Forest Investment Program

INVESTMENT PLAN

MEXICO

September, 2011

FOREST INVESTMENT PROGRAM **Summary of Mexico's Investment Plan**		
1. **Country/Region**:	Mexico/Latin America	
2. **FIP Funding Request (in USDmillion):**:	*Grant: US$ 32.16 million*	*Loan: US$ 27.84 million*
3. **National FIP Focal Point**:	*National Forest Commission (CONAFOR), México*	
4. **National Implementing Agency** (Coordination of Investment Plan)**:**	*CONAFOR, Mexico*	
5. **Involved MDB**	*International Bank for Reconstruction and Development (IBRD)* *Interamerican Development Bank (IDB)*	
6. **MDB FIP Focal Point and Project/Program Task Team Leader (TTL)**:	Headquarters-FIP Focal Point: **Gerhard Dieterle,** IBRD gdieterle@worldbank.org **Gloria Visconti** IDB gloriav@iadb.org	Team Leader (TTL): **Laurent Debroux** IBRD ldebroux@worldbank.org **Fernando de Olloqui** IDB fdeolloqui@iadb.org **Guillermo Aguilar Rios** IDB gaguilar@iadb.org

7. **Description of Investment Plan:**

(a) Key challenges related to REDD+ implementation

Mexico's biological diversity provides substantial opportunities for socio-economic development, and also greater challenges in managing the complexity of its forest resources.

More than two thirds of forests are owned by a diverse group of local and indigenous communities, with the remaining owned by small landowners and the State. Mexico's unique land tenure structure provides a firm basis for collective management of forest resources under *ejidos* and indigenous communities most of them under poverty conditions.
Despite efforts to address deforestation in the last decade, significant areas of forest still are under high pressure and have high rates of deforestation and forest degradation. The drivers of such pressure vary across the landscapes; however many of them are related to:

i. the relative profitability of alternative land uses other than forest management that make them more attractive, including limited access to financial service and viable market opportunities for forest management.
ii. rural development policy incentives that generate unwanted and indirect impacts that exacerbate land use change, particularly related to agriculture and livestock production
iii. lack of management and organizational capacity by *ejido* and indigenous communities for conducting forest operations, business administration and market information
iv. weak organizational, governance structures and leadership capacity of *ejidos* and indigenous communities that contributes to increased informal or illegal practices
v. additional pressure created by other rural landless population on *ejidos* and indigenous communities forest resources

In addition to these existing challenging pressures, climate change related variability and food security could create important forces for deforestation and degradation in the future.

REDD+ potential for sustainable forest management can only be achieved through technical assistance and strong capacity building initiatives. The complexity of socio-economic and environmental expression of the underlying causes of land use changes and forest degradation in Mexico present significant difficulties to identify effective mitigation programs and strategies at local level. Causes of forest loss and degradation related to policies, programs and incentives are often outside of the forest sector.

Mexico's track record in effective programs for emissions reduction and removals of greenhouse gases through federal forest programs; particularly during the last five years, is very encouraging. Addressing the underlying drivers of forest loss will require not just consolidating and strengthening these efforts, but combining them with additional measures across sectors and at multiple scales.

There are important planning, capacity and institutional challenges in the coordination of policies and investments at local. An additional challenge is the effective removal of barriers to financing at the community level and support for low-carbon projects. These challenges
are expected to be addressed through innovative policy instruments in this Investment Plan.

(b) Areas of Intervention – sectors and themes

Activities to be financed were selected by their ability to increase institutional and local capacity, and their potential to promote sustainable rural development while addressing the direct and underlying causes of deforestation and forest degradation.

Mexico's FIP Investments are expected to focus on priority sub-national areas (Early Action REDD+Areas). The criteria for selecting these activities include: (i) significant forest areas under high deforestation and degradation pressures resulting in forest carbon loss, (ii) high environmental value (including biodiversity and watershed protection), (iii) important social and economic needs and (iv) implementation feasibility, including a critical mass of local partners and political support.

To meet this results, four projects are proposed, two to be implemented through the IBRD and other two through the IDB:

Project 1. Capacity building for sustainable forest landscapes management: This project is expected to enable and promote policy and program implementation alignment for integrated multi-sectoral action in priority forest landscapes using the support of Territorial Management Entities and enhancing coordination mechanisms to effectively assist sustainable forest management to prevent deforestation and degradation and enhancing forest carbon stocks.

Project 2. Mitigation resilience and sustainable profitability in forest landscapes: This project will promote investments in sustainable productive mosaics targeting local and indigenous community organizations, as well as small landholders in priority forest as well as their value chains. Selected investments should be able to generate mitigation, increase resilience to climate change, increase the economic value of forest products and contribute to the sustainable economic viability of productive mosaics.

Project 3. Creation of a dedicated financing line for low carbon strategies in forest landscapes. Project objective is to create a dedicated financing line accessible by communities and *ejidos* to finance identified low carbon activities/projects in forest landscapes.

Project 4. Strengthening the financial inclusion of *ejidos* and communities through technical assistance and capacity building for low carbon activities in forest landscapes. This project will establish a technical assistance facility expected to build community capacities for developing viable financial and technical proposals, and to develop basic business administration and entrepreneurial skills for sound community-based enterprises to meet REDD+ targets.

(c) Expected Outcomes from the Implementation of the Investment Plan

The Investment plan aims at bringing forest and non-forest areas under sustainable management of natural resources in productive mosaics.

