulations, and traditional knowledge. Sotz'il's experience includes community-consultation processes, participatory formulation of management instruments for the



use, management and protection of natural resources in prioritized areas of community lands, and the strengthening of traditional Indigenous governance structures.

9. **Sotz'il's FM systems and processes satisfy the legal and administrative requirements for managing funds from international cooperation and private entities.** Sotz'il is registered as a vendor in the World Bank database, and has previous Bank-financed management experience including implementation of the FCPF Capacity Building on REDD+ for Indigenous Peoples in Latin America Project (P155976, in the amount of US\$1.77 million), and experience with other bilateral and multilateral organizations. Sotz'il has an administrative procedure manual, in which duties and powers of the technical and administrative staff are specified, as well as procurement procedures for goods and services.
10. **Sotz'il's primary roles and responsibilities (which will be further elaborated in the POM) are to:**
- Coordinate the DGM's implementation with all relevant stakeholders, including the GoG, NSC, three national IPLCs networks, IPLCs beneficiary organizations, the World Bank, and other external interested parties.
  - Ensure timely implementation of all project activities, and monitoring of such activities and the Project's related indicators and targets, including: the preparation of the AOP and consultation with the NSC and World Bank, preparation and implementation of calls for proposals; training and assessments of subgrantees and subproject beneficiaries; signing of subgrant agreements with the selected IPLCs representative organizations; and disbursement of funds to subgrantees; and supervision and M&E of subprojects.
  - Provide the World Bank with operational and financial reports, including progress toward achievement of the PDO and Results Framework.
  - Serve as the NSC secretariat.
  - Provide capacity building and technical assistance to subproject beneficiaries.
  - For project activities to be implemented by Sotz'il: prepare TORs for the selection of consultants and technical specifications for the procurement of goods, works and services for specific activities, processing their selection and procurement, and overseeing contracts execution to ensure satisfactory implementation.
  - Promote consideration of lessons learned and experiences from other DGM and national and international projects., in subprojects development and its implementation.
  - Ensure appropriate use of DGM funds, report to the World Bank on the allocation and use of funds and ensure that procurement is carried out in accordance with World Bank rules and procedures, including the preparation of procurement plans, where applicable.
  - Ensure that all subprojects include indicators and targets and follow agreed methods for collecting, updating, aggregating, and evaluating data based on the Project's Results Framework.
  - Maintain documentation on DGM subprojects and prepare progress and financial reports (and other project-related documents as necessary), as agreed in the Grant Agreement and subgrant agreements.
  - Ensure that the World Bank's ESF and related ESMF are adequately implemented, including the preparation and implementation of E&S instruments, training of subproject beneficiaries, adequate assessment of risks, and implementation of E&S management plans and mitigation measures.
  - Host and facilitate the World Bank's supervision missions, and work with the World Bank to optimize the operation's results and impacts.
  - Maintain communications and technical dialogue with stakeholders and provide information and



assistance to grantees.

- Promote the DGM with the GoG and other potential donors.
- Manage grievance and complaints redress processes; and
- Respond to queries; coordinate and provide information requested by the NSC, GSC, and GEA.

**Table 1.1 Project Implementation Unit (PIU) Staffing**

<b>Position</b>	<b>Responsibility</b>
<b>Project Manager</b>	Manage, coordinate, supervise, and monitor the Project and act as technical secretary of the NSC.
<b>Cultural and Community Forest Management Specialist</b>	Coordinate the planning and implementation of activities under Subcomponent 1.1, including the subprojects to prepare and implement the CFMPs and the implementation and reporting of the pilot IPLCs MCEES, including the promotion of its potential adoption and scaling up by the GoG.
<b>Specialist in Sustainable Forest Management &amp; Climate Change</b>	Coordinate and lead the planning and implementation of activities of Subcomponent 1.2, including the identification, hiring and providing technical assistance to beneficiary IPLCs to address the challenges of sustainable forest management; promotion of dialogues at the local, national, regional, and international levels between beneficiary IPLCs, the three national IPLCs networks, and with other stakeholders, and supporting the exchange of lessons learned and good practices and institutional strengthening for the three national IPLCs networks.
<b>Livelihoods &amp; Food Security Specialist</b>	Coordinate Subcomponent 2.1 to support the adequate delivery of technical assistance and investments to pre-investment and existing productive subprojects as well as design and coordinate the support for the delivery of small-scale food security initiatives, with a focus on targeted support for IPLCs' women.
<b>Procurement Specialist</b>	Lead procurement processes tasked to Sotz'il, provide training and assess subproject beneficiary capacity, and supervise procurement of subprojects, monitor and create reports, prepare annual procurement plans for World Bank No-Objection, and lead the submission of all procurement requests for No-Objections via STEP.
<b>Financial Management Specialist</b>	Lead FM processes tasked to Sotz'il, provide training and assess subproject beneficiary capacity, and supervise FM of subprojects, monitor and create reports, prepare annual budget planning with World Bank, and coordinate the financial audits of the Project.
<b>Environmental and Social Management Specialist</b>	Prepare and supervise compliance with the environmental and social instruments, prepare TORs and supervise E&S consultants hired to support subprojects, provide training, assess capacity of subproject beneficiaries to implement E&S frameworks and standards, and supervise, with the support of the E&S consultants, the implementation of E&S plans for subprojects. Manage the GRM, ensuring its accessibility, adequate recording and resolution of grievances. Provide inputs to the communications strategies, especially in relation to ensuring adequate implementation of the SEP.



<b>Project Monitoring and Evaluation Specialist</b>	Design and implement a project M&E system to ensure adequate preparation of baseline information, ensure collection of relevant information to monitor indicators, supervise the team to measure and validate the MCEES ecosystem results, and prepare progress, midterm, and final M&E reports.
---	--

11. **Sotz'il will begin operations following project effectiveness.** A Grant Agreement will be signed by Sotz'il and the Bank to administer the Grant. Resources allocated for the DGM will be disbursed according to the provisions of the Grant Agreement. As with all grant recipients, Sotz'il will assume full and primary responsibility for the administration of grant resources, compliance with the World Bank's fiduciary and environmental and social standards and procedures, and all project-related monitoring and reporting.
12. **Sotz'il will enter into subgrant agreements,** as required, for subproject implementation and will provide technical support to the NSC and IPLCs when requested in order to: (i) ensure that subprojects meet the eligibility criteria that will be outlined in the POM; (ii) assist with the preparation of selected subprojects and the approval of the NSC; (iii) disburse funds to subprojects per the agreed implementation and procurement plans; (iv) provide ongoing implementation support and supervision to subprojects under implementation; and (v) carry out all M&E and reporting of subprojects. Sotz'il will also prepare the TORs and or technical specifications, carry out procurement, FM and ESF application for all aspects of the Project that are directly under its responsibility.
13. **Sotz'il will prepare the POM,** outlining the roles and responsibilities of the NSC, Sotz'il, IPLCs as well as the E&S instruments, including the GRM in accordance with the DGM Framework Operational Guidelines.
14. **Sotz'il will also manage the GRM** to ensure that all complaints received from IPLCs and other interested stakeholders related to a grant award decision, representation in the NSC, governance of the DGM, or other project-related issues will: (i) have a properly written record; (ii) receive timely resolution; and (iii) be reported as part of the GRM system. Regardless of the nature of the grievance, the DGM will ensure that a transparent, timely, and fair process is adopted to address each complaint.
15. **Sotz'il will implement communications activities related to the Project,** and ensure that communication strategies are culturally appropriate, easily accessible, and ensure transparent and equitable access to benefits produced by the Project. Sotz'il will leverage both its website as well as the three IPLCs networks and their base organizations platforms to share information, identify potential beneficiary organizations, and promote good practice and cross learning. Sotz'il will maintain open lines of communication and actively reach out to all stakeholders, including those not directly involved in the DGM, such as universities, other donors and the GoG to promote synergies and collaboration. Sotz'il will regularly review feedback received, respond to questions and comments on the websites, and report to the NSC on actions taken. Sotz'il will ensure that no personal private data is published or shared publicly through the DGM's website or other communication and social media channels.
16. **Sotz'il will provide oversight for all procurement processes carried out under the Project and will conduct ex-post reviews of procurement of subprojects,** including field visits to ensure every payment is supported by the level of physical implementation and quality specifications. During procurement post reviews or project supervision, procurement will review the implementation of agreed arrangements and



performance metrics, identify corrective actions if necessary, and monitor fiduciary risks. During the first year of implementation, the Project will be closely monitored, particularly on prior review activities defined in the procurement plan, with the aim of ensuring that the procurement arrangements are working as intended and the procurement regulations are adhered to. Procurement post reviews are expected to take place on an annual basis.

