

Annex 02b. Note on targeting, eligibility and selection criteria for the GCF Financing

1. Targeting, Eligibility and Selection criteria

Based on the policies of IFAD, the Government of Mexico and the investment criteria of the Green Climate Fund, climate change and social criteria were considered for the identification and selection of the geographical sites and beneficiaries. The present Note outlines the Targeting strategy, Eligibility and Selection criteria for the GCF Balsas project.

The targeting, eligibility and selection criteria will apply to all project activities, including GCF Grant and the GCF Loan A and GCF Loan B.

1.1 Targeting criteria

The project uses a mixed targeting approach, combining geographical targeting with self-selection. The main geographical targeting criteria for the sites are: (i) the level of vulnerability to climate change, (ii) the level of marginalization and poverty, (iii) the presence of indigenous populations. In a demand-driven process, beneficiaries from the prioritized municipalities will subsequently self-target through calls for proposals, which is meant to promote that only those who really need assistance will postulate to participate in the program.

1.1.1 Geographical targeting criteria

With the three geographical targeting criteria (which are explained in detail below), CONAFOR and CONAGUA identified 104 municipalities of very high priority that are located in 8 watersheds with a high potential for forest landscape restoration and that are important for the provision of environmental services, particularly soil protection for water flow regulation. The prioritized watersheds are Río Mezcala-Balsas, Río Tlapaneco, Río Atoyac, Río Ometepe o Grande, Río Nexpa, Río Papagayo; and the Sub-watersheds Río la Arena and Río Mixteco. Additionally, 17 municipalities located in two indigenous territories, the Xoxo Mixteca and the Meseta Purépecha were included, resulting in a total of 121 municipalities with the highest level of prioritization (orange). Once piloted and successfully implemented in these municipalities, the project will upscale to 280 additional municipalities of high priority (yellow color, below) for a total of 401 municipalities in the Balsas Basin.

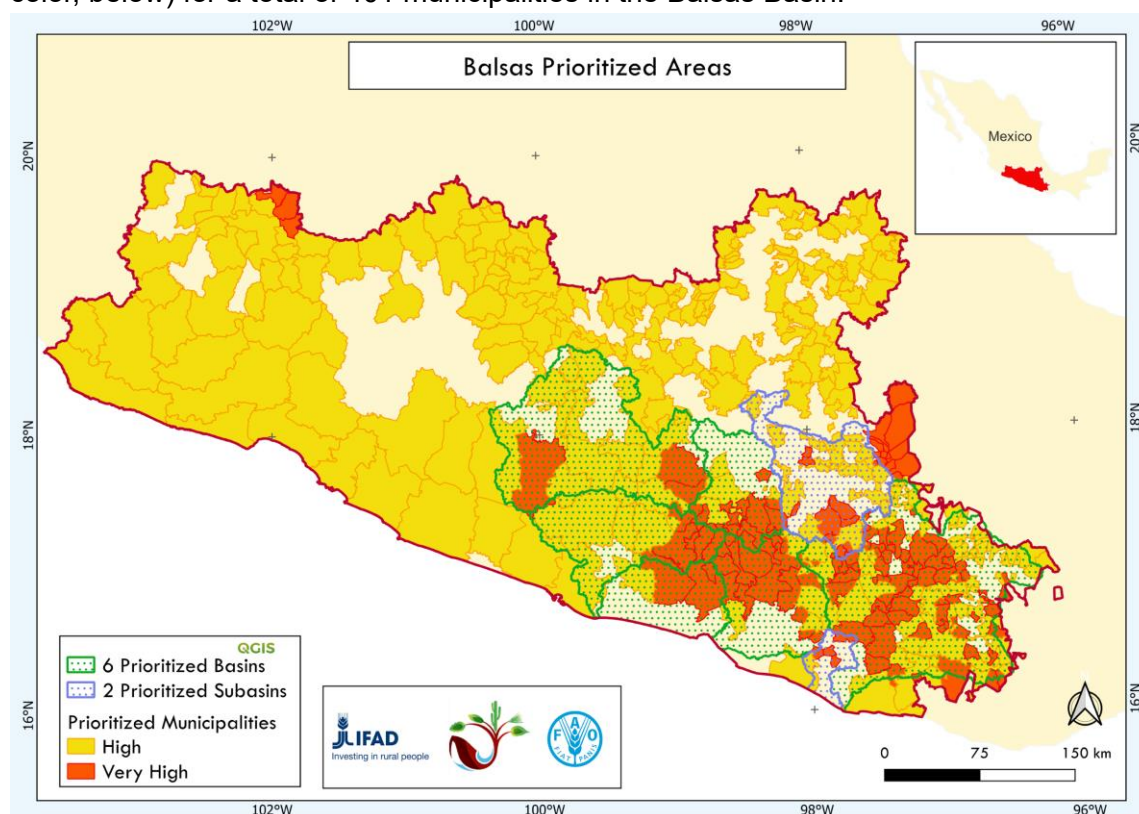


Figure 1. Priority pilot intervention zone of the BALSAS Project: 121 municipalities included in 8 prioritized watersheds, and the Xoxo Mixteca and Purépecha indigenous territories (the latter also marked in orange outside the watersheds). Source: CONAFOR, authors, 2022.