It will also increase institutional and local capacity, and sustainable investment to address the direct and underlying causes of deforestation and forest degradation in the Early Action REDD+ Areas. In particular, the outcomes of the Investment Plan are expected to include:

i. investments within the forest landscapes, and launching a step wise approach for sustainable competitive productive mosaics;

ii. investments on institutional capacity, forest governance, implementation of Territorial Management Entities and strategic evaluation platforms;

iii. strengthen the participation of indigenous and local communities in the overall forest landscape management and the strategic evaluation platforms;

iv. create financing mechanisms targeted at low carbon activities which enable financial access to communities and *ejidos* and promote productive mosaics in forest landscapes

Innovative elements of the Plan include significant changes in the way in which rural development policies are managed and aligned at the level of forest landscapes; thus, filling a gap between incentives at the federal and state government level and at the community dimension. It will also create innovative credit and financing facilities for the specific projects with REDD+ and climate relevant results.

These outcomes will not only address existing drivers of deforestation and forest degradation, but will effectively create the institutional platforms and financial services that can support broader low-carbon sustainable rural development policies.

(d) Link to activities supported by FCPF and UN-REDD Programme

Investments under the Mexico's Investment Plan are aligned under the Forest Carbon Partnership Facility. In particular, the analysis of regional drivers of deforestation and forest degradation under the R-PP will usefully inform the implementation of the FIP. In addition, the participatory consultative processes to be supported under the R-PP will also assist in the implementation of the Investment Plan in Early Action REDD+ Areas.

8. **Expected Key results from the Implementation of the Investment Plan (consistent with FIP Results Framework):**	
Result	**Success Indicator**
Reduced pressure on forest ecosystems	a) Change in hectares (ha) deforested in project/program area b) Change in hectares (ha) of forests degraded in project/program area c) Amount of non-forest sector investments identified to address drivers of deforestation and forest degradation
Sustainable management of forests and forest landscapes to address drivers of deforestation and forest degradation	a) Increase in number of communities building social organization and generating income from sustainable production of forest goods and services
An institutional and legal/ regulatory framework that supports sustainable management of forests and protects the rights of local communities and indigenous peoples	a) Percentage of participating communities receiving support from new ATLs/ADLs [local entities that integrate REDD+ across sectors, levels, and territorially] b) Number of agreements between CONAFOR, SAGARPA, and States in support of REDD+
Empowered local communities and indigenous peoples and protection of their rights	a) Number of new community-based, economically viable, REDD+ focused initiatives with demonstrated potential for replication at scale
Increased capacity to address direct and underlying drivers of deforestation and forest degradation	a) A national strategy or action plan b) A national reference level(s) c) A robust and transparent national multi-scale monitoring system including subnational and community level components d) An information system on how safeguards are being addressed
New and additional resources for forest and forest-related projects	a) Increase in the proportion of coordinated financial resources being mobilized in Early Action REDD+ Early Areas

9. **Project and Program Concepts under the Investment Plan:**							
Project/Program Concept Title	MDB	Requested FIP Amount ($)[1]			Expected co-financing ($)	Preparation grant request ($)	
		TOTAL	Grant	Loan			
Project 1. Capacity building for sustainable forest landscapes management.	IBRD	15.66	15.66	0		0	
Project 2. Mitigation resilience and sustainable profitability in forest landscapes.	IBRD	26.34	10	16.34		0	
Project 3. Creation of a dedicated financing line for low carbon strategies in forest landscapes.	IDB	15	5	10		0	
Project 4. Strengthening the financial inclusion of *ejidos* and communities through technical assistance and capacity building for low carbon activities in forest landscapes.	IDB	3	1.5	1.5		0	
TOTAL		60	37.16	27.84			

[1] Includes preparation grant and project/program amount.

10. **Timeframe** (tentative) – Approval[2] Milestones

Project 1: Approval by the IBRD Board: January 2012

Project 2: Approval by the IBRD Board: January 2012

Project 3: Approval by the Administration / IDB Board: First trimester of 2012

Project 4: Approval by the Administration / IDB Board: First trimester of 2012

11. **Link with FCPF and UN-REDD Programme Activities:**

The Mexico's Investment Plan builds on various ongoing efforts by the Mexican Government to be prepared for REDD+ implementation mechanisms in the country. Preparatory work began with the development of the Readiness Preparation Proposal (R-PP) for Mexico as part of the FCPF, and continued with the design of the Vision of Mexico on *REDD+: Towards a National Strategy*. These design efforts that would be considered as phase I, have been combined with progress in the implementation and testing of models, such as those of governance models at priority watersheds and biological corridors. At the same time, different approaches for measuring and monitoring forests are being tested before implementing them at the national level. The Investment Plan seeks to bring these efforts to share lessons learned and generate results in terms of mitigation and other environmental and social benefits.

Mexico's REDD+ R-PP has been approved by the FCPF Participants Committee and efforts are underway through the REDD+ Readiness to achieve rapid progress in the transition from phase 1 of REDD+ (the preparation phase) to phase 2 (development and adjustment of policies and measures). The R-PP identifies the necessary actions to build a solid national REDD+ strategy with an effective participatory process. Mexico is actively participating in the design process of the Carbon Fund, and will seek opportunities to make the institutional and financing pipelines robust enough to eventually consider proposals under the Carbon Fund through these mechanisms.

[2] Expected signature of loan/grant agreement between government and MDB.

12. **Other Partners involved in design and implementation of the Investment Plan**[3]:

Facilitating access to financial services is one of the objectives pledged by CONAFOR through the Mexican Forest Fund. However, it does not have yet the capacity to offer specific financial products; therefore, to achieve the overall objectives of the Investment Plan, it has Financiera Rural – a public financial institution for rural development- to provide the financial support, credit and financial services.