### **C. IPLCs Networks**

17. **The NSC is composed of three national level IPLCs networks, each of which represents a group of second-tier organizations made up of IPLCs and organizations**, bringing complementary strengths and experiences. The main roles and responsibilities of the IPLCs networks are to:
- Facilitate participatory processes with their respective member organizations in order to inform them of potential benefits of the DGM, promote participation in calls for proposals, manage expectations and clearly communicate eligibility and selection criteria, facilitate and coordinate their member organizations' participation with the NEA, support the GRM and resolution of information queries or grievances as they arise, and report back to the NSC on any issues.
  - Support the NSC and the NEA in the logistical processes for the launching of calls for proposals and related training and socialization activities.
  - Accompany the NEA in the technical assistance to be provided at the community level to enable the effective identification, preparation, evaluation, and implementation of subprojects.
  - Support the dissemination of experiences and lessons learned.
  - Identify and design their respective annual PAPs and select an eligible member organization to manage the technical, fiduciary, and environmental and social issues related to the PAP.
  - Support World Bank missions, reporting, dissemination and exchange of experiences among the partners of the three networks and other stakeholders that have common and complementary objectives to the Project.

### **D. Subproject Beneficiary Organizations**

18. **The DGM will finance three types of subprojects for which IPLCs organizations will receive and manage subgrants.** These include: (i) the preparation and implementation of the six CFMPs under Subcomponent 1.1; (ii) the preparation and implementation of the annual PAPs for each of the three IPLCs networks under Subcomponent 1.2; and (iii) the implementation of the approximately 27 pre-investment and productive subprojects under Subcomponent 2.1. The IPLC organizations that receive these subgrants for the CFMP and PAP subprojects will be nominated by their respective national IPLC networks in accordance with the eligibility and selection criteria set for in the POM. The pre-investment and productive subprojects will participate through a competitive call for proposals that will be promoted by the NSC, NEA and the three national IPLC networks. Eligible IPLCs organizations will be evaluated by the NEA to ensure that they have the capacity and systems to manage subproject funds and technical and E&S responsibilities. The 20 food-security subprojects will also be identified through a call for proposals, but the fiduciary and E&S responsibilities will be retained by the NEA. The NEA will support IPLC organizations to prepare and implement the technical aspects of their subprojects. In order to present a project for consideration by the NEA and NSC, the beneficiary IPLC organization should either: (i) be a participating member organization of the NSC's three IPLC networks, or (ii) be endorsed by at least one of the three networks. Specifically, the roles and responsibilities of subproject beneficiary organizations will include:



- Participation in call for proposal processes, including socialization, induction, and training events related to the preparation of proposals and/or sessions to respond to questions and/or provide clarifications regarding the criteria and procedures for selection.
- Participation in all training sessions offered by the NEA in relation to project management E&S, fiduciary management, M&E, reporting, etc.
- Facilitation of information, preparation of documents and participation in interviews with the NEA during the capacity assessment as needed.
- Preparation of a subgrant proposal in accordance with the procedures and formats laid out in the POM.
- Entering into a subgrant agreement with the NEA, and compliance with all stipulations of such agreement.
- Implementation of all planning and management of the technical, administrative, procurement, FM, environmental, and social management tasks per the subgrant agreement and reporting on the results and issues that arise to the NEA per the requirements of the POM, Subproject Guidelines, and the subgrant agreement.
- Reception of the NEA, and, when relevant, NSC and World Bank supervision missions.
- Participation in information and learning exchange events organized under the Project.

#### **E. INAB**

19. **The GoG nominated INAB to serve as the Project's government observer to the NSC** in order to ensure ongoing coordination, foment synergies and promote IPLCs' participation in the broader national forestry, REDD+, and climate change related strategies and processes. Through this role, INAB representatives will:
  - Take part as observers in NSC meetings.
  - Promote coordination and opportunities to link project beneficiaries and activities with national level forestry, REDD+, and climate change policies and programs to promote the scaling up of successful DGM activities (such as could be the case for the IPLCs pilot MCEES), inclusion and links of IPLCs beneficiaries with national programs, and to inform national level programs with innovations and practices that are being generated by the Project.
  - Promote the participation of the NSC and the Project in broader national and international dialogues, policies and investment programs related to forestry, climate change and REDD+.
20. **Financial Management.** The NEA will be responsible for FM tasks for the Project. These include: (i) budget formulation and monitoring; (ii) cash flow management; (iii) maintenance of accounting records; (iv) administration of underlying information systems; (v) preparation of in-year, mid-term and year-end financial reports/audits; and (vi) arranging for the external audits. The NEA will carry out FM functions with its existing staff and will be required to maintain professional staff in numbers and with qualifications and experience acceptable to the World Bank.
21. **Project Funds Flow.** The project funds are provided by the Climate Investments Fund (CIF) with the World Bank acting as Implementing Entity, disbursed upon request by the NEA, and used to cover eligible expenditures of the Project according to the following provisions:

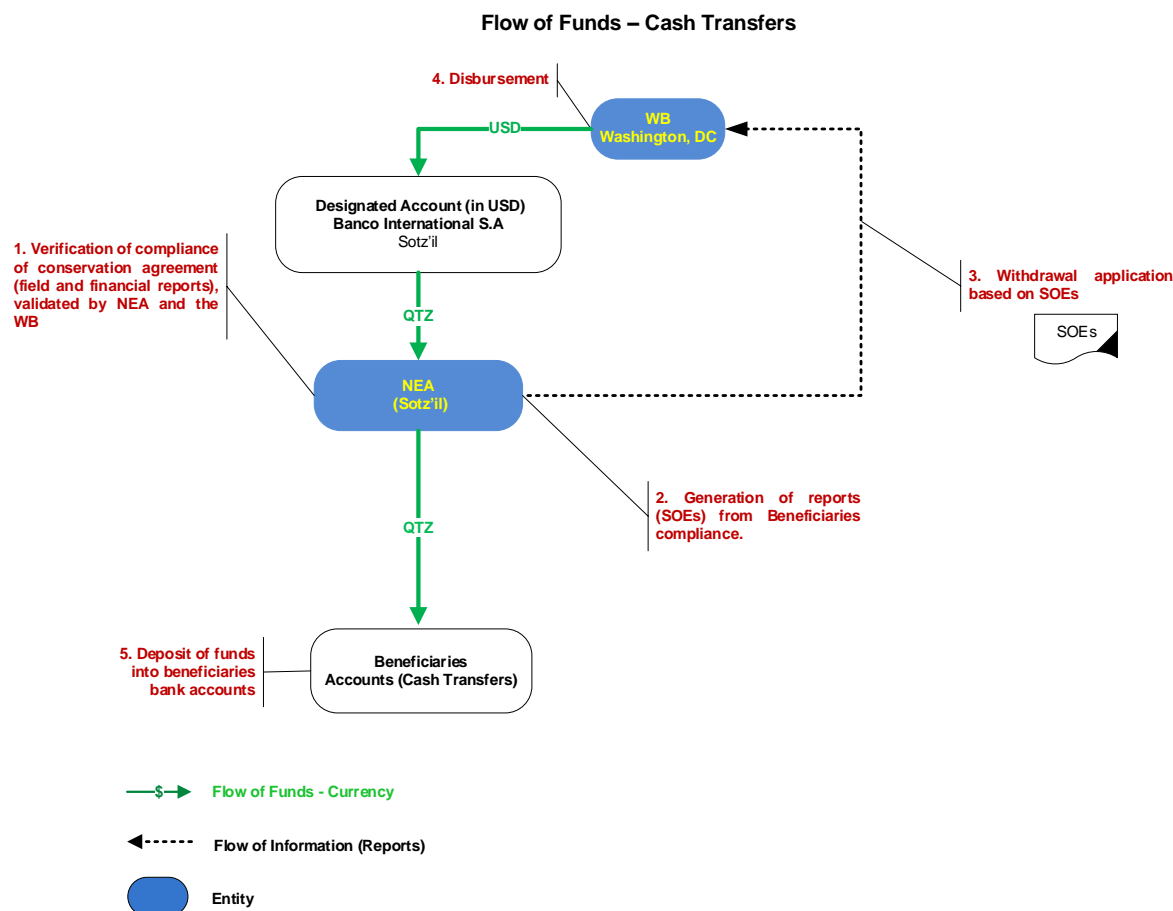


**Table 1.2 Project Funds Flow for Eligible Expenses**

<b>Project Funds Flow for Subprojects, Goods, Non-consulting and Consulting Services</b>	
<b>Subprojects</b>	<b>Goods, non-consulting and consulting services</b>
<ol style="list-style-type: none"> <li>1. The NEA makes a Fund Request (down payment to the Designated Account) and submits it to the World Bank.</li> <li>2. The World Bank disburses the funds pursuant to the contract provisions.</li> <li>3. The organization requests disbursement of funds for implementation.</li> <li>4. The NEA transfers the funds to the beneficiaries pursuant to the agreement with the organization.</li> </ol>	<ol style="list-style-type: none"> <li>1. The NEA makes a Fund Request (down payment to the Designated Account) and submits it to the World Bank.</li> <li>2. The World Bank disburses the funds pursuant to the contract provisions.</li> <li>3. Contracts for goods, non-consulting and consulting services are awarded in accordance with the Procurement Plan approved by the World Bank.</li> <li>4. The expected goods or products are received.</li> <li>5. These goods or products are approved by the project management.</li> <li>6. The NEA transfers the funds to the beneficiaries pursuant to the agreement with the organization.</li> </ol>

22. **Pilot IPLCs MCEES Cash Transfers:** The compensation for ecosystems and environmental services will be made by the NEA, through cash transfers to the beneficiary IPLC organization based on the criteria and procedures established in the POM and outlined in the specific Conservation Agreement. Compensation will be made to the participating IPLC organizations as a payment for results against verified conservation results per each hectare conserved in line with the cultural and collective practices established within their respective CFMP. The beneficiary IPLC organization will report on conservation results and these reports will be verified by the NEA in semi-annual supervision visits. The IPLC organizations can use these resources in accordance with the list of eligible expenditures that will be established within the POM and will include investments in goods, services, operating costs and technical assistance in support of their participating members conservation efforts. Disbursements will be report-based (customized SOEs), which would include the conservation results report stating compliance which will follow the methodology described, verified by the World Bank and included in the POM. The NEA will submit to the World Bank a withdrawal application for disbursement in the amount correspondent to the compensation achieved to be paid to the beneficiaries during the period reported. The mechanism has been assessed by the FM specialist and is robust enough to carry the cash transfers to the selected organizations. The entire process runs over several internal procedures, with multiple approvals, and reporting.

**Figure 1.2: Flow of Funds**



23. **Procurement.** Procurement for the Project will be carried out in accordance with 'World Bank Procurement Regulations for IPF Borrowers' dated November 2020 ('Procurement Regulations'), and the provisions stipulated in the procurement plan and the POM. As subprojects envisage many small-value contracts for goods, non-consulting and/or consulting services scattered in remote areas, the CDD is found appropriate. CDD will mostly use requests for quotations, local competitive bidding, direct contracting, and the use of community labor and resources as appropriate.
24. **A simplified PPSD has been prepared for the Project, including an initial procurement plan for the first eighteen months of implementation.** No major procurement risk activities are envisioned for this Project. Most processes will be subject to procurement post review since activities are under the thresholds for prior review; however, technical specifications as well as TORs will be reviewed by the technical team of the World Bank accordingly.
25. **The World Bank's standard procurement documents will be used for all contracts that are subject to**

**international competitive procurement.** When approaching the national market, in accordance with paragraph 5.3 of the Procurement Regulations, a simplified bidding document will be agreed in the POM, including national procurement arrangements for publication and enforcement of the World Bank's standard fraud and anti-corruption clauses.