The project aims to increase capacity for resilience, adaptation and climate risk management for approximately 110,000 people from vulnerable rural households, including indigenous communities. They represent 11.56% of the population in the 10 prioritized areas, and 5% of the total population in the 695 priority municipalities within the Regional Program for Development and Welfare of the Balsas-South Pacific Basin. Among this target population, the project will directly benefit 109,200 people, 40% women, 58% indigenous peoples (Nahua, Mixteco, Tlapaneco, Amuzgo, among others) and at least 20% youths. The project will also include other vulnerable groups, mainly the Afro-Mexican population. Project beneficiary calculations are presented in Annex 03 of the Funding Proposal.

The detailed geographical targeting criteria for the prioritization are described below:

1.1.1.1 Climate vulnerability

Climate vulnerability: Vulnerability is defined as the degree to which systems may be adversely affected by climate change, depending on whether they are able or unable to cope with the negative impacts of climate change, including climate variability and extreme events.

Therefore, the vulnerability of a system is defined by the following equation:

$$V = E + S - CA$$

Where: V is vulnerability; E is exposure; S is sensitivity; and CA is adaptive capacity.

The National [Atlas of Vulnerability to Climate Change \(ANVCC, 2019\)](#) rates all Mexican municipalities into four categories of climate vulnerability (very high, high, medium and low) according to the following seven specific vulnerability dimensions:

- **Flood vulnerability of human settlements:** is estimated at the municipal level; to determine this indicator, factors such as the potential frequency of flooding are taken into account; calculated through the annual accumulated precipitation and the flood threshold (return periods in which it must stop raining to allow the soil to dry out).
Sensitivity: which is calculated taking into account the population living in areas susceptible to flooding, the percentage of the municipality's area susceptible to flooding, and the hydrological response of the watershed, which takes into account the physical characteristics of the watershed such as its shape (depending on its shape it can help drain or accumulate water in the region) and the quality and quantity of vegetation in the areas, since this regulates surface flows and water runoff.
Adaptive capacity: this involves, among other factors, the existence or not of a municipal risk atlas or municipal contingency plan, the presence in the municipality of regulating dams, the area of the municipality with natural vegetation or protected natural areas, the number of temporary shelters, municipal civil protection units, among others.
Taking these parameters into account, the national flood vulnerability atlas (figure 2) shows the vulnerability to flooding of each state and the classification of its municipalities according to their level of vulnerability.

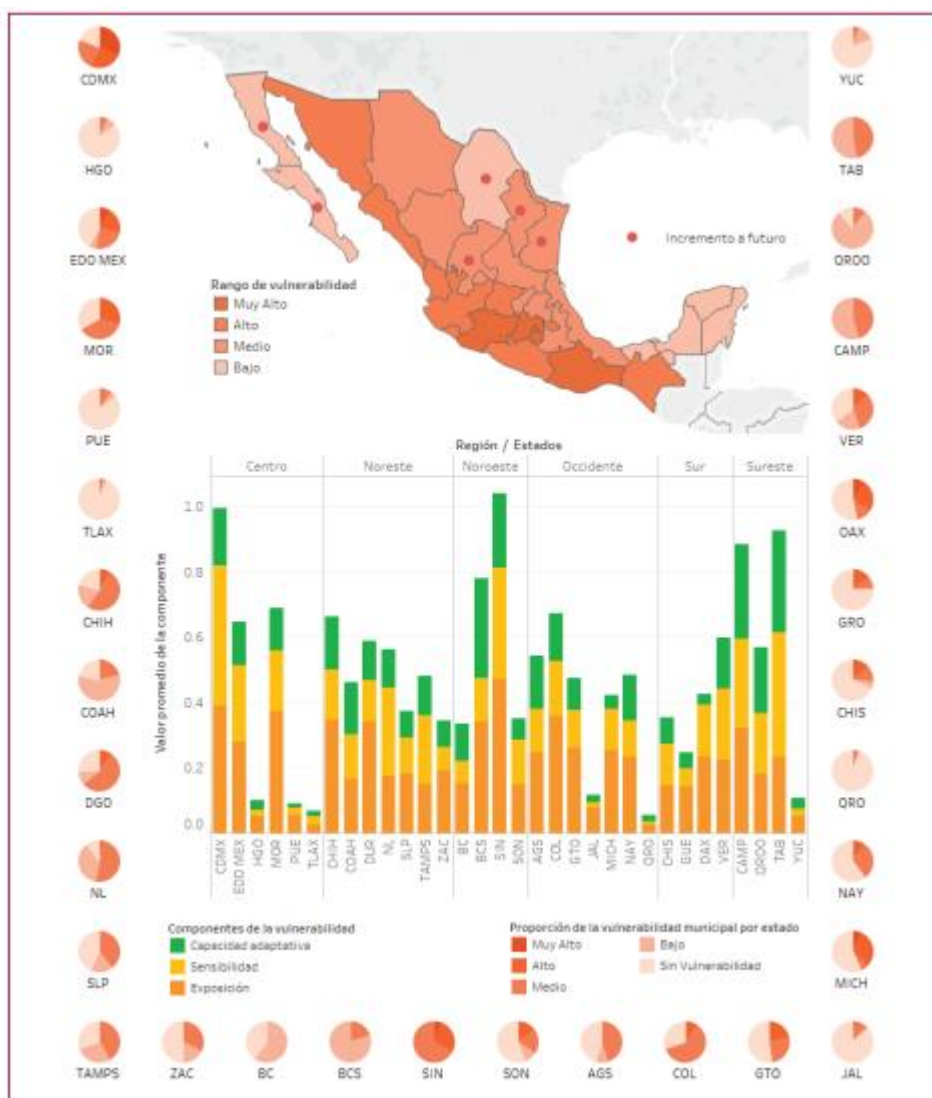


Figure 2. Flood vulnerability of human settlements by state, the range of vulnerability goes from white to red, the first being a low level and the last the highest level, the colored graphs represent adaptive capacity (in green), sensitivity (in yellow) and exposure (in orange).- **Source:** Atlas of Vulnerability to Climate Change (ANVCC, 2019)