Among cross-sectoral partners, SAGARPA plays a prominent role in forest territories as it has several programs and components specifically focused to rural development. In addition, existing sectoral technical support entities, there will be strategic partners at the regional scale to support the construction of the cross-sectoral Territorial Management Entity. Other partners include CONEVAL as the institution in charged for monitoring the impact of public policies.

Other relevant partners are the Civil Society Organizations (CSOs), which have an important role in the support of the communities and are also important in the dissemination of information and in structuring capacities for sustainable community management of forest.

Moreover, the collaboration and coordination with bilateral and multilateral development agencies will be crucial to ensure the coordination among donors, the leveraging of resources, and the dissemination of results at international level.

13. **Consultations with Indigenous Peoples and Local Communities:**

Preparation of Mexico's Investment Plan is the result of a participatory process involving stakeholders of different sectors such as: producer organizations, representatives of *ejidos*, communities and associations, indigenous population, federal, state and municipal government agencies, civil society organizations, as well as the academic, professional and private sectors.

One key aspect of the consultation process leading to the development of the Investment Plan has been the inclusion of indigenous peoples and local communities in some of the Early Action REDD+ Areas It is expected that projects under the Investment Plan will be developed taking advantage of the ongoing Readiness progress .

Specific mechanisms for the consultation process included:

i. National Consultative Technical Committee on REDD+ (CTC-REDD)

ii. Engagement of civil society participation with Multilateral Development Banks in the missions framework for the Forest Investment Program

iii. Discussion of the FIP at Regional Level through multi stakeholder workshops

State-level CTCs will also be used in State level implementation once they are created.

[3] Other local, national and international partners expected to be involved in design and implementation of the plan.

14. **Private Sector Involvement:**

Private sector has been deeply involved in the Investment Plan through the forest landowners (*ejidos* and communities), producer associations and private technical service providers that have been involved in its design.

The Investment Plan seeks to attract other private sector stakeholders through the creation of investment opportunities in and around forest. The financing mechanisms and the specific targeting of improvements along the value chains of forest products and services further create investment and partnership opportunities.

1. **Other relevant information:**

The FIP initiative in Mexico is expected to be blended to an ambitious broader IBRD operation that seeks to strengthen the capacity of forest-relevant agencies and the operational capacity for targeted forest programs. Such integration would guarantee that the transformative and innovative investments through the FIP are maximized. The timeframes for such operation are quite ambitious, and hence, Mexico is submitting, along with its Forest Investment Plan, the Project Appraisal Document that will cover two of the four proposed projects to be implemented under the IBRD.

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PRESENTATION

The Government of Mexico acknowledges that climate change represents the primary global environmental challenge. It represents one of the greatest threats to human development and livelihoods. Addressing climate change requires rapid and strategic response with sound policies, legislation and effective programs and activities at global, national and local level to mitigate and reduce greenhouse gas (GHG) emissions. It also demands for adaptation and the reduction of vulnerability and of risk that threatens life, nature, and economic development.

Mexico has set its aspirational target of reducing 50% of its GHG emissions by 2050, compared to the year 2000 baseline. In Mexico, reducing emissions and increasing removals by forest sinks, have been, particularly for the last five years, and will remain, an extremely important strategy to meet those challenging targets.

Climate Change, in addition of being a threat also represents an opportunity to effectively promote a transition to a low-carbon sustainable rural development. Activities included in Mexico's mitigation and adaptation efforts bring in multiple co-benefits, including preservation of natural resources, conservation and sustainable use of biodiversity, poverty alleviation and promoting the use of competitive production systems. Mexico's vision on REDD+ recognizes that sustainable rural development is the key for addressing the fundamental drivers of deforestation and degradation. Acknowledging the social value of forests will provide the incentives to conserve and enhance its carbon stocks.

The unique land tenure system, including forests, and the very diverse social mosaic in the country, with most of the forest (about 70%) under collective ownership by indigenous and local communities, many of them under poverty conditions, underscores the urgent need to address social and economic needs while ensuring effective and efficient delivery of the means and incentives for sustainably management of natural capital.

Significant investment is required to achieve climate and rural development targets in forests landscapes. There is a clear need for mobilization of public and private investment based on solid public-local stakeholder-private sector partnerships. -. Additionally, an effective promotion of low-carbon rural development with solid REDD+ results calls for an unprecedented policy and institutional capacity alignment to coordinate and secure integrated multi-sectorial actions at relevant scales particularly at local level. Mexico has already effectively increased its investment in forest-based mitigation actions and potential models are emerging to enhance policy alignment and coordination. However, many challenges remain in the path to achieve the above ambitious targets, including the need for removing the barriers for the much-needed financial services for forest conservation and management.

The Forest Investment Program will play a strategic role in sponsoring an array of actions that Mexico requires in the preparation for REDD+, especially in the exploration of innovative institutional and financial models. In particular, it will enable the testing of innovative approaches at local scale. Innovative landscape-based management mechanisms, dedicated financing credit

lines for low-carbon rural development techniques and practices and the deeper integration of sectorial policy in support of the often complex productive mosaics found in rural Mexico are some of the key features of this plan.

FIP investments will be targeted to specific priory regions of the country, but retaining its focus on their ability to replicate and scale in other regions of the country and producing and disseminating experiences that can be shared more widely.

Several critical actions and measures are needed to be in sync with FIP investments in order to construct the overall institutional and policy architecture for the REDD+ strategy. Some of the building blocks are being addressed in other existing collaborations, such as the monitoring system with Norway or the exploration of local governance models with France/Spain/European Union. This integrated/coordinated approach to REDD+ financing catalyzes further to other instruments, including two development policy loans, the FCPF funding for the REDD+ readiness preparation plan, related GEF funded projects and other important bilateral initiatives.