26. **STEP will be used to plan, record, and track procurement transactions.**

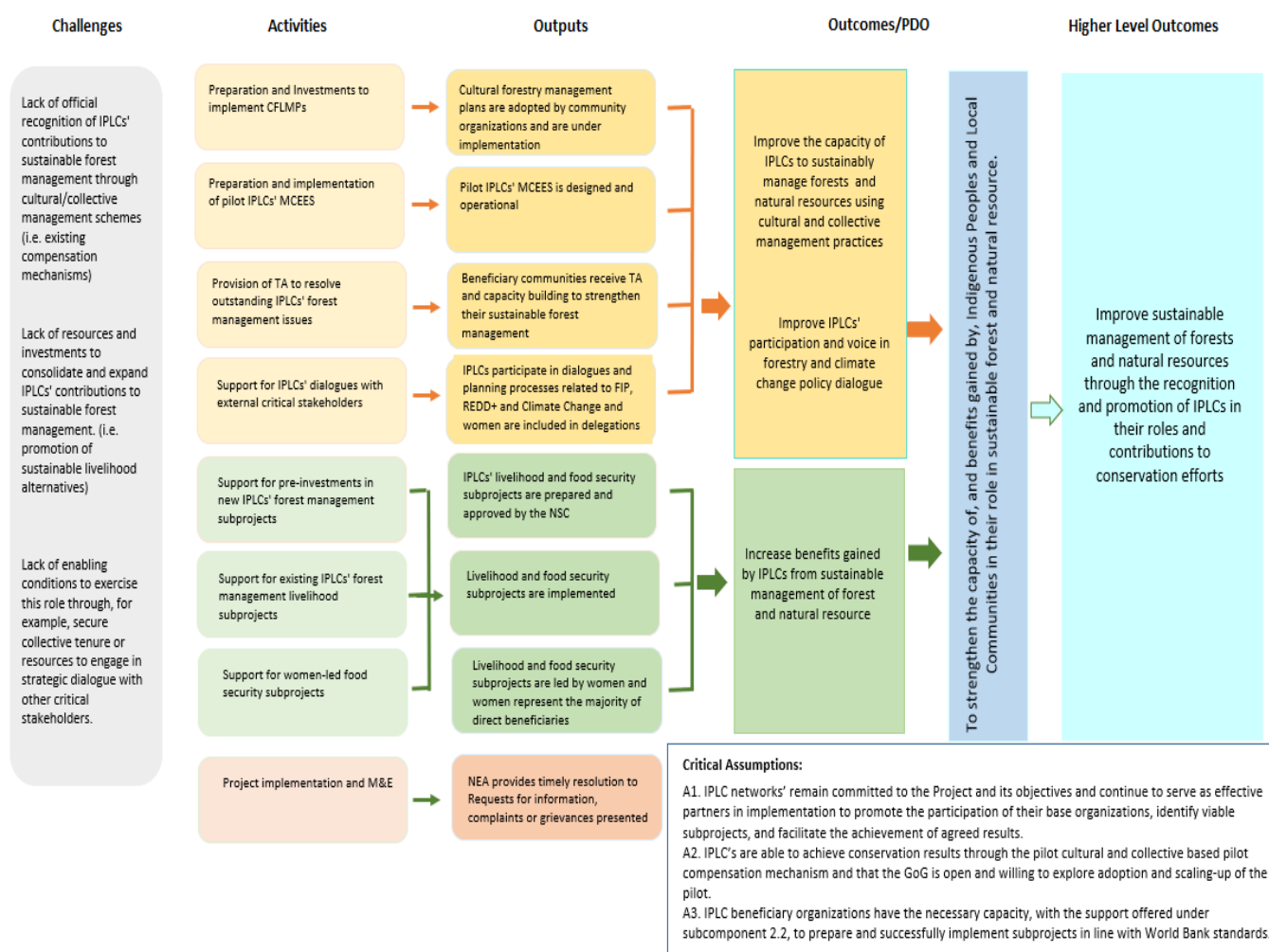


## ANNEX II: THEORY OF CHANGE

1. **The NSC, Sotz'il, and the World Bank jointly developed a Theory of Change, illustrated below in Figure 2.1, to establish the causal links between the project's activities, outputs, outcomes/PDO, and higher-level objectives.** The Theory of Change is based on the following problem statements: (i) lack of official recognition of IPLCs' contributions to sustainable forest management through cultural/collective management schemes (i.e., existing compensation mechanisms); (ii) lack of resources and investments to consolidate and expand IPLCs' contributions to sustainable forest management (i.e., promotion of sustainable livelihood alternatives); and (iii) lack of enabling conditions to exercise this role through, for example, securing collective tenure or resources to engage in strategic dialogue with other critical stakeholders.
2. **The Project addresses these problems through two complementary components consisting of supporting cultural and collective forest management practices of IPLCs and providing economic opportunities and livelihoods to incentivize sustainable forest management.** The first component aims to strengthen the documentation, implementation, and recognition of IPLCs' cultural and collective forest management systems while addressing critical outstanding issues for IPLCs and creating the enabling conditions for sustainable management. The second component focuses on providing funds for IPLCs to implement subprojects that support existing and new sustainable livelihood alternatives as well as small-scale food security initiatives. To ensure IPLCs' base organizations have the necessary capacity to implement subprojects in accordance with World Bank standards, this component will also provide technical assistance to beneficiary organizations to prepare subprojects and provide accompaniment during implementation. By improving IPLCs' capacity and benefits gained from sustainable management of forest and natural resource, the Project will contribute to consolidating IPLCs' roles and contributions to national conservation efforts.
3. **Some of the Project's key risks include managing expectations among IPLCs organizations given limited funds, conflicts that could arise among the three IPLCs network organizations that participate in the NSC, and implementation challenges that could arise from supporting numerous subprojects.** The project design has incorporated risk management mechanisms to avoid, reduce, manage, or mitigate identified potential risks. The Project's Theory of Change is based on the following critical assumptions: (i) IPLCs' networks remain committed to the Project and its objectives and continue to be effective partners in implementation to promote the participation of their base organizations, identify viable subprojects, and facilitate the achievement of agreed results; (ii) IPLCs are able to achieve conservation results through the pilot cultural and collective based pilot compensation mechanism and the GoG remains open and willing to explore adoption and scaling-up of the pilot; and (iii) IPLCs' beneficiary organizations have the necessary capacity, with the support offered under Subcomponent 2.2, to prepare and successfully implement subprojects in line with World Bank standards.



**Figure 2.1. Theory of Change**





## ANNEX III. ECONOMIC ANALYSIS

### A. Overview

1. **The economic analysis presents an incremental analysis of the economic (welfare) benefits generated by the Project**, including key benefit streams related to environmental goods and services and carbon sequestration from sustainable forest management, and the benefit of strengthening productive activities and food security aimed at IPLCs. This incremental term is related to the additional benefit generated by carrying out the Project, which creates a concept of additionality that stipulated an added value generated to the Project. Forests provide services such as soil and water protection, regulation of local climate, provision of habitats for useful agricultural pests, and storing biodiversity, which are important in agriculture.<sup>44</sup> A significant number of people in the world rely on agroforestry systems for subsistence.<sup>45</sup> Given the importance of forests to the planet, strengthening technical capacities of IPLCs in sustainable forest management is crucial to maintain and enhance forest functions for future generations.
2. **The Project is to strengthen the capacity of, and benefits gained by, IPLCs in their role in sustainable forest and natural resource management in Guatemala.** Specifically, cultural forest management plans and a pilot IPLCs mechanism will be developed in the intervention areas. CES (also known as payment for ecosystem services, PES) has been considered as an economic incentive for the conservation of the biodiversity and ecosystem services.<sup>46</sup> CES can be defined as a voluntary transaction between users and suppliers of environmental services, such that suppliers are subject to natural resource management and handling rules within and outside of service provision areas.<sup>47</sup> In addition to this, sustainable forest management assures the process of managing forests to achieve one or more clearly specified objectives of management with regard to the production of desired forest products and services without undue reduction of its inherent values and future productivity and undesirable effects on the physical and social environment.<sup>48</sup>
3. **The Project will operate in most of the targeted regional areas of Guatemala, where forest-dependent IPLCs live in areas disproportionately affected by Hurricanes Eta and Iota and/or by the COVID-19 pandemic.** Forestry activities are predominant among IPLCs; however, deforestation and unsustainable agricultural practices are reducing the quality of water resources and resilience to extreme climate events. For this reason, CES and the technical assistance for sustainable productive activities of IPLCs are crucial for the conservation of forest ecosystems, and therefore, for the alleviation of poverty through sustainable productive activities. It is expected that the Project will generate multiple and incremental benefits from local to national level, and up to the global level.

### B. Additionality of the Project

<sup>44</sup> CIFOR (2014). Centre for International Forestry Research (CIFOR), 2014, Forests, food security and nutrition, Fact sheet, CI FOR, Bogor, Indonesia, viewed 18 June 2014, from [http://www.cifor.org/publications/pdf\\_files/factsheet/4876-factsheet.pdf](http://www.cifor.org/publications/pdf_files/factsheet/4876-factsheet.pdf)

<sup>45</sup> Sam T. & Shepherd G. (2011), Community forest management, background paper for: The United Nations Forum on Forests Unff9: "Forests for People, Livelihoods and Poverty Eradication" 24 January to 4 February 2011, IUCN, New York City.

<sup>46</sup> Sorice, M.G., Donlan, C.J., Boyle K.J., Xu, W., Gelcich, S. (2018) Scaling participation in payments for ecosystem services programs. PLOS ONE 13(3): e0192211. <https://doi.org/10.1371/journal.pone.0192211>

<sup>47</sup> Wunder, S. (2015). Revisiting the concept of payments for environmental services. Ecological Economics, v. 117, p. 234 -243.

<sup>48</sup> ITTO (1998) Manual for the Application of Criteria & Indicators for Sustainable Mgmt of Natural Tropical Forests.



4. **In the absence of the Project, beneficiaries would likely remain without technical assistance, CES, and other support to transition to sustainable forest and natural resource management in targeted areas of Guatemala's regions.** The land areas would continue on a decreasing track of ecosystem health and sustainability of forests that would lead to further pressure on the environment; conventional forest management would continue to lower tree cover on productive lands and thus limit capacity to absorb carbon; a limited number of sustainable forest operations would be incorporated into the economic activities of IPLCs; and, therefore, land-use conversion would remain subject to overexploitation, deforestation, and slash-and-burn agricultural practices. Higher temperatures and more variable rainfall will further hamper productivity, increasing the risk of food and water insecurity among the most vulnerable populations.<sup>49</sup>
5. **For this analysis, a "Business-as-Usual" (BAU) baseline case is used that assumes that future development trends follow those of the past and that no change in policies and practices will take place.** In developing countries, land-use patterns are changing quickly so it is more relevant to use recent past trends in this analysis than long-term past trends. Thus, this analysis uses the current changes that seem to be more representative of present-day evolution.
6. **The Project creates additionality by:** (i) enhancing the social and natural capital in the project sites, (ii) fostering the transformation and value aggregation of economic activities through strengthening capacity building to promote sustainable forest and natural resource management; (iii) linking local, regional, and national actors to IPLCs to derive benefits of information and knowledge exchange of biodiversity, sustainable productive practices, and related legislation and programs to incremental benefits to strengthen both environmental and beneficiary IPLCs' capacities for productivity improvements, especially for forest-dependent communities.
7. **As part of Guatemala's FIP, the Project is funded by the CIF.** Funding from CIF will add incremental value to existing actions at the national level and bring it up to the regional level scale. Implementation of harmonized approaches will reduce duplication of efforts, thus maximizing the impact of resources invested. CIF funding will build on existing broader-scale Guatemala diagnostics and support the completion of forest management capacities of IPLCs to improve land-use practices to achieve long-term economic, social, and environmental sustainability. CIF financing will also support pilot investments to incorporate necessary institutional capabilities, providing tools and capacity to enforce better regulations and policies at priority sites.

