

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC33853

Project Name	Mexico Dedicated Grant Mechanism for IP and LC (P151604)
Region	LATIN AMERICA AND CARIBBEAN
Country	Mexico
Lending Instrument	Investment Project Financing
Project ID	P151604
Borrower(s)	Organization to be selected
Implementing Agency	Organization to be selected
Environmental Category	B-Partial Assessment
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

With a population of 127 million, Mexico is the second most populated country in Latin America. However, 46.2% of the population (about 55.3 million people) live under the poverty line and poverty rates are much higher among the indigenous peoples even though it has the 14th highest GDP worldwide. It is estimated that 12 million people live in and around forest areas of Mexico with more than half of them living in impoverished conditions, and 5 million attributed to indigenous people.

Mexico is also a megadiverse country and its biological diversity provides substantial opportunities for socio-economic development. One third of the country is covered by forests. Of the total national territory (196.4 million hectares), just over 66 million hectares (33%) are covered by tropical forests and temperate forests; 37% are covered by arid ecosystems and other types of vegetation, while the remaining 30% corresponds primarily to agricultural and livestock, as well as urban areas.

Sectoral and Institutional Context

Sectoral

Mexico's unique land tenure structure provides a firm basis for collective management of forest

resources. Following the 1917 Land Distribution Reform, land ownership became communal in agrarian communities, which are either communally farmed land (ejidos) or traditional indigenous communities (comuneros). As a result, more than 70% of the forests (45.5 million hectares) are under collective ownerships by 8,400 indigenous and non-indigenous forest communities (ejidos), with the remaining owned by small landowners and the state. This unique land tenure system of ejidos and comuneros is unique in the world and provides a firm social, economic and legal basis for collective management of forest resources.

Natural forests are central to livelihoods of millions of people in Mexico. Community forests have provided a means of survival for traditional communities and the environment. Evidence shows that communally managed forests in Mexico have experienced less deforestation than protected nature reserves and forests under logging bans.¹ While forests contribute a modest 1 % of GDP, they represent an essential source of employment, income and livelihood for people living in and around forests. In 2008, 57 % of the poorest quintile of rural households obtained almost one-quarter of their income from natural resource extraction, most of which was forest-related. Over a quarter of the forest populations lives in extreme poverty (FIP ►(Mexico: 2011).

The drivers of deforestation and forest degradation show significant variation across the country and include direct and underlying factors. Despite a strong land tenure structure, significant areas of forest are still under high pressure and have high rates of deforestation and forest degradation. The underlying causes of deforestation and degradation include economic, social and institutional factors, such as: the profitability of alternative land uses; land use change, particularly related to agriculture and livestock production; weak management; governance and leadership capacity by ejido and indigenous communities for conducting forest operations; and pressure created by other rural, landless populations on ejidos and indigenous communities forest resources. As a result, environmental degradation and depletion of natural resources in Mexico have an economic cost equivalent to roughly 6.3% of Mexico's national GDP, being even higher in deforestation hotspots, and the country is among the top ten countries globally in net forest loss.

Community forestry still faces challenges to access finance and better management practices. Although 65% of the community forests have commercial potential, less than a quarter of them have developed forest management plans and less than 9% have evolved into community forest enterprises.³ In addition, the sector represents only 0.01 % of total loans by the banking sector. Only 16 % of the ejidos and communities have been able to apply for a loan ►(the vast majority of which is for agriculture and herding activities. Indeed, ejidos and communities have recently pointed out two main difficulties in emerging towards community forest businesses: i) lack of finance, and ii) lack of technical capacity to manage investments. Some of the community forest management challenges include: (i) community forest enterprises are seen as a source of jobs and benefit-sharing rather than enterprises that must be managed on sound business and entrepreneurial principles; (ii) ejidatarios and comuneros have a precarious understanding of the technical, regulatory, financial and management issues involved in community forest enterprises, which force local forest users to engage in market exchange under rules with which they are often unfamiliar or lack the capacity to influence or take advantage; (iii) control of the ejido and community assemblies by the most senior members leads to the marginalization of young people and women; (iv) direct community management of forests is subject to legal requirements whereby community representatives have a three-year term limit on their governance post; and (v) community organizations become overly reliant on governmental as well as non-governmental programs and projects over which they have poor ownership and, consequently fail to continue after external support ends.