In particular, the FIP will be blended to an ambitious broader IBRD operation that seeks to strengthen the capacity of forest-relevant agencies and strengthening the operational capacity for targeted forest programs. Such integration would guarantee that the transformative and innovative investments through the FIP are maximized. The timeframes for such operation are quite ambitious, and hence, Mexico is submitting, along with its Forest Investment Plan, the Project Appraisal Document that will cover two of the four proposed projects to be implemented under the IBRD.

Mexico appreciates the opportunity to be a Pilot country and to submit our plan to deploy investments for readiness reforms needed to address the underlying causes of deforestation and forest degradation and to overcome barriers to enhance forest carbon and improve livelihoods. The implementation of the Forest Investment Plan proposed by Mexico will undoubtedly become a landmark in our path towards a low-carbon sustainable rural development and a major step to meet our aspirational mitigation targets.

DESCRIPTION OF COUNTRY AND SECTOR CONTEXT

1. Mexico is an important economy that still faces social development challenges. With a population of 112 million[4], México is the second most populated country in Latin America, with one in five Mexicans living in rural areas. Mexico has the 13th highest GDP worldwide. The most important productive sectors and sources of income include: manufacture, industry, oil, tourism, agriculture and international remittances. Although its indicators have consistently improved during the last decade, poverty still prevails, particularly in rural areas. It is estimated that 10 million people live in and around forest areas of Mexico with more than half of them living in poverty conditions.

2. Mexico is one of the most biologically diverse countries. This provides both substantial opportunities for development and greater complexity in the management of its forest resources, as well as a large global responsibility. Mexico's biological diversity is accompanied by an impressive cultural diversity, and with very close and important interlinks.

3. One third of the country is covered by forests. Of the total national territory (196.4 million hectares), just over 64.8 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.

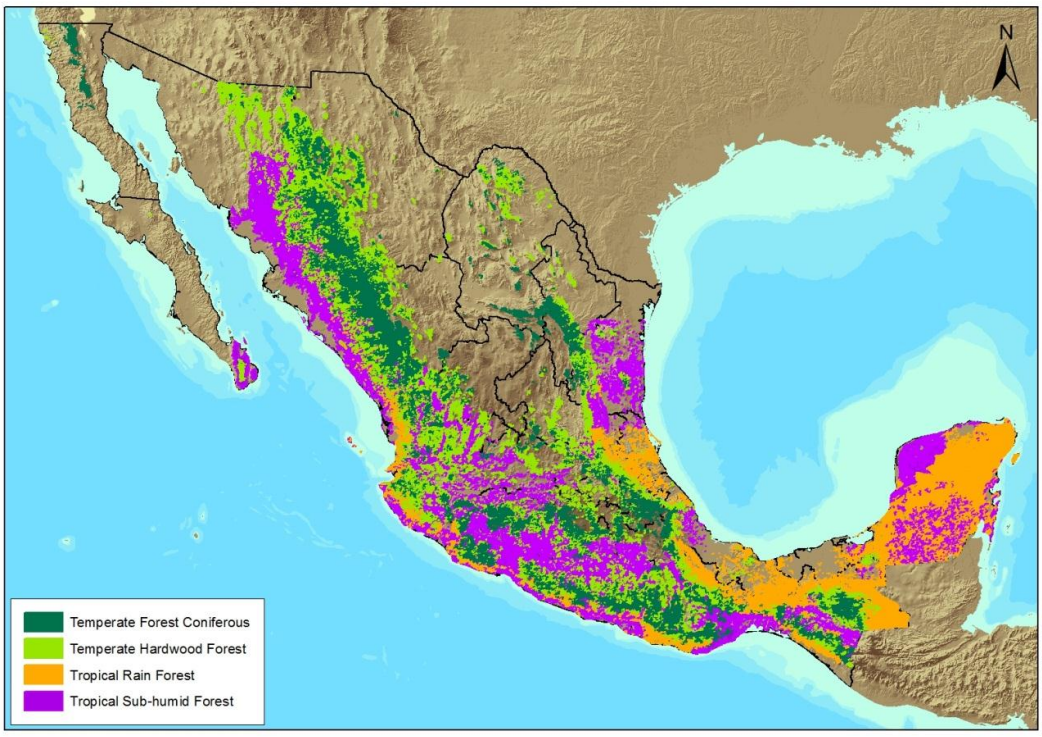


Figure 1. Distribution of forests in Mexico 2007. Source: INEGI, Mexico.

[4] INEGI. Censo de Población y Vivienda 2010.