- Vulnerability of human settlements to landslides:** this index takes into consideration factors related to exposure, such as the frequency with which landslides occur, as well as the seasonality index of precipitation, since precipitation has an effect on soil moisture and therefore affects soil stability to calculate seasonality, annual precipitation is divided between wet and dry months; municipalities where the rainfall regime is concentrated in a few months are more susceptible to landslides, because there are a greater number of continuous precipitation events.

Sensitivity is calculated according to the population (total and percentage) in each category of slope instability, which means, the communities located at the foot or on the slopes and mountains (in urban or rural areas) since these have a higher risk of landslides; and the surface area (total and percentage) of natural vegetation in each category of slope instability in the municipality, the presence of vegetation helps the infiltration of rainwater preventing soil erosion and reducing the instability of slopes. It

is necessary to identify the areas of the municipalities with vegetation to determine how susceptible they are to potential landslides.

Regarding adaptive capacity, again factors such as the existence of a risk atlas or a municipal contingency plan and actions related to the protection and restoration of ecosystems essential to prevent landslides are taken into account, as well as the number of temporary shelters and civil protection units in the municipality.

- **Vulnerability of the population to the increase in the potential distribution of dengue:** Dengue is a mosquito-borne disease, to understand the dynamics of dengue, it is necessary to understand how it responds to environmental conditions (Huber et al., 2018). Warm temperatures, high levels of precipitation and humidity are characteristic and conducive conditions for the development of dengue, since in high latitudes where temperatures are colder or cooler oviposition is low, in addition to the fact that mosquito larvae and eggs fail to develop, it is expected that sites favorable to an increase in temperature will also increase the occurrence of this disease. Mild dengue can cause high fever and flu-like symptoms. A severe form of dengue, also called "dengue hemorrhagic fever," can cause severe bleeding, sudden drop in blood pressure (shock) and death. To estimate vulnerability to this disease, the climate change vulnerability atlas takes into account exposure factors such as the percentage of a municipality's area with minimum temperature conditions $>20^{\circ}\text{C}$, and the dengue occurrence index.

Sensitivity is calculated according to indicators such as urbanization and connectivity, since the creation of communication routes has led to the expansion of human settlements, creating conditions for the spread of dengue in communities (Larance et al., 2009), such as: population growth, unplanned urbanization with scarce sanitation systems, deterioration of sanitation systems, deterioration of public health infrastructure and poor access to health systems (San Martín, 2010). The proximity of populations to bodies of water and susceptibility to flooding; the accumulation of urban solid waste and the quality of the hydraulic infrastructure at home.

Adaptive capacity is determined according to the number of doctors available in public health institutions and medical units available in the municipality; the quality of plans to improve public services, such as drinking water and urban solid waste management, the dissemination of information on the management of water services and citizen participation, and the percentage of the population entitled to some health service.

- **Vulnerability of forage production to water stress:** Forage production varies from region to region and is seasonal, its distribution depends on climate, soil, forage species and management. Forage yield and quality are a function of rainfall, which influences the total amount of rainfall and its distribution during the year. This determines the seasonality of production and leads to an abundance of forage in the rainy season and a shortage in the dry season, when there is water stress. To determine the vulnerability of forage production, exposure conditions are considered, such as the aridity condition, calculated through Lang's index (mean annual rainfall divided by mean annual temperature); and the monthly rainfall in the area. The sensitivity factor is determined by evaluating the site conditions, such as the percentage of degraded vegetation due to overgrazing, the presence of trees and shrubs in the pasture sites, since the shade they generate is important for the reduction of temperature and degradation, the buffering capacity of the ecosystem management, the sensitivity of the vegetation to drought, the level of soil erosion due to overgrazing, and the sensitivity of the vegetation to drought, the level of soil erosion, the soil's capacity to store water, the balance between forage supply and demand, the number

of paddocks present in the Livestock Production Units, the weighted pasture coefficient (area with native and cultivated vegetation between the area necessary to maintain a cow and her calf for a year, or its equivalent in large or small livestock, without deteriorating natural resources); variability in forage production due to the amount and distribution of precipitation, as well as the presence of low temperatures.

The adaptive capacity of this variable is determined by variables related to risk management instruments, the protection of ecosystems to prevent water stress and the organization of livestock productivity.

- **Vulnerability of livestock production to water stress:** although livestock production can develop under dry conditions, in these areas the occurrence of events such as droughts aggravate production systems, breaking livestock cycles and subsequently reducing producers' income. These phenomena with water stress conditions can last for several years and worsen under climate change conditions, leading to poverty and desertification. For the configuration of the exposure of this index, the aridity condition in livestock areas is analyzed through Lang's index, and the precipitation seasonality index, through monthly precipitation.

To configure the sensitivity, the resistance of vegetation to drought and the percentage of degradation, the availability of water for cattle, the presence of trees near water sources, the proportion of permanent watering places, the proportion of permanent wells per Livestock Production Unit, the importance of extensive cattle raising in the municipality, the introduction of a greater amount of cattle than the land can sustain, the quality of cattle management and the proportion of fodder availability are determined.