### **C. Methodology, Main Assumption, and Cost Factors**

8. **Component 1 enables support for traditional IPLCs forest management systems and enabling conditions for their sustainability.** Specifically, a pilot mechanism will be performed for CFMPs plans and IPLCs mechanism for CES and strengthen enabling conditions for sustainable forest management through capacity building. Component 2 promotes support for forest dependent IPLCs economies and food

---

<sup>49</sup> USAID. (2017). Climate Change Risk Profile Guatemala. Retrieved 27 August 2019 from: <https://www.climatelinks.org/resources/climate-change-risk-profile-guatemala>

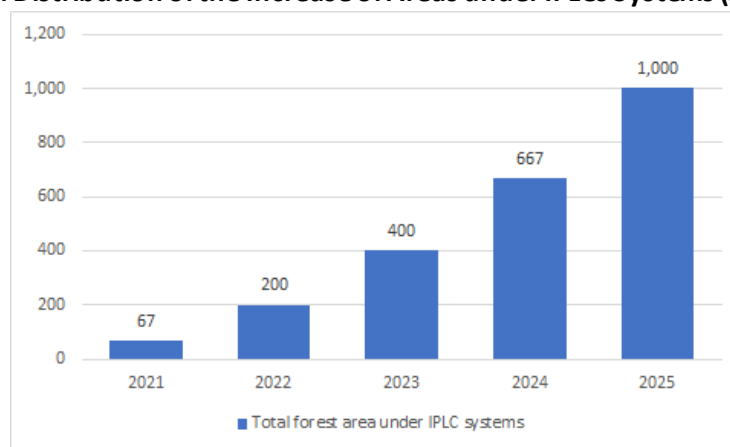
security by providing technical assistance to related subprojects. Both components are focused on building capacities to adopt sustainable productive activities and thus forest conservation, through CES.

9. **To simplify the economic analysis of the Project, assumptions were used considering the possible benefits in the project sites.** The Project is expected to provide three economic benefit streams: (i) the first is related to ecosystem services benefits; (ii) the second is linked to carbon storage and sequestration; and (iii) the third is associated with the future incomes of potential IPLC beneficiaries resulting from the adoption of sustainable productive activities, and enabling them to transit from traditional management to sustainable management activities that generate positive social and private returns. In direct terms, the first and second benefits are related to Component 1, while the third benefit is associated with Component 2.

### *Economic Benefits Generated by the Project*

10. **Ecosystem Services Benefit Stream.** For this stream, improved sustainable practices provide many ecosystem services that are necessary for social and economic well-being. These services include water filtration and storage, cleaning air, soil formation, recreation, food, and timber.<sup>50</sup> Much of Guatemala's economy depends on the natural resources, products, and productive activities developed in watersheds, which create small farm livelihoods. To estimate the benefits associated with this benefit stream, the total hectares of forest lands under improved sustainable practices supported by the Project are considered as defined in the Results Framework. It is assumed that the total area is homogenously divided and is based on the triangular number distribution<sup>51</sup> for five years, that is, the total Project area divided by 15. To obtain the number of areas, this triangular factor will be multiplied to each number year (e.g., 1,2,3,4,5) and added to the total number of areas of the previous year (shown in Figure 3.1).

**Figure 3.1. Distribution of the Increase of Areas under IPLCs Systems (in hectares)**



Source: Prepared by the World Bank Task Team.

11. **Monetary values associated with ecosystem services are taken from recognized studies that assessed the incremental economic benefits of ecosystem services in Guatemala.** Two meta-analyses are

<sup>50</sup> EPA – United States Environmental Protection Agency (2012). The Economic Benefits of Protecting Healthy Watersheds.

<sup>51</sup> The triangular number is  $n(n+1)/2$ , and for five project years  $5 \times 6 / 2$ .



considered here – an upper bound and lower bound. The upper bound is from Carrasco, Nghiem, Sunderland, and Kohn (2014)<sup>52</sup> which provides a higher-end global estimate of US\$1,320 per hectare based on 30 studies of ecosystem service values in tropical forests from The Economics of Ecosystems and Biodiversity (TEEB) database, while controlling for economic, environmental, and methodological variables. The lower bound is taken from Siikamäki, Santiago-Ávila, and Vail (2015),<sup>53</sup> which provides global estimates based on 123 robust analytical studies and project estimates per country, including Guatemala.

12. **Table 3.1 shows two different bounds assumed as the ecosystem services valuation:** the lower bound depicts the ecosystem services value by Siikamäki et al. (2015), such as recreation (US\$31.50/ha/year), habitat (US\$0.50/ha/year), non-wood forest products (NWFPs, US\$78.40/ha/year), and water (US\$ 17.20/ha/year), giving a total of (US\$127.60/ha/year); and the upper bound represents an aggregate value of ecosystem services (US\$1,320) valued by Carrasco et al. (2014). Both studies are methodologically sound, focused on Guatemala’s territory and tropical ecosystems for the present analysis.

**Table 3.1. Overview of Study Estimates on Economic Values of Ecosystems Services in Guatemala (per hectare)**

Ecosystem Services (Guatemala)	Lower Bound US\$	Ecosystem Services (tropical areas)	Upper Bound US\$
	Siikamäki et al. (2015)		Carrasco et al. (2014)
Recreation	31.50	Total (Aggregate value)	1,320
Habitat	0.50		
NWFPs	78.40		
Water	17.20		
<b>Total</b>	<b>127.60</b>		

13. **Carbon Storage Benefit Stream.** Improved management of forests leads to a reduction in carbon emissions, as this activity develops the carbon storage and sequestration function. This function helps to maintain ecosystem services provided by sustainable forest management of woodlands, thereby alleviating global climate change. The social cost of carbon (SCC) is a commonly estimated measure of the economic benefits of greenhouse gas (GHG) emissions reductions.<sup>54</sup> In this Project, the SCC represents the social benefits of emissions reduction by avoided deforestation and unsustainable agriculture activities in prioritized areas of Guatemala IPLCs.
14. **Forest lands offer tremendous forest carbon services as natural scrubber systems that capture carbon dioxide from sources of GHG,** such as the power, industrial, and transportation sectors.<sup>55</sup> Regarding the

<sup>52</sup> Carrasco, L.R., T.P.L. Nghiem, T. Sunderland, and L.P. Koh. (2014), “Economic valuation of ecosystem services fails to capture biodiversity value of tropical forests.” *Biological Conservation* 178 (2014): 163–170.

<sup>53</sup> Siikamäki, J., Santiago-Ávila, F., Vail, P. (2015) *Global Assessment of Nonwood Forest Ecosystem Services*. Innovation and Action for Forests (PROFOR).

<sup>54</sup> EPA – United States Environmental Protection Agency (2010). The “Social Cost of Carbon” Made Simple.

<sup>55</sup> FCWB (2015). *Forest Carbon Solutions for Mitigating Climate Change: A Toolkit for State Governments* created by the Forest Climate Working Group.



benefits by carbon capture of forest lands, the Project estimated the value per hectare from the Amazon Fund's conservative parameter of 100 tons of Carbon/hectare for above-ground biomass (data literature ranged up to 320 tons of Carbon/hectare).<sup>56</sup> Monetary values were taken from the World Bank Guidance notes on the shadow price of carbon in economic analysis (2017) which estimates the SCC.<sup>57</sup> In this Project, US\$60 per ton is used as an upper bound and US\$40 per ton as a lower bound. Additionally, the value of voluntary carbon market of US\$5 per ton was added in the analysis as an alternative case. According to the High-Level Commission on Carbon Prices, it is recommended that the Project's economic analysis use a low and high estimate of the carbon price and select a value that is consistent with achieving the core objective of the Paris Agreement of keeping temperature rise below 2 degrees. For the last reason, a higher value (US\$60) was taken as an objective indicator in the economic analysis.

15. **IPLCs Productive Activities Benefit Stream.** Major activities under this section are related to investments in improved/sustainable productive practices in forest related products and/or services or livelihood alternatives that reduce pressure on forest and their supporting ecosystems. Therefore, these activities supported under each component bring economic, social, and environmental benefits. The benefit of IPLCs beneficiaries is found by comparing the situation with and without the Project. In simple terms, there are two ways to economically assess this benefit stream: (i) estimating the difference of benefits between conventional (current or baseline scenario) and regenerative production practices (sustainable practice scenario); or (ii) taking a percentage that represents an improvement in benefits for adopting a sustainable forest and natural resource practices compared to conventional. For this economic analysis, an increase in the potential beneficiaries' incomes of US\$368 (value provided by the World Bank technical team) of at least 10 percent is considered.

#### *Distribution of Costs and Benefits Over Time*

16. **A 20-year period is assumed to assess the economic feasibility of the Project.** It is also assumed there would be no further incremental changes of project-generated benefits beyond the 20-year project evaluation period. While the project costs are only assumed to emerge for the five years of project implementation, the benefits and opportunity costs are assumed to be generated beyond the implementation period. The distribution of benefits is based on the triangular number<sup>58</sup> for five project years, that is, the project divided by 15 to obtain the factor that is added each year to the growth of the previous year.<sup>59</sup> The rationale for this assumption regarding the growth pattern is that to reach strengthened sustainable forest management requires more time at the initial stage than at a later point in the Project.
17. **The distribution of project costs follows a reverse pattern, having higher investment costs in the early years and a decrease in project investments in later project years,** as can be seen in Figure 3.2. Project costs over the implementation period are approximated considering the project financing of US\$4.50 million. Also, an assumption of two percent, as an additional operating cost, was added along with the projection of a 20-year project evaluation that will be added for the incremental economic analysis.