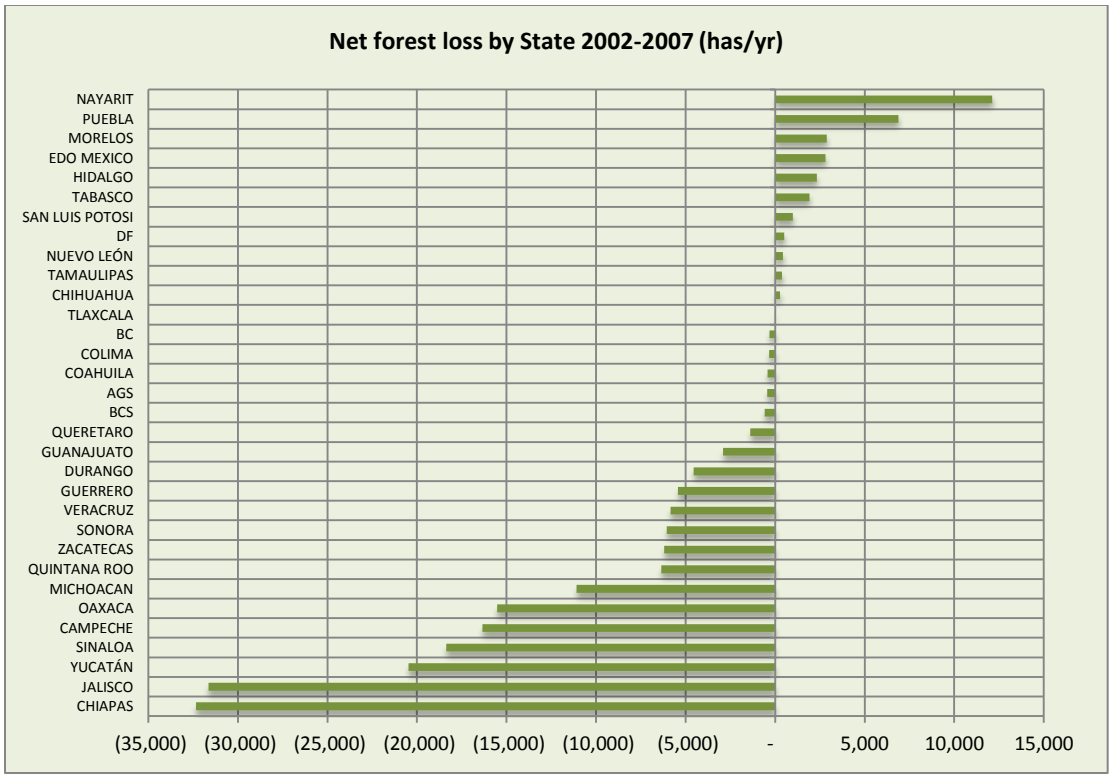
4. Just over half of the temperate forests and tropical rainforests (53%) have primary vegetation and 43% have secondary vegetation. There are important differences between these types of vegetation.

5. Mexico's forest ecosystems have been subjected to profound changes expressed mainly in **deforestation and degradation**. Deforestation and degradation processes resulting from human intervention have a long history including periods of major changes in land use. Presumably, they started with the displacement of indigenous populations to forests areas due to the occupation of the Spanish conquerors. Then, during colonial times, mining activities demanded large volumes of timber that severely impacted temperate forests in the center area of the country. Subsequently, during the early stages of the Republic, large timber concessions in favor of foreign companies continued impacting temperate and oak forests. The high levels of deforestation and degradation caused by these concessions, resulted in the first forest bans which could be considered as the closest institutional origins of the long history of Mexico's national forest policy. The demographic growth of the rural population and the market demands for timber and non timber products from the middle of the last century, and the increasing incorporation of the South East States with the rest of the country's economy, triggered a new period (1960 – 1980) of intensive land use change and perturbation, generating high deforestation rates particularly in tropical dry forests and tropical rainforests of the States of Chiapas, Oaxaca, Campeche, Yucatan and Quintana Roo.

6. Deforestation rates during the period of 1976 and 2000 are estimated at 0.76% for tropical rainforests and 0.25% for other types of forests[5]. In the period of 2005-2010, these rates have decreased to an average of 0.24% for all types of forests. This represents about 155,000 hectares per year[6]. However, these data hide the heterogeneity of the phenomenon that is expressed in significantly higher rates for some regions in the country.

[5] Mas, JF et. al. (2009) La evaluación de los cambios de cobertura/uso de suelo en la República Mexicana, Investigación Ambiental, 1(1):23-39

[6] FAO (2010). Informe del país 2010 sobre la evaluación global de recursos forestales: México (disponible en http://www.fao.org/forestación/fra/67090/en/)



7. Degradation in Mexico is also a national issue. Historic degradation processes resulted in significant degradation, particularly in the tropical regions. Current rates of conversion of primary forest to secondary forests are estimated at a rate of approximately 250,000 hectares per year for the period of 2005 and 2010[7]. In addition to the high economic costs, loss of ecosystem functionality and GHG emissions, the loss of critical ecosystems for biologically important species was significantly serious (See Table below). Degradation, however, is a more complex process and disturbances have different impacts in various ecosystems. To date, 127 species of reported cases have been lost, of which (58.2%) were endemic. This means that these species have become extinct from the planet[8].

[7] FAO(2010) Ibid.

[8] Sarukhán, J., *et al.* 2009. *Capital natural de México. Síntesis: conocimiento actual, evaluación y perspectivas de sustentabilidad.* Comisión Nacional para el Conocimiento y Uso de la Biodiversidad, México.

Table 1. Average total biomass estimated by forest type and succession stage[9].

		Primary Forests	Secondary forest		
		Primary	Trees	Shrubs	Herbaceous
Temperate forests					
Broadleaved	t/ha	64	65	51	43
	% of forest type	64%	22%	11%	3%
Conifers	t/ha	86	85	54	44
	% of forest type	74%	17%	7%	3%
Tropical forests					
Rainforests	t/ha	118	103	76	n/a
	% of forest type	22%	56%	18%	4%
Sub-humid	t/ha	54	43	38	n/a
	% of forest type	62%	17%	14%	7%

8. The causes of land use changes and forest degradation in Mexico are particularly complex making it difficult to identify effective mitigation and prevention programs and strategies; especially, when the ultimate goal is to reduce emissions. Consequently, under the FIP Investment Plan, it is necessary an adequate analysis in order to identify, analyze and prioritize the immediate or direct and their respective underlying causes of deforestation and degradation. With this knowledge it would be possible to design and implement intervention measures and it would be possible to identify early action in priority areas.