Finally, to determine the adaptive capacity, the management of land and natural resources, the percentage of coverage of the Livestock Development Programs and the level of organization of livestock producers are evaluated.

- **Vulnerability of livestock production to flooding:** Mexico is a cattle producing country; this activity represents the main land use with 58% of the available land area; livestock production can be impacted by hydro-meteorological events, such as floods. Floods are considered the second most important adverse event for livestock production due to the death of livestock by drowning, temporary lack of forage leading to loss of weight and production of livestock, the effect on the reproductive cycle of livestock, grazing restrictions and diseases due to exposure to mud and fecal matter from flooding in pastures.
- **Change in current potential distribution of priority species and in NOM-059:** In this section, the National Atlas of Vulnerability to Climate Change (ANVCC) shows the change in the potential distribution of 206 species, considering the climate change projections, the permanence of the climatic suitability (analogous condition) or the change of the same (non-analogous condition) was identified for the potential distribution of each species. Projections from three general circulation models were considered: Geophysical Fluid Dynamics Laboratory (GFDL-CM3), Met Office Hadley Center (HADGEM2-ES) and Max Plank Institute for Meteorology (MPI-ESM-LR). The time horizon chosen was the near horizon (2015-2039), with a radiative forcing of 8.5 W/m². A single map of analog and non-analog conditions was constructed for each of the 206 species (Figure 3).



Figure 3. Index of change to non-analogous conditions in potential species distribution, in green Low proportion to change (0-25%), in yellow Medium (25-50%), in orange High (50-75%) and in red Very high (75-100%). (ANVCC, 2019)

More than half of the municipalities in the project area have some level of vulnerability to climate change. In the case of hazards and risks due to hydrometeorological events, these do show patterns associated with the ecoregions. The municipalities located in the Pacific Coastal Plains and Inter-montane Depressions have a higher level of danger due to drought and floods, while those located in the Pacific Coastal Plains and in the Sierra Madre del Sur have a higher level of risk from tropical cyclones than the rest of the ecoregions. The most notorious patterns of the effects of climate change and variability can be seen in disaster declarations due to droughts and floods. In the case of drought declarations, these were most frequent between 2000 and 2009 during the ENSO El Niño phase. However, between 2010 and 2018, La Niña and the neutral phase predominated, resulting in fewer drought declarations, but more declarations for floods and atypical rains. In the case of tropical cyclone declarations, there is an association between the months in which the declarations were issued and the presence of La Niña and ENSO neutral phase. The degree of climate vulnerability considering the seven previous mentioned aspects in the project region is shown in figure 4.

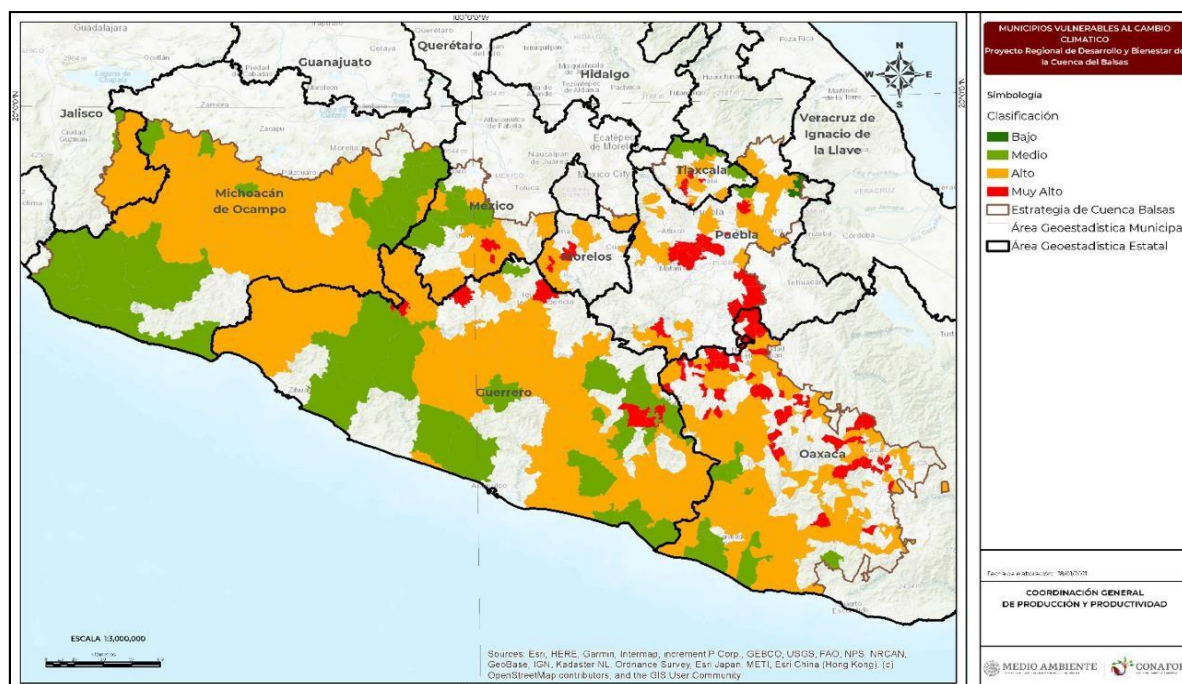


Figure 4. Degree of climate vulnerability in the Project Region. Red “very high”, yellow “high”, light green “medium” and dark green “low” vulnerability (ANVCC, 2019)

1.1.1.2 Poverty and social marginalization

As to the definition of the National Council for the Evaluation of Social Policies CONEVAL, a person is in a situation of poverty when he/she has at least one social deprivation in the indicators of educational gap, access to health services, access to social security, housing quality and spaces, basic services in housing and access to food) and if his/her income is insufficient to acquire the goods and services required to satisfy his/her food and non-food needs.