<sup>56</sup> FAO (2015). Technical considerations for Forest Reference Emission Level and/or Forest Reference Level Construction for REDD+ under the UNFCCC.

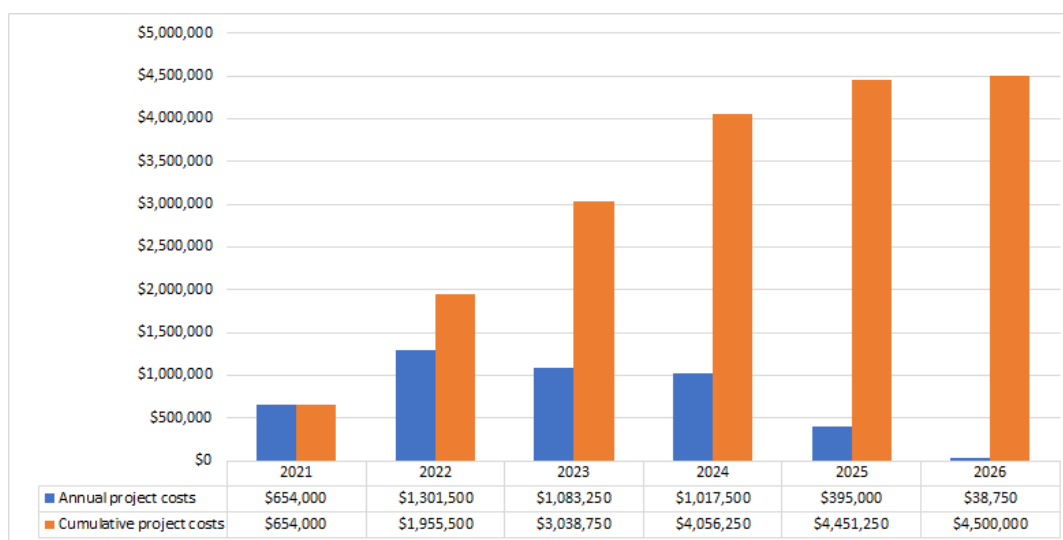
<sup>57</sup> World Bank (2017). Guidance notes on shadow price of carbon in economic analysis. Washington, D.C.

<sup>58</sup> The triangular number is  $n(n+1)/2$ , and for five years  $5 \times 6 / 2$ .

<sup>59</sup> The formula for year  $n$  is therefore:  $n \times n(n+1) / 2$ .

18. **A sensitivity analysis is applied for the main simulation parameters, notably the discount rate and project horizon, to assess project robustness.** For the discount rate, alternative rates of six and nine percent are applied. In addition to varying discount rates, simulation results are tested against changing the project horizon (10 and 20 years). This set of sensitivity assessments enables a comprehensive analysis of the economic robustness of the project in relation to the changing or differentiated value parameters. All sensitivity analyses are run for all discount rate scenarios.

**Figure 3.2. Distribution of Project Costs**



Source: Prepared by the World Bank Task Team.

## D. Results

19. **Table 3.2 shows baseline results as well as a sensitivity analysis. The first panel shows the 20-year baseline scenario.** The second panel decreases the project lifetime from 20 years to 15 years. The third panel reduces further, the project lifetime to ten years. All the case scenarios are positive suggesting that the Project creates more benefits than costs. At the same time, increasing the discount rate from six to nine percent, reducing the SCC by 33 percent (from US\$60 to US\$40) as well as adopting the value of voluntary carbon market (US\$ 5), and using more conservative estimates regarding the value of ecosystem services provided (upper bound and lower bound), do not substantially affect the estimates.

**Table 3.2: NPVs (US\$) and Benefit-Cost Ratio under Different Scenarios**

**Baseline Scenario, project implementation of 20 years and project costs included**

Carbon Price	Discount Rate	Upper Bound		Lower Bound	
		NPV	BC-Ratio	NPV	BC-Ratio
US\$60	6%	\$12,551,732	3.67	\$12,169,292	3.59
	9%	\$8,855,940	2.14	\$8,562,247	3.03
US\$40	6%	\$10,729,808	3.29	\$10,347,368	3.20
	9%	\$7,476,044	2.14	\$7,182,351	2.71
US\$5	6%	\$7,541,442	2.61	\$7,159,002	2.52
	9%	\$5,061,226	2.14	\$4,767,533	2.13

**Robustness Check 1, project lifetime 15 years and project costs included**

Carbon Price	Discount Rate	Upper Bound		Lower Bound	
		NPV	BC-Ratio	NPV	BC-Ratio
US\$ 60	6%	\$9,387,013	3.07	\$9,073,965	3.00
	9%	\$6,933,245	2.68	\$6,681,710	2.62
US\$ 40	6%	\$7,916,623	2.74	\$7,603,576	2.68
	9%	\$5,766,920	2.40	\$5,515,386	2.34
US\$ 5	6%	\$5,343,442	2.18	\$5,030,395	2.11
	9%	\$3,725,852	1.91	\$3,474,318	1.84

**Robustness Check 2, project implementation 10 years and project costs included**

Carbon Price	Discount Rate	Upper Bound		Lower Bound	
		NPV	BC-Ratio	NPV	BC-Ratio
US\$ 60	6%	\$5,151,904	2.19	\$4,931,720	2.14
	9%	\$3,974,939	2.00	\$3,788,272	1.95
US\$ 40	6%	\$4,151,947	1.96	\$3,931,763	1.91
	9%	\$3,137,221	1.79	\$2,950,553	1.74
US\$ 5	6%	\$2,402,023	1.56	\$2,181,839	1.50
	9%	\$1,671,213	1.42	\$1,484,546	1.37

## E. Conclusions

20. This incremental economic analysis for a Guatemala Dedicated Grant Mechanism for Indigenous Peoples and Local Communities Project shows substantial benefits for beneficiaries in areas served by



**the Project**, as well as substantial benefits for Guatemalan society. Overall, the NPV is projected to reach US\$12.17 million (lower bound), and US\$12.55 million (upper bound) in the baseline scenario (20 years, SCC of US\$60, and 6 percent discount rate). The investments evaluated for the economic and financial analysis will generate a Benefit-Cost ratio between 3.59 and 3.67; and an IRR between 41.59 percent and 42.93 percent. The economic and financial analysis thus shows that if project implementation is effective and efficient, project-supported investments will bring substantial financial and economic benefits to small farm livelihoods of IPLCs in the project area and to Guatemalan society in general.

21. **The results of the quantitative simulations are robust in terms of sensitivity analyses**, assuming different project years and discount rates, varying Benefit-Cost ratio between 1.37 and 3.67, and an IRR between 37.73 percent and 42.93 percent. Throughout the analysis, the benefit assumptions are based on the values of ecosystem services and carbon sequestration in Guatemala by recognized studies.
22. **Estimates shown correspond to a lower bound as they represent the benefit streams derived from Components 1 and 2 applying a very conservative approach.** The economic value of the Project is likely to be higher since the analysis did not include in the calculations other non-economic global and local benefits such as the value of the resulting improvement in restoration, among other benefits. It is expected that Component 3 will have additional benefits, but these are difficult to measure due to the social and environmental qualitative approach, based on project management. It is worth noting that this last component is needed to carry out the main components and the overall project activities efficiently to achieve the desired results through the strengthening of business skills for sustainable rural production and the project coordination, monitoring, and evaluation. Additional incremental benefits can be associated with incremental economic benefits arising from better public service delivery resulting from sustainable forest management through CES that incentivize capacity building of small-scale farms of IPLCs embedded in all the project components. In summary, this Project will benefit the sustainable development of Guatemala, providing long-term benefits to local communities and global public goods.