   Underlying causes:

   i. **Economic causes**: Under the current country conditions, the costs of alternative land uses other than forest management (farming, commercial agriculture, mining and tourism and urban development and lately, biofuels) are significantly more attractive. The absence or the limited financial services of technical assistance and the lack of infrastructure for forest management and the transformation of forest products, are expressed in high opportunity costs as compared to forestry. A lack of capacity of forest owners, high transaction costs in obtaining forest permits, compared to other economic activities such as agriculture and livestock, and the undesirable impacts of public subsidies for these productive activities, represent economic barriers for the prevention of emissions, mainly from deforestation. Likewise, the pressure generated by the demand and the prices of some products such as meat, Jatropha (*Jatropha oil*), Avocado (*Persea americana*), Agave (*Agave sp*), precious woods like Mahogany (*Swietenia macrophylla*), Cedar (*Cedrela odorata*) and Xate (*Chamaedorea ernesti-agustii*), and in a lesser extent subsistence corn production for the domestic and international market, increase land use change and/or generate fragmentation and

[9] Calculations based on data generated by Jong, B., Olguín, M., Rojas, F., Maldonado, V., de la Cruz, V., Leyva, F. (2009). "Contenido de biomasa leñosa por hectárea (t MS/ha), año 2007". Mapa no publicado; Copyright El Colegio de la Frontera Sur (ECOSUR), México.

other forms of forest degradation. Also, problems related to rural unemployment and underemployment which in turn, are associated with energy demands of the rural and semi-urban poor, as well as those of the local industry, demand growing volumes of firewood and charcoal. High levels of degradation in almost all the types of forests in Mexico result from the extraction of approximately 50 million metric tons per year use to supply the household consumption of millions of families mostly living under extreme poverty, and to meet the demand of the small local industry (brick kilns, bakeries, leather processing plants and spirits).

ii. **Institutional causes and sectoral policies**: The inadequate implementation of some of the incentive policies to promote agricultural and livestock activities, generate unwanted and indirect impacts that exacerbate land use change. Such is the case of the livestock promotion programs, which having the appropriate safeguards indirectly generate leakages resulting in the transfer of land use change to livestock or agriculture in other areas. Likewise, the promotion of commercial and agro-industry such as Jatropha, Sugar cane and African Palm, which at the moment do not represent a serious problem regarding emissions, their growing tendencies are worrying, in particular for forest lands of tropical dry forests and tropical rainforests. The institutional problems of public sector to ensure compliance of the forest and environmental legislation, and cross-sectoral action particularly at the local level, create opportunities for illegal and informal activities. These activities mostly generate forest degradation and serious impacts on forest governance expressed in illegal logging, forest fires, over-exploitation and selective logging of forest species such as precious woods (Mahogany and Cedar), and the indiscriminate extraction of firewood, Xate, and the traditional practice of burning natural pastures. These illegal or informal activities affect most types of forests in the country, in particular tropical dry forests, tropical rainforests, temperate forests and oak forests. Tourism development policies and urban development mainly in the Coasts of Jalisco, Oaxaca and the Yucatan Peninsula, represent a severe pressure on coastal ecosystems particularly on mangroves.

iii. **Social causes**: With the exception of specific cases, the lack of management skills at the *ejido* and community level for conducting forest operations, business management and market information, contribute directly with high levels of risk for investment and costs of community forest management, thereby creating the conditions for land conversion to other more profitable activities. The weakness of the organizational structure and the leadership capacity and other governance bodies of *ejidos* and indigenous communities, contribute directly on increased informal or illegal practices such as leasing, sale of standing timber, sharecropping, etc. that generate forest degradation and land use changes for subsistence agriculture, commercial crops, use of natural grass, illegal logging and over extraction of forest products. In addition to the particular case of the "Avecinados" –rural in habitants from *ejidos* or indigenous communities that due to demographic growth experience lack or have insufficient land –, and landless peasants represent a strong pressure that results in deforestation and/or degradation due to the use of those informal

arrangements of forest access (leases and internal permits), especially in *ejidos* and communities in the States of Chiapas, Oaxaca and Michoacan.

Immediate or direct causes

i. Conversion of forests to food crops (corn, beans, etc.) as a transition to extensive livestock for meat production in community/communal and ejido lands and in small land holdings in tropical dry forests, tropical rainforests, temperate forests and oak forests in the States of Chiapas, Oaxaca, Campeche, Quintana Roo, Estado de Mexico, Jalisco y Michoacan.
ii. Forest conversion to commercial agriculture (coffee, jatopha, agave, sugar cane, avocado, African palm and chile) in tropical rainforests and temperate forests in the States of Chiapas, Oaxaca, Campeche, Quintana Roo, Yucatan, Mexico, Michoacan and Jalisco.
iii. Forest degradation in tropical dry forests, temperate forests and oak forests caused by the use of natural grasses for extensive livestock farming and for small caprine livestock, among others, in the States of Oaxaca, Chiapas, Mexico, Jalisco and Michoacan.
iv. Deforestation of secondary forests of tropical dry forests due to the expansion of urban infrastructure development for human settlements in the coasts of Oaxaca and Jalisco.
v. Degradation of primary and secondary forests in tropical dry forests, tropical rainforests, temperate forests and oak forests caused by illegal logging for firewood and charcoal production for domestic use (rural population living in poverty conditions), as well as for other industrial processes such as brick making, tequila production and others activities varying according to the region, in the States of Oaxaca, Michoacan, México, Chiapas, Campeche and Quintana Roo.
vi. Degradation of primary and secondary forests owned by *ejidos*, communities and small landowners caused by illegal logging, selective extraction and over exploitation of high commercial value species (Mahogany, Cedar, some conifers, and non-timber products such as Xate), in tropical rainforests and temperate forests of Chiapas, Oaxaca, Quintana Roo, Yucatan, Campeche y Michoacan.
vii. Degradation of primary forests by over-exploitation of timber species of high commercial value and bad forestry practices and by purchase-and-sale contracts of standing timber with intermediaries and forest timber industry in indigenous communities and *ejidos* forestlands, mainly in tropical rainforests and temperate forests from Chiapas Oaxaca, Campeche, Quintana Roo, Yucatan, Mexico and Michoacan.
viii. Conversion of mangrove ecosystems, wetlands and other types of forests owned by *ejidos* and by small landowners caused by unplanned urban development and the establishment of tourism infrastructure in coastal areas of Jalisco, Oaxaca and the Yucatan Peninsula.