The situation of extreme poverty is defined when the person has three or more social deprivations out of a possible six and, in addition, his/her total income is less than the minimum welfare line. The population in this situation has such a low income that even if it were devoted entirely to the purchase of food, it would not be able to access the food that makes up the food basket (CONEVAL 2015).

According to CONEVAL, 75% of the population of the Balsas Basis lives in poverty.

On the other hand, CONEVAL considers the most recent results of poverty indicators (normal or extreme) alongside with social deprivation, Social Gap Index and short-term indicators, in order to establish the Priority Attention Zones, which consider information coming from the censuses and surveys conducted by INEGI such as the 2020 Population and Housing Census, the 2020 National Household Income and Expense Survey (ENIGH), the National Occupation and Employment Survey (ENOE) and the New Edition National Occupation and Employment Survey (ENOE), thus differentiating four levels of prioritization regarding the urgency of social support intervention. “very urgent”, “very high”, “high” and “medium” priority (CONAFOR 2020, from CONEVAL 2019). The figure 5 below shows the municipalities within the BRB colored according to this four levels of urgency in social support intervention.

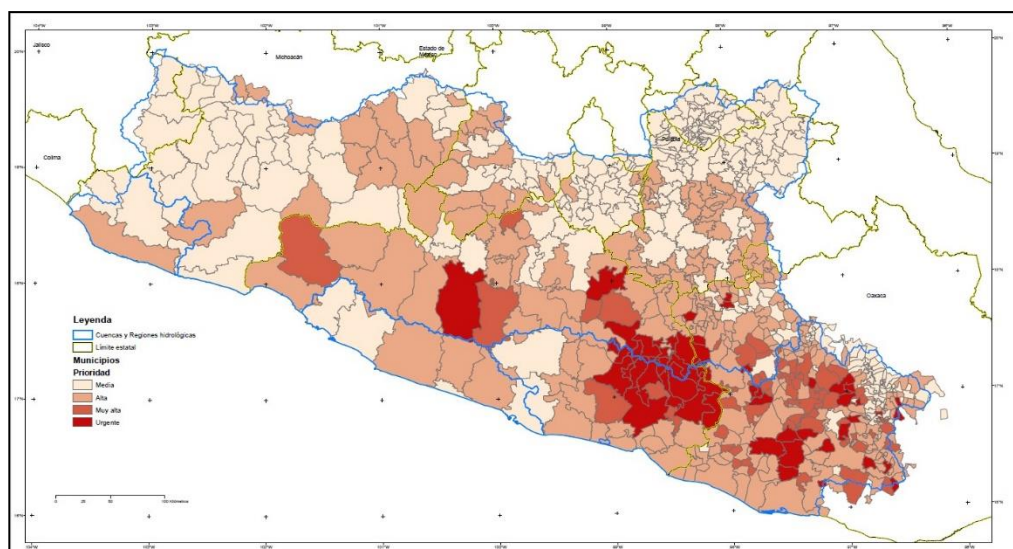


Figure 5. Degree of marginalization and priority action to combat poverty. Dark red “very urgent”, red “very high”, light red “high” and light yellow “medium” priority (CONAFOR 2020, from CONAVAL 2019)

In the state of Guerrero a total of 19 municipalities are under “very high” poverty conditions: Among the municipalities of greatest relevance due to the high percentage of their population living in extreme poverty are: Cochapa el Grande, where 87.7% of the population lives under these conditions, Metlatónoc with 76.9%, Atlamajalcingo del Monte with 71.5%, Alcozauca de Guerrero with 69.6 and Acatepec with 68.9% (CONEVAL 2015). In the state of Michoacán 6.1% of the population lives in conditions of extreme poverty, totaling 284,400 people (CONEVAL 2018), Tingambato is a priority municipality in this state, as 68.9% of the population lives in poverty and 21.2% in extreme poverty.

The state of Oaxaca is one of those with the highest poverty index, since 61.7% of the population lives in poverty (approximately 2,569 thousand people) and 20.6 in extreme poverty conditions (860 thousand people), in this state there are 84 municipalities with extreme poverty indexes, among which Santos Reyes Yucuná stands out with 97. Among them are Santos Reyes Yucuná with 97.5% of its population living in extreme poverty, Santiago Nuyoó with 83.9%, San Simón Zahuatlán with 83.6%, Santiago Amoltepec with 83.1% and Coicoyán de las Flores with 82.9%.