## ANNEX IV. GUATEMALA COUNTRY PROGRAM ADJUSTMENT RESPONDING TO COVID-19

1. **The COVID-19 pandemic threatens to reverse years of hard-won development outcomes.** Guatemala is the third hardest-hit country in Central America in overall numbers with 193,050 cases of COVID-19 reported as of March 29, 2021, and 6,794 deaths registered (or 39.4 deaths per 100,000 inhabitants).<sup>60</sup> The country's economy has also been impacted by the pandemic. Limitations on mobility and public transportation and closure of commercial activities and markets left many without income or food, pushing approximately 350,000 people into poverty.<sup>61</sup> Economic activity contracted an average 8.6 percent (y/y) between March and May 2020 and higher food prices reduced the purchasing power of many (6 out of 10 households reported an increase in food prices during May and July 2020).<sup>62</sup> Services, as well as manufacturing and construction, were the most affected sectors. The pandemic has also exacerbated high levels of economic and financial exclusion, generating significant vulnerabilities for micro, small, and medium enterprises (MSMEs), and households. A sharp drop in demand, combined with supply-chain disruptions, threatens the economic viability of many MSMEs. The economic fallout from Hurricanes Eta and Iota exacerbated income losses and food insecurity, especially among smallholder farmers in northern Guatemala. The cumulative impact of the COVID-19 pandemic and Hurricanes Eta and Iota is estimated to have resulted in a 1.5 percent contraction of GDP in 2020.<sup>63</sup>

### A. Government's Response

2. **The GoG's response to the crisis has been swift and comprehensive given the country's small public sector, setting foundations for a more inclusive social policy.** Three emergency packages were approved by Congress to: (i) contain the spread of the virus; (ii) expand capacity in the health sector to treat COVID-19 patients; (iii) protect income, nutrition, and jobs for large, vulnerable population groups through temporary emergency programs; (iv) provide liquidity to firms, including MSMEs that were most affected by the crisis; and (v) increase transparency in the management of public resources. While it remains challenging to reach remote rural areas and regions that do not count upon a state presence or that lack basic services (e.g., financial, schooling, or health care facilities), the foundations to develop more inclusive social policies that will also reach these populations are in place.
3. **The size of the stimulus package implemented by the authorities to address the emergency is estimated at 3.4 percent of GDP, raising the importance of enhancing the transparency in the use of funds in the immediate term, and improving resource mobilization over the medium term.** The GoG's fiscal stimulus together with the decline in revenue due to the recession are expected to raise the fiscal deficit to 4.9 and 3.5 percent of GDP in 2020 and 2021, respectively. In the short-term the GoG is focusing on measures to improve expenditure oversight to ensure scarce resources are used efficiently and transparently. Over the medium term, the GoG is committed to ensure the chronically low tax revenue-to-GDP ratio (at only 10.6 percent prior to the COVID-19 crisis) does not become the Achilles heel of its medium-term development plans.

<sup>60</sup> <https://covid19.who.int/region/amro/country/gt>

<sup>61</sup> World Bank, Poverty & Equity Brief, Latin America and the Caribbean, Guatemala, April 2021.

<sup>62</sup> World Bank, Poverty & Equity Brief, Latin America and the Caribbean, Guatemala, April 2021.

<sup>63</sup> Central Bank of Guatemala, 2021.



## **B. World Bank Group Support in Response to Crisis**

4. **The CPF for the Republic of Guatemala for the Period FY17-20 is organized under two pillars with five objectives:** The first pillar **“Fostering Inclusion of Vulnerable Groups”** has as its objective to increase access to basic health, nutrition, and water and sanitation services (Objective 1). The second pillar **“Addressing Bottlenecks to Sustainable Growth”** has four overall objectives: (i) improve public resource management and accountability (Objective 2); (ii) enhance the enabling environment and increase access to finance for MSMEs (Objective 3); (iii) expand infrastructure (Objective 4); and (iv) build institutional capacity to manage and adapt to climate change (Objective 5). The WBG’s overall program for Guatemala as outlined in the CPF remains valid, but small adjustments have been introduced in response to the pandemic. These adjustments are fully aligned with the four pillars of the WBG COVID-19 Crisis Response Approach Paper namely: (i) Saving Lives; (ii) Protecting Poor and Vulnerable People; (iii) Ensuring Sustainable Business Growth and Job Creation; and (iv) Strengthening Policies, Institutions and Investments for Rebuilding Better. (See Table 4.1)
  
5. **The World Bank’s COVID-19 response strategy for Guatemala focused initially on the relief stage to save the lives threatened by the virus and to protect the poor and vulnerable from the economic impacts** by repurposing its existing portfolio or preparing new operations to swiftly support the GoG’s emergency response: (i) a Disaster Risk Management Development Policy Lending with a Catastrophe Deferred Draw Down Option (CAT-DDO) (P159710) was triggered and fully disbursed US\$200 million in April 2020; (ii) the US\$100 million malnutrition Crecer Sano Project (P159213) was restructured to allocate US\$20 million to build temporary hospitals to provide health care to COVID-19 patients; (iii) a US\$20 million emergency health project (P173854) was approved in May 2020 to further support the immediate health needs due to the pandemic; and (iv) the World Bank launched the preparation of a the US\$500 million Crisis Response and Recovery Development Policy Financing (DPF) (P173698), a first (approved in December 2020) in a series of two DPFs; and (v) a US\$150 million Investment Project Financing Responding to COVID-19: Modern and Resilient Agri-food Value Chains Project (P173480) focused on economic reactivation and productivity in the agriculture and agri-business sectors (approved in January 2021). To support the forest and livelihoods, and as part of Guatemala’s FIP, the World Bank is also preparing an US\$11.8 million Forest Governance and Livelihoods Diversification Project in Guatemala in addition to this DGM Project. Finally, the WBG has been providing timely technical assistance in: (i) the design of the social registry and payment systems to improve cash transfer programs (Strengthening safety net delivery systems - P172923); (ii) digital innovations in the financial sector (the FIRST financial inclusion ASA - P153451); (iii) support to the Trade Facilitation agenda (Regional Central American Trade Facilitation Technical Assistance - P156050 and P171021); (iv) the ongoing IFC Technical Assistance on Central America Regional Agribusiness Trade Logistics Project - 599066); and (v) qualitative social assessments, carried out by Indigenous organizations on the impacts of COVID-19 on their communities, effectiveness of relief and response programs, and proposals for support.
  
6. **Moving forward, the World Bank program will seek opportunities to support the country’s ailing infrastructure sector** to promote inclusive and sustainable growth, expand markets, create job opportunities, promote competition, and contribute to a cleaner future as well support to increase domestic resource mobilization and improve quality of expenditure in infrastructure or the social sectors. Technical assistance in the abovementioned areas will continue to be provided, in addition to launching analytical work to support tax policy and administration reforms.



**Table 4.1: WBG Engagement in Guatemala with Adjustments to Respond to COVID-19**

Original CPF Program FY17-FY20	Country Program Adjustment to COVID-19	Short-to-Medium Term Pipeline (March 2020)
<p><b>Pillar I: Fostering Inclusion of Vulnerable Groups:</b></p> <ul style="list-style-type: none"> <li>• Increase access to basic health, nutrition and water and sanitation services.</li> </ul> <p><b>Pillar II: Addressing Bottlenecks to Sustainable Growth:</b></p> <ul style="list-style-type: none"> <li>• Improve public resource management and accountability</li> <li>• Enhance the enabling environment and increase access to finance for MSMEs.</li> <li>• Expand infrastructure.</li> <li>• Build institutional capacity to manage and adapt to climate change.</li> </ul>	<p><b>I. Saving Lives threatened by the Virus:</b></p> <ul style="list-style-type: none"> <li>• Public Health response to the COVID-19 (MPA Health IPF).</li> </ul> <p><b>II. Protecting Poor and Vulnerable people:</b></p> <ul style="list-style-type: none"> <li>• Support to social protection infrastructure and policy</li> <li>• Holding the course on malnutrition</li> <li>• Continue quality and coverage of education</li> <li>• Strengthen the financial sector (IFC, FIRST)</li> <li>• Health &amp; Nutrition (Ongoing IPF: “Crece Sano” Health and Nutrition Project)</li> </ul> <p><b>III. Ensuring Sustainable Growth &amp; Job Creation:</b></p> <ul style="list-style-type: none"> <li>• Support to the food chain – jobs, efficiency, and productivity</li> <li>• Support to SMEs</li> </ul> <p><b>IV. Strengthening Policies, Institutions and Investments for resilient and sustainable recovery:</b></p> <ul style="list-style-type: none"> <li>• Regional integration- expand GT-HO-ES and GT-MX (ongoing TA).</li> <li>• Infrastructure- public works.</li> <li>• DRM-Climate change-fiscal protection (ongoing TA).</li> </ul>	<ul style="list-style-type: none"> <li>• Protecting the human capital of the poor and vulnerable and lay out foundations of a sustainable recovery from COVID-19</li> <li>• (DPF Programmatic series) (P173698, approved), (P175979).</li> <li>• Forest Governance and Livelihoods Diversification Project (P167131, approved).</li> <li>• Guatemala Dedicated Grant Mechanisms for Indigenous Peoples and Local Communities Project (P17039).</li> <li>• Responding to COVID-19: Modern and Resilient Agri-food Value Chains (IPF) (P173480, approved).</li> </ul>

### C. Selectivity, Complementarity, Partnerships

7. **The World Bank’s response will continue to build on strong policy dialogue and collaboration with the Government and is part of a broader support effort by international financial institutions to complement financing needs.** This includes US\$594 million from the International Monetary Fund (IMF)’s Rapid Financing Instrument (RFI) approved on June 10, 2020, as well as a few investment operations from the IDB.