9. The overall effect of the identified drivers has resulted in a limited use of the productive potential of Mexican forests, competing in disadvantage with other alternative land uses,

mainly agriculture and livestock. Additionally, this has limited the incentive for management and forests protection, making them vulnerable to degradation practices.

10. The heterogeneity of conditions and the existence of areas with significantly higher rates of forest change, demand addressing the causes of degradation and deforestation with spatially differentiated actions.

11. **This has resulted in considerable emissions of greenhouse gasses (GHG).** In the period between 1990–2006 the Land Use, Land Use Change and Forestry, (LULUCF) contributed with a total of emissions between 86,188 Gg CO_2 , with an average of 80,162 Gg CO_2[10] per year. The estimated emissions in 2006 represented 9.9% of the total emissions of Mexico. While the change in land use was the main trigger of emissions, degradation in forest land was also a major contributor.

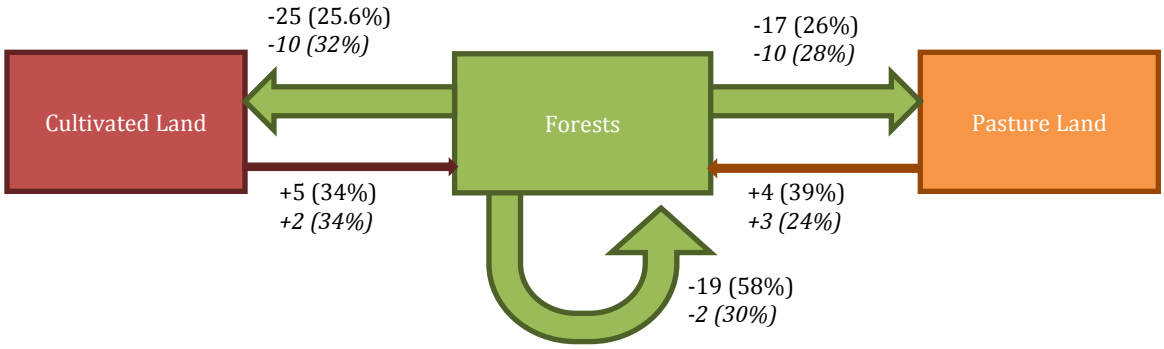


Figure 2. Emissions and removals from forests (in million tons of CO_2/yr, base year 2006. Includes only biomass. Uncertainty levels in parenthesis. Source: 5th National Communication to the UNFCCC, Mexico.

SOCIAL AND ECONOMIC IMPORTANCE OF THE FOREST SECTOR AND OF THE SECTORS THAT AFFECT FORESTS

12. A large part of the natural capital, including forest ecosystems, **is owned by indigenous and rural communities.** Mexico has a unique ownership/tenure structure with about 70% of forests and tropical rainforests under collective ownership in the forms of communities and *ejidos*[11], which constitute democratic decision-making systems for forest management. Property rights of these groups are well defined and there are several institutional mechanisms to support and safeguard the rights of forest owners. There are a total of 31,514 ejidos and communities in Mexico, of which about 9,000 are forest or tropical rainforest owners. It is estimated that about 3,000 communities and ejidos are engaged in forestry as their main activity[12].

[10] Cuarta Comunicación Nacional al CMNUCC, www.ine.gob.mx
[11] Bray, D. (2010) Toward 'post-REDD+ landscapes' Mexico's community forest enterprises provide a proven pathway to reduce emissions from deforestation and forest degradation, InfoBRIEF November 2010, CIFOR, www.cifor.cgiar.org
[12] INEGI. Estados Unidos Mexicanos (2009) Censo Agropecuario 2007, VIII Censo Agrícola, Ganadero y Forestal. Aguascalientes, Ags.

13. Despite the fact that the demand for forest products has been on the rise, the low competitiveness of the forest industry has resulted in a **reduction in forest production.** The timber production in 2009 was less than 6 million cubic meters. In contrast, the apparent domestic consumption increased from 7 to over 21 million cubic meters of roundwood during the same period[13]. To the legal production of timber, an estimate of illegal industrial logging should be added.

14. An indicator of the **sustainable management surface** is the total area under technical management that in 2007 was of only 6.1 million hectares[14]. The goal is to reach more than 9 million hectares for 2012[15]. However, this still leaves the great majority of forests without management and unable to compete advantageously with alternative land uses.

15. **Firewood consumption is still important.** Firewood and charcoal satisfy 11% of the total national energy demand and 80% of the rural sector demand. The volume of plan biomass used as fuel is 3 to 4 times higher than the volume of commercial timber extraction and represents about 19 million tons[16].

16. Although **community forest management** still covers a small area at the national level, it has a great potential. Mexico ranks first in community management of forests certified as sustainable. About 31 forest communities have certified 717,424 hectares under the FSC scheme, that represents about 15% of the national production and cover about 10% of the forest surface under technical management. Community management is associated with a better conservation of forests[17]. This constitutes an effective strategy to reduce deforestation and degradation of forests with economic sustainability potential and benefit-sharing mechanisms[18]. The achievements of the direct management of communities still need more support in order to expand to other regions of the country and they also require to be consolidated economically.