Table 1. Municipalities in the BRB and their respective levels of vulnerability, poverty and priority.

| | Municipality | State | Vulnerability | Poverty | Priority |
|---|-------------------|----------|---------------|-----------|-----------|
| 1 | Zapotitlán Tablas | Guerrero | MEDIUM | VERY HIGH | Very High |
| 2 | Acatepec | Guerrero | MEDIUM | VERY HIGH | Very High |
| 3 | San Luis Acatlán | Guerrero | HIGH | VERY HIGH | Very High |
| 4 | Xalpatláhuac | Guerrero | MEDIUM | VERY HIGH | Very High |

| | | | | | |
|----|----------------------------|-----------|--------|-----------|-----------|
| 5 | Malinaltepec | Guerrero | LOW | VERY HIGH | Very High |
| 6 | Ahuacuotzingo | Guerrero | MEDIUM | VERY HIGH | Very High |
| 7 | Tlacoachistlahuaca | Guerrero | HIGH | VERY HIGH | Very High |
| 8 | Xochistlahuaca | Guerrero | MEDIUM | VERY HIGH | Very High |
| 9 | Metlatónoc | Guerrero | HIGH | VERY HIGH | Very High |
| 10 | Tlacoapa | Guerrero | MEDIUM | VERY HIGH | Very High |
| 11 | Ayutla de los Libres | Guerrero | MEDIUM | VERY HIGH | Very High |
| 12 | Alcozauca de Guerrero | Guerrero | HIGH | VERY HIGH | Very High |
| 13 | General Heliodoro Castillo | Guerrero | HIGH | VERY HIGH | Very High |
| 14 | Atlamajalcingo del Monte | Guerrero | MEDIUM | VERY HIGH | Very High |
| 15 | Atlixac | Guerrero | BAJO | VERY HIGH | Very High |
| 16 | Igualapa | Guerrero | HIGH | VERY HIGH | Very High |
| 17 | Iliatenco | Guerrero | MEDIUM | VERY HIGH | Very High |
| 18 | Cochoapa el Grande | Guerrero | MEDIUM | VERY HIGH | Very High |
| 19 | José Joaquín de Herrera | Guerrero | MEDIUM | VERY HIGH | Very High |
| | Subtotal Guerrero | | | 19 | |
| 20 | Tingambato | Michoacán | MEDIUM | MEDIUM | Very High |
| | Subtotal Michoacán | | | 1 | |
| 21 | San Vicente Lachixío | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 22 | San Francisco Tlapancingo | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 23 | San Pedro Atoyac | Oaxaca | HIGH | VERY HIGH | Very High |

| | | | | | |
|-----------|--------------------------|--------|--------|-----------|-----------|
| 24 | Magdalena Teitipac | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 25 | San Antonio Tepetlapa | Oaxaca | HIGH | HIGH | Very High |
| 26 | San José del Progreso | Oaxaca | HIGH | HIGH | Very High |
| 27 | Coicoyán de las Flores | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 28 | Santa Catarina Mechoacán | Oaxaca | HIGH | VERY HIGH | Very High |
| 29 | San Bartolomé Yucuañe | Oaxaca | MEDIUM | HIGH | Very High |
| 30 | Santiago Ixtayutla | Oaxaca | HIGH | VERY HIGH | Very High |
| 31 | San Pablo Tijaltepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 32 | Santiago Textitlán | Oaxaca | HIGH | HIGH | Very High |
| 33 | Santa Catarina Yosonotú | Oaxaca | HIGH | VERY HIGH | Very High |
| 34 | Santa Inés del Monte | Oaxaca | HIGH | HIGH | Very High |
| 35 | Santa María Sola | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 36 | San Miguel Ahuehuetitlán | Oaxaca | HIGH | VERY HIGH | Very High |
| 37 | Santiago Apóstol | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 38 | Santa Inés Yatzeche | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 39 | La Pe | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 40 | Asunción Ocotlán | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 41 | Santa Cruz Tacahua | Oaxaca | HIGH | VERY HIGH | Very High |
| 42 | San Miguel Mixtepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 43 | San Miguel Panixtlahuaca | Oaxaca | HIGH | HIGH | Very High |
| 44 | San Pedro Mártir | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 45 | Yutanduchi de Guerrero | Oaxaca | MEDIUM | HIGH | Very High |

| | | | | | |
|-----------|-------------------------|--------|--------|-----------|-----------|
| 46 | Santiago Tilantongo | Oaxaca | MEDIUM | HIGH | Very High |
| 47 | San Juan Teita | Oaxaca | MEDIUM | HIGH | Very High |
| 48 | San Miguel Tilquiápam | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 49 | Santa Lucía Ocotlán | Oaxaca | MEDIUM | HIGH | Very High |
| 50 | San Miguel Piedras | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 51 | San Cristóbal Amoltepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 52 | Pinotepa de Don Luis | Oaxaca | MEDIUM | HIGH | Very High |
| 53 | Santa María Lachixío | Oaxaca | MEDIUM | HIGH | Very High |
| 54 | San Esteban Atatlahuca | Oaxaca | MEDIUM | HIGH | Very High |
| 55 | Santo Domingo Ixcatlán | Oaxaca | HIGH | HIGH | Very High |
| 56 | San Simón Zahuatlán | Oaxaca | HIGH | VERY HIGH | Very High |
| 57 | Santa María Tataltepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 58 | San Lorenzo Texmelúcan | Oaxaca | HIGH | VERY HIGH | Very High |
| 59 | San Martín Itunyoso | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 60 | Santiago Amoltepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 61 | Magdalena Mixtepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 62 | San Vicente Coatlán | Oaxaca | HIGH | VERY HIGH | Very High |
| 63 | Santiago Nundiche | Oaxaca | HIGH | HIGH | Very High |
| 64 | Santos Reyes Yucuná | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 65 | San Lorenzo | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 66 | San Juan Ñumí | Oaxaca | MEDIUM | HIGH | Very High |
| 67 | Santa María Yucuhiti | Oaxaca | MEDIUM | VERY HIGH | Very High |