Institutional

Mexico is committed to curb deforestation and degradation through policy and institutional reforms. At the federal level, the Ministry of Environment and Natural Resources of Mexico (SEMARNAT) is the government agency responsible for natural resources including forests. In 2001, the National Forest Commission (CONAFOR) was established with the objective of promoting conservation activities and developing sustainable forest policies, plans and programs, including the focal point of REDD+. In addition, there are cross-sectoral coordination platforms, including civil society and indigenous organizations networks such as the National Development Commission for Indigenous Peoples (CDI).

Mexico is also at the forefront at the international level in the preparation and implementation of the REDD+ scheme. Mexico's ambitious INDCs recognize the essential role of forests in mitigation actions and establish the goal of 0% deforestation by 2030. In addition, Mexico's climate change commitments emphasizes forests' contribution to adaptation by reducing local communities' vulnerability to natural disasters and economic downturns. The efforts on reducing emissions from deforestation and forest degradation (REDD+) are addressed through Mexico's ambitious REDD+ agenda, a comprehensive set of instruments and interventions under the National REDD+ Strategy, (ENAREDD+). Mexico participates in many platforms of technical and financial support for REDD+; it is one of the 44 developing country participants of the Forest Carbon Partnership Facility (FCPF), one of the eight pilot countries for the Forest Investment Program (FIP) and a member of the UN-REDD program. Significant amounts of domestic funds and international pledged funds are committed to the forestry sector and with various projects underway, including the Forest Investment Program.

The Forest Investment Program (FIP) provides financing for REDD+ efforts in order to address key drivers of deforestation and forest degradation. The FIP is one of the three programs under the Strategic Climate Fund (SCF) to provide fast-track climate financing to reduce deforestation and forest degradation in tropical countries. Mexico's FIP Investment Plan approved in 2011 integrates four projects, two implemented by IBRD (US\$60 million in loan and US\$42 million in grants), currently executed by CONAFOR and blended with an US\$350 million IBRD loan, and two by the IADB (US\$15 million in loan and US\$3 million in grants). The investment plan focuses on increasing institutional and local capacity on REDD+, and on promoting sustainable rural development while addressing the direct and underlying causes of deforestation and forest degradation in Early Action REDD+ Areas (Oaxaca, the coastal watersheds of Jalisco, Campeche, Yucatan and Quintana Roo).

A Dedicated Grant Mechanism (DGM) has been established as a special initiative under the FIP. It was established at the request of Indigenous Peoples and Local Communities (IPLC), to provide grants to IPLC and support their participation in the development of the FIP and other REDD+ investment strategies, programs and projects. The DGM currently has eight FIP pilot countries, including Mexico. The DGM Program was established under the rationale that the full and effective, continuous participation of IPLC in the design and implementation of FIP investment strategies is necessary and highly dependent on (i) strengthening the capacity of these groups to play an informed and active role in national REDD+ processes in general and FIP processes in particular, as well as on (ii) recognizing and supporting their tenure rights, forest stewardship roles, and traditional forest management systems.

Relationship to CAS

The proposed Mexico DGM Project is consistent with the World Bank Group's Mexico Country Partnership Strategy (CPS) 2014-2019. One of the four strategic themes of this CPS relates to the promotion of green and inclusive growth, which includes the reduction of the footprint of growth and the use of natural resources in an optimal way. The CPS acknowledges not only the costs of

land and forest degradation, but the importance of forests as an essential source of employment, income, and livelihood. It also acknowledges the important role of forests in mitigating and adapting to climate change and calls for shifting funds from reforestation to community forestry and paying for environmental services, fostering sustainable and competitive community enterprises, developing approaches for forests with high biodiversity values but relatively low commercial value as well as a landscape approach to analyze forestry in the larger context of integrated rural development.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed Development Objective (PDO) of the project is to strengthen capacity of forest-dependent peoples from targeted states to participate in local, national and international REDD+ related processes and to support new and innovative demand-driven initiatives identified by ejidos and communities for the sustainable management of the forest.

In the spirit of the DGM's collaborative approach to design and implementation, the DGM Program objective is consistent with the interests and aspirations of the IPLCs expressed in the DGM Design Proposal and the DGM Framework Operational Guidelines. Likewise, the proposed PDO has an overarching approach which leaves enough room to allow the selection of activities based on the principle of demand-driven interventions and identified through an extensive participatory and representative process which is the nature and essence of the DGM.