## ANNEX V. Pilot IPLCs' Mechanism for the Compensation of Ecosystem and Environmental Services Related to Forests

- Objective:** The objective of the pilot IPLC MCEES is to demonstrate the potential conservation results that can be achieved through the recognition and strengthening of collective forest management models, built in many cases on cultural practices and traditional knowledge. This objective directly contributes to the PDO in recognizing IPLCs' role in sustainable forest and natural resource management and through this recognition, strengthening their capacity and benefits gained in this role. The design and implementation of the Pilot IPLC MCEES will be carried out in close coordination with INAB and CONAP to explore potential for adoption of this IPLC version of a MCEES to be adopted as an acceptable mechanism for recognizing collective management practices as part of the national system for PES.
- Description of pilot ILPC MCEES:** The pilot IPLC MCEES will be implemented under **Subcomponent 1.1: Cultural Forest Management Plans and Pilot IPLCs Compensation Mechanism (US\$ 1,000,000)**. The first part of Subcomponent 1.1 will include the financing for six subprojects, two per IPLC network, to prepare and implement CFMP subprojects. The CFMP subprojects will be managed by IPLC organizations proposed by each IPLC network that will be evaluated by Sotz'il as capable to manage the technical, fiduciary, and environmental and social management aspects of the proposed subprojects. The IPLC organizations with CFMP subprojects successfully under implementation, would then be eligible to participate in the pilot IPLC MCEES for compensation for conservation results achieved through the collective forest management models under the CFMPs. Compensation will be made through cash transfers to the organization based on the criteria and procedures established within the POM and outlined in the specific Conservation Agreement that will be signed between each beneficiary organization and the NEA.
- Conservation Agreement:** The Conservation Agreement will be signed between the NEA and the participating IPLC organizations (up to six that participate in CFMP subprojects for Subcomponent 1.1), and will include: (i) the conservation indicators and target results for each semester and expected payments for these results; (ii) the baseline conditions for each indicator as established in the CFMP, building off existing data; (iii) documentation of the free, prior, and informed consent of the participants who are represented within each organization and establishment of the participation and consultation mechanism to be carried out during the bi-annual independent verification of results; (iv) the procedures and documents that will be used for bi-annual reporting on conservation results; (v) an explanation of the cultural practices and systems that will be implemented under the CFMP and how these will be measured over time; (vi) an agreement on remedies in case of the reversal of conservation practices or results; and (vii) the system to verify that conservation is being made in a cumulative nature over new hectares and not those already receiving payments for environmental services under other programs.
- Eligible Organizations:** Eligible organizations to participate in the pilot IPLC MCEES will be those organizations approved by the NSC that have successfully managed the Subcomponent 1.1 subprojects to prepare and implement CFMPs. These organizations will have been nominated by their respective IPLCs network and evaluated by the NEA.
- Budget:** The budget for this activity will be US\$660,000 of which, US\$561,000 will be available for cash transfers (paid against verified conservation results), US\$33,000 for consulting services, and US\$66,000



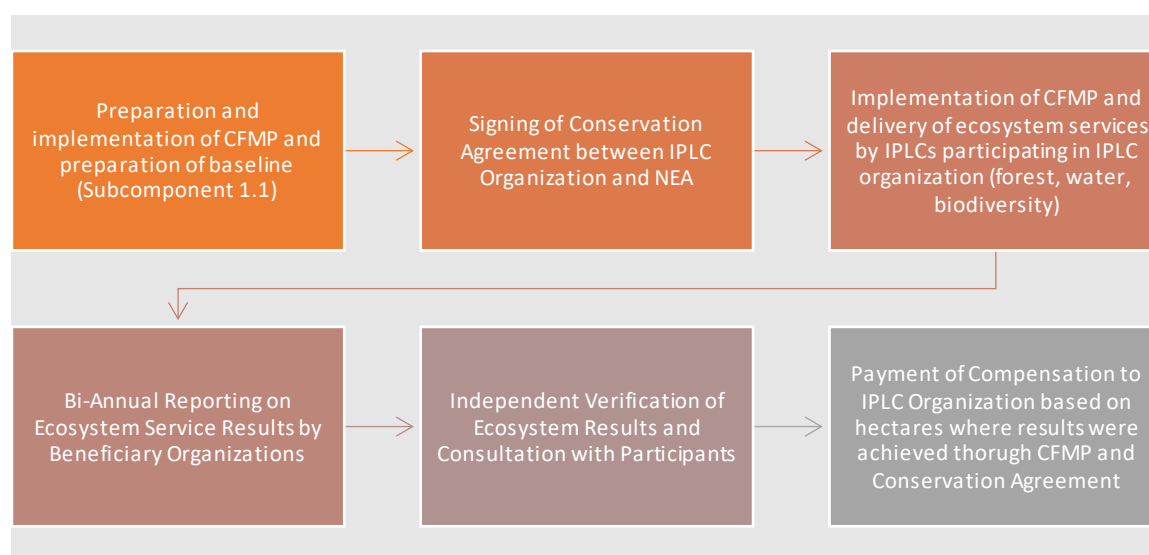
for operating costs. On average US\$187 will be paid per hectare conserved, thus contributing to a total of 3,000 hectares preserved under this subcomponent. This amount has been chosen based on existing PES payment models in Guatemala, slightly adjusting for project targets and budget allocation.

**Table 5.1. Budget (US\$) for Pilot IPLC MCEES**

Budget	Civil Works	Goods	Consulting	Non-consultancy services	Operating Costs	Conditional Cash Transfers
\$660,000.00	\$0	\$0	\$33,000	\$0	\$66,000	\$561,000

6. **Process:** The process described below will be implemented with each IPLC organization for a two- to three-year period per the Conservation Agreement as in Figure 5.1.

**Figure 5.1. Process of Implementation**



7. **Compensation & Indicators:** Compensation will be made against a cumulative number of hectares preserved at the average rate of US\$187 per hectare over 2-3 three years, depending on the agreements established within the Conservation Agreement. Hectares currently being accounted for through other MCEESs will not be eligible for compensation under this mechanism. Remedy measures will be applied for any hectares previously receiving a payment for compensation that do not maintain the agreed conservation status over the full period of the Conservation Agreement.
8. **Conservation Indicators.** The indicators against which conservation will be measured will include forest, water, and biodiversity indicators established within each Conservation Agreement, measured against an established baseline every six months. The beneficiary IPLCs organization will report on conservation

results and these reports will be verified by an independent mechanism hired by the NEA (firm or individual consultants) and documented in the semi-annual validation assessments. Compensation will be made to the participating IPLC organizations as a payment for results against verified conservation results per each hectare conserved in line with the cultural and collective practices established within their respective CFMP. During these visits, the independent mechanism will hold meetings with the IPLC members participating within the organization and contributing to the conservation results to ensure that the members are benefiting from the investments made by the IPLCs organization and maintain their free, prior, and informed consent for participating within the pilot IPLC MCEES.

9. **Expenditures.** Whereas the conservation results will be the primary condition to be verified for the conditional cash transfers to be dispersed to the IPLs organization through the pilot IPLC MCEES, receipts on expenditures made by the IPLCs organization to support investments in conservation for participating beneficiaries will also be included within the biannual IPLC organization reports.