| | | | | | |
|----|--------------------------|--------|--------|-----------|-----------|
| 68 | Santiago Yaitepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 69 | Santiago Tlazoyaltepec | Oaxaca | HIGH | VERY HIGH | Very High |
| 70 | Santa Cruz Nundaco | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 71 | San Miguel Coatlán | Oaxaca | HIGH | VERY HIGH | Very High |
| 72 | Santa Lucía Miahuatlán | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 73 | San Martín Peras | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 74 | Santiago del Río | Oaxaca | HIGH | VERY HIGH | Very High |
| 75 | Santo Tomás Ocotepec | Oaxaca | MEDIUM | HIGH | Very High |
| 76 | San Francisco Sola | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 77 | San Antonio Sinicahua | Oaxaca | HIGH | VERY HIGH | Very High |
| 78 | San Juan Mixtepec | Oaxaca | MEDIUM | HIGH | Very High |
| 79 | San Antonio Huitepec | Oaxaca | MEDIUM | HIGH | Very High |
| 80 | Santa María Peñoles | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 81 | San Mateo Yucutindoo | Oaxaca | MEDIUM | HIGH | Very High |
| 82 | Coatecas Highs | Oaxaca | HIGH | VERY HIGH | Very High |
| 83 | Santa María Zaniza | Oaxaca | HIGH | VERY HIGH | Very High |
| 84 | Magdalena Peñasco | Oaxaca | HIGH | VERY HIGH | Very High |
| 85 | Santa María Yosoyúa | Oaxaca | MEDIUM | HIGH | Very High |
| 86 | Tataltepec de Valdés | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 87 | Santa Cruz Zenzontepec | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 88 | San Pablo Cuatro Venados | Oaxaca | HIGH | HIGH | Very High |
| 89 | Santiago Nuyoó | Oaxaca | MEDIUM | VERY HIGH | Very High |

| | | | | | |
|-----|---------------------------|--------|--------|-----------|-----------|
| 90 | San Ildefonso Sola | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 91 | San Miguel Peras | Oaxaca | HIGH | VERY HIGH | Very High |
| 92 | San Pedro Amuzgos | Oaxaca | HIGH | HIGH | Very High |
| 93 | San Francisco Cahuacuá | Oaxaca | HIGH | HIGH | Very High |
| 94 | San Mateo Peñasco | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 95 | Santo Domingo Nuxaá | Oaxaca | HIGH | HIGH | Very High |
| 96 | San Juan Tamazola | Oaxaca | HIGH | VERY HIGH | Very High |
| 97 | San Andrés Cabecera Nueva | Oaxaca | HIGH | VERY HIGH | Very High |
| 98 | San Pedro Teozacoalco | Oaxaca | HIGH | HIGH | Very High |
| 99 | Santa Lucía Monteverde | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 100 | Mesones Hidalgo | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 101 | Santa Cruz Tayata | Oaxaca | MEDIUM | HIGH | Very High |
| 102 | Santa Cruz Xitla | Oaxaca | HIGH | VERY HIGH | Very High |
| 103 | San Jerónimo Coatlán | Oaxaca | MEDIUM | VERY HIGH | Very High |
| 104 | Constancia del Rosario | Oaxaca | MEDIUM | VERY HIGH | Very High |
| | Subtotal Oaxaca | | | 84 | |

1.1.1.4 Indigenous territories

Of the 121 municipalities that make up the study area, 86 are considered indigenous municipalities, which is equivalent to 86% of the municipalities involved, and a total population of 751,585 people, most of whom speak Mixteco, Purépecha, Zapoteco, Amuzgo, Chatino, Náhuatl, Purépecha and Tlapaneco.

Within the states that make up the Balsas Basin 17 municipalities located in two indigenous territories, the Xoxo Mixteca and the Meseta Purépecha were included. The Xoxo Mixteca area is composed by the municipalities of: Concepción Buenavista, Santa Magdalena Jicotlán, Magdalena Zahuatlán, San Antonio Acutla, San Cristóbal Suchixtlahuaca, San Juan Bautista Coixtlahuaca, San Mateo Tlapiltepec, San Miguel Tequixtepec, San Miguel Tulancingo, Santa María Nativitas, Santiago Ihuitlán Plumas, Santiago Tepetlapa and Tepelmeme Villa de

Morelos. Whereas the Purepecha plateau is integrated by the municipalities of Cherán and Nahuatzen. The municipalities of both areas have a high level of priority for this project.

1.1.2 Self-targeting

To complement the geographical targeting, the GCF Balsas project will also follow a self-targeting approach in which beneficiaries will have to actively choose to participate or engage in the project based on their needs, own preferences and interests in calls for proposals, which will ensure their appropriation and promote sustainability.

1.2 Eligibility criteria

The project relies on the Rules of Operation established by CONAFOR for the PADFS and will be applied to the BALSAS project.

Beneficiaries are eligible if (i) they belong to one of the prioritized municipalities as per geographic targeting criteria and they actively chose to participate or engage in the project via self-targeting and (iii) they are eligible as per existing eligibility criteria of the “Reglas de Operación” (“Rules of Operation”) of the CONAFOR, on which the GCF Balsas project relies.

Article 7 of the Rules of Operation of the CONAFOR for the PADFSB outlines the main eligibility criteria (in addition to the targeting criteria mentioned above) and can be consulted via this link: <https://www.gob.mx/conafor/documentos/reglas-de-operacion-2024>.