Key Results (From PCN)

The PDO and the results of the project would be measured by the set of mandatory indicators shared by all DGM pilot country projects:

- (i) Percentage of sub-projects successfully completed and achieved their objectives;
- (ii) People in targeted forest and adjacent communities with increased monetary or nonmonetary benefits from forests, disaggregated by gender;
- (iii) Percentage of participants in the capacity development activities with increased role in the FIP and other REDD + processes at local, national or global levels;
- (iv) Percentage of grievances registered related to delivery of project benefits that are actually addressed; and,
- (v) Percentage of DGM stakeholders that perceive DGM governance and processes as transparent and inclusive.

A comparative analysis of indicators among Mexico FIP's Investment Plan, the Forests and Climate Change Project and the DGM will be done to identify common indicators at both sector and project level to be included in the results framework.

III. Preliminary Description

Concept Description

The Mexico DGM project would be aligned with Mexico's FIP Investment Plan. The Mexico DGM will focus on the direct and underlying causes of deforestation and forest degradation in Mexico's REDD+ Early Action Areas: Oaxaca, the coastal watersheds of Jalisco and the Yucatán Peninsula (Campeche, Yucatan and Quintana Roo). While FIP's intervention are mainly focused on enhancing the quality and quantity of the offer under CONAFOR's programs and financial services through public development banks and financial intermediaries, the DGM will complement these efforts by directly supporting new and innovative (demand-driven) sustainable forest management schemes and practices identified by ejidos and communities. Considering that

DGM's contribution to the overall subsidies available to ejidos and communities is small, the value added of the project will be to identify and pilot, under a participatory approach, initiatives that better integrate IPLC's needs, perspectives, and modalities of delivery and organization. The DGM's approach to identify interventions will support an extensive participatory and representative process by: (i) enhancing informed participation of the local population in decision-making processes; (ii) incorporating the interests of different local shareholders (including women, young people, and landless people); and (iii) considering peoples' worldviews and traditional knowledge when design policies, programs and/or projects. The following components have been preliminarily discussed and proposed by representatives of key stakeholders (ejidos and communities):

Component 1: Governance and Financing Mechanisms for Community Forestry Management (about USD 3.6 million). This component would support a revolving fund and seed money to support the implementation of demand-driven proposals from ejidos and communities within the following thematic areas: (a) avoided deforestation and forest degradation through sustainable forest management, (b) protection of environmental services; (c) enhancement of carbon stocks in forest landscape, (d) agroforestry and sustainable use of non-timber products, (e) low carbon production systems in agriculture, and (f) evolving towards and strengthening of enterprises associated with appropriate social schemes.

Component 2: Capacity Building, Communication and Advocacy (about USD 1.5 million). This component would support a focalized capacity-building plan for strengthening managerial skills and technical knowledge required for community forest management. The component will: (i) provide training and technological development to community and producers' organizations; (ii) facilitate knowledge-exchange networks among forest-dependent people and community forest entrepreneurs; (iii) support a communication strategy for reporting on project's progress and outcomes, identify and disseminate lessons learned to both internal and external audiences and interested parties. It would promote spaces for sharing experiences or good practices related with the Project among different community members and communities.

Component 3: Management, monitoring and evaluation (about USD 0.9 million). This component would support activities that will increase the capacity of indigenous peoples and local communities to oversee, monitor and evaluate project activities and to strengthen internal systems of social control. The component would also cover the incremental costs in which the National Executing Agency (NEA) (to be selected) would incur to implement the sub-projects to be selected under the project.

Additionally the Mexico DGM will benefit from the Global DGM component on knowledge sharing and networking on REDD+.

Expected outcomes. DGM activities will address the underlying economic causes of deforestation and degradation by working directly with ejidos and local communities providing revolving funds and seed money to support new and innovative (demand-driven) proposals within thematic areas. The project will focus on some of the social causes of deforestation and degradation by strengthening managerial skills and technical knowledge required for community forest management. Thus, the project is expected to: (i) improve participation of forest-dependent communities in REDD+ related processes; (ii) enhance ownership over community forest initiatives that they have identified and participated in; and (iii) improve the access to information, knowledge, and skills needed to engage in sustainable forest management and run community forest enterprises eventually on more sounding business and entrepreneurial grounds.

IV. Safeguard Policies that might apply

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

V. Financing (in USD Million)

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

VI. Contact point

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