The Eligible Persons of the Programme are individuals and legal entities of Mexican nationality that meet any of the following characteristics:

- I. Owners or legitimate possessors of forest land, preferably or temporarily forested;
- II. They are engaged in forestry activities for the purposes of protection, conservation, restoration, harvesting, processing, industrialisation or marketing of forestry products;
- III. Without being owners or legitimate possessors, are eligible to apply for any concept or modality of Support, in accordance with the provisions of these Rules.

The technical annexes of each component specify the Eligible Persons for each concept or modality.

1.3 Selection criteria

The submitted proposals by eligible individuals and legal entities will then be evaluated by CONAFOR, taking into account social and climate change scoring criteria tailored to each type of support, in order to determine the final selection of beneficiaries.

Article 21 of the Rules of Operation of the CONAFOR for the PADFSB shows an example of the main social and climate change criteria (Table 2). The full list of criteria per type of support can be found in the Rules of Operation.

Table 2. Example of social and climate change scoring criteria.

| Type of criteria | General scoring criteria | Points per individual | Points per legal entity |
|------------------|--|---|-------------------------|
| Social | Ejidos and Communities that have not received support from CONAFOR in the last 5 years. | - | 5 |
| | Individuals who have not received support from CONAFOR in the last 5 years. | 3 | - |
| | The project will be developed in a municipality classified by the National Institute of Indigenous Peoples as: | Indigenous municipality | 6 |
| | | Presence of indigenous or Afro-Mexican population | 3 |
| | The project is located in municipalities of very high and high marginalisation, according to the classification of the National Population Council or the localities specified in the Declaration of Priority Attention Zones for the year 2024. | 5 | 5 |
| | The project is submitted by an ejido, community or other form of social ownership. | - | 15 |
| | The natural person requesting support is a woman or the legal entity or group requesting support has at least one woman in its representative bodies as owner. | 5 | 5 |
| | The applicant natural person is young or the applicant legal entity integrates at least one young person in its representative body as owners. A young person is considered to be a person between 18 and 29 years of age. | 5 | 5 |
| Climate Change | The project will be developed in a municipality with high or very high vulnerability to climate change according to the Atlas of Vulnerability to Climate Change (AVCC). | 5 | 5 |

2. Financing structure of the GCF financing

As mentioned above, the targeting, eligibility and selection criteria will apply to all project activities, including GCF Grant and the GCF Loan A and GCF Loan B.

IFAD and the Government of Mexico carefully costed the project in a way that concessional resources (GCF Grant and GCF Loan A) will be non-revenue generating, while the least concessional resources (Loan B) will be used for revenue-generating activities.

- USD 19.5 million GCF grant resources will be used to finance exclusively non-revenue generating activities and are either:
 - o tailored to cover specific activities where the benefits and repayment of the investment are less evident and would therefore only be viable with high levels of concessionality, such as institutional strengthening activities, technical assistance, monitoring and evaluation and project management (Activities 1.1.1., 1.1.2, 1.1.3, 1.2.1, 1.2.2, 1.3.1., 1.3.2, 1.3.3., 2.3.3., 3.1.1, 3.1.2, 3.1.3, 3.1.4, 3.2.2, 3.2.3), through e.g. Activity 1.3.1: Capacity development programs for extension workers, local facilitators, and forest protection “brigades”, which essentially is TA for agroforestry and afforestation.
 - o tailored to incremental costs in the case of Activity 2.3.2, where the grant serves the crucial purpose of providing necessary injections to kickstart the market for an activity which would otherwise not occur as it is financially not viable (financial internal rate of return of 0.19% is less than the financial discount rate of 6%). In the absence of the GCF grant, the diversified milpa systems with agroforestry wouldn't be established as they are currently not part of PADFS support and there are no alternative sources of finances. In the hypothetical case of access to credit, high interest rates would hinder any positive scenario on return on investment. Besides, the vulnerable communities don't have the means to repay loans.
- USD 20 million of GCF Loans consist of a USD 10 million GCF Loan with high concessionality (Loan A) and a GCF Loan with low concessionality (GCF Loan B).
 - o USD 10 million GCF Loan A resources will be used to finance a PES scheme to reach the prioritized poor and vulnerable communities in the Balsas basin (Activity 2.1.1). A highly concessional loan for the Balsas PES scheme (Activity 2.1.1) is justified as it is non-revenue generating and avoids potentially higher costs of addressing deforestation-related problems in the future. Compared to other sectors (e.g. energy), Forest Lands and ecosystems usually receive a much higher proportion of grant finance (e.g. RIOS project in Mexico with 100% grant). Using a GCF Loan for a PES scheme is a key innovation that fosters improved incentives for scaling up forest establishment and maintenance activities as it brings co-responsibility for natural resources conservation.
 - o USD 10 million GCF Loan B resources will be used to finance all revenue-generating activities of the project (activities for which the financial internal rate of return exceed the discount rate of 6%), i.e. Activities 1.3.2, 2.2.1 and 2.2.2. Activity 1.3.2 (Forest Protection Programs) in Outcome 1 has a mix of grant and loan financing, with grants allocated to the non-revenue generating part of this activity (Local consultants and travel to support positive action measures to incorporate women, youth and indigenous peoples). The loan resources will be allocated to public expenditures cost-saving activities (as it will reduce the probability of outbreaks involving forest fires & pests or diseases for agricultural practices, that would require the government to provide emergency response).