17. **Environmental services** of forests represent an increasingly important economic potential and although they have established mechanisms for their recognition through federal programs, it is still necessary to deepen in other payment mechanisms that can contribute to provide financial incentives to forests without productive potential.

18. **The sustainable food production facing the future demand is a major challenge that can add more pressure to forest ecosystems**. It is estimated that Mexico may be one of the countries most vulnerable to climate volatility in terms of impacts on poverty. This is as a

[13] Anexo estadístico del Quinto Informe de Gobierno, Presidencia de la República, página 372.
[14] Semarnat, 2007. Programa Nacional de Medio Ambiente y Recursos Naturales 2007-2012. Secretaría de Medio Ambiente y Recursos Naturales. México.
[15] Anexo estadístico del Quinto Informe de Gobierno, Presidencia de la República, página 378.
[16] Sarukhán, J., *et al.* 2009. *Capital natural de México. Síntesis: conocimiento actual, evaluación y perspectivas de sustentabilidad.* Comisión Nacional para el Conocimiento y Uso de la Biodiversidad, México, página 64.
[17] Barsimantov, J. 2009 What makes community forestry work? A comparative case study in Michoacan and Oaxaca, Mexico. PhD thesis, Department of Environmental Studies, University of California, Santa Cruz, citado en Bray, D. (2010).
[18] Durán Medina, E. et. al. (2007) Capítulo 10: Cambios en las coberturas de vegetación y usos de suelo en regiones con manejo forestal comunitario y áreas naturales protegidas de México, en Bray, D. et al. Los bosques comunitarios de México: Manejo sustentable de paisajes forestales.

result of the impacts on agricultural productivity and agricultural prices[19]. Particularly, the vulnerability of rain fed or seasonal agriculture may increase[20], with its consequent impact on rural populations. Agricultural and livestock activities can be performed so as to minimize the impacts associated with forest ecosystems, but this requires a greater coordination and integration of policies for this to result in sustainable management of productive landscapes.

NATIONAL VISION OF REDD+ AND READINESS/PREPARATION ACTIVITIES

19. The National Forest Commission is the focal point of REDD+ and under its leadership it has been possible to maintain effective coordination of the planning and preparation activities of Mexico for REDD+.

20. Mexico is accelerating its actions in preparation for REDD+ by performing various actions. In 2010 the Readiness Preparation Plan for REDD+ was approved under the Forest Carbon Partnership Facility (FCPF) and Mexico published a vision document that sets out some important goals and principles. Some of the most notable principles are:
    a. Sets out a goal of zero net emissions from forest land use change and a significant reduction in the rate of degradation by 2020.
    b. It recognizes that deforestation and degradation factors are frequently out of the forest sector and that the most effective way to face these factors is with a territorial, cross-sectoral and sustainable rural development approach.
    c. It commits to maintain and promote community management of forests, which is the most common form of forest ownership, by promoting the rights of indigenous and local communities.
    d. Multiple co-benefits will be sought for the implementation of REDD+, including: poverty alleviation, biodiversity conservation, climate change adaptation, as well as other forest environmental services.

21. The formal mechanism for defining climate policy, including REDD+, is the Intersecretarial Commission for Climate Change (Comisión Intersecretarial de Cambio Climático). However, given the cross-sectoral vision for REDD+ that has been proposed, the document was presented and obtained the endorsement of the Sustainable Rural Development Intersecretarial Commission (Comisión Intersecretarial de Desarrollo Rural Sustentable).

22. The Vision of Mexico on REDD+[21] was developed through a participatory process involving civil society, the academic community and several government agencies, which complemented the traditional feedback channels.

[19] Ahmed, S. et al (2009) Climate variability deepens poverty vulnerability in developing countries, Environmental Research Letters 4:1-8. doi:10.1088/1748-9326/4/3/034004
[20] Conde, C. et al (2004)Impactos del cambio climático en la agricultura de México, en Martínez, J. et al. coord. Cambio climático: una visión desde México, Semarnat/INE, México.
[21] Disponible en http://www.conafor.gob.mx/portal/index.php/cambio-climatico-y-bosques/1-proceso-de-redd-en-mexico/a-fcpf

23. Mexico is currently elaborating its National REDD+ Strategy. It is expected to produce a draft before the end of 2012, which will be subjected to an extensive consultation in the same year.

24. In addition to the existing opportunities for participation, the National Technical Consultative Committee for REDD (CTC-REDD) was created as a multi-stakeholder and specialized space in order to analyze and provide feedback in the REDD+ process. This committee was created in 2010 and it has actively been involved in the National Strategy process and in the definition of other preparation actions for REDD+, including the FIP. These participatory processes are expanding in the development of the Strategy with the creation of CTC-REDDs at the state level.

25. In order to achieve a greater participation of indigenous and local communities, feedback workshops were held for both the National Strategy and for the Investment Plan.

26. Within the Social and Environmental Strategy Assessment framework of the FCPF, a participatory oversight space has been formed.

27. Preparations for REDD+ are coherent and consistent with the climate, forest and land policy. The relevant forest political processes include the updating of the Strategic Forest Plan 2025 and the definition of the National Low Carbon Development Strategy. Other existing instruments are the Adaptation Policy Framework and its National Strategy for Sustainable Land Use, mostly focusing on desertification.

IDENTIFICATION OF OPPORTUNITIES FOR GRENHOUSE GAS ABATEMENT

28. In 2010, the National Institute of Ecology identified various activities in Mexico's forest sector with an emission reduction potential of 58 million tons of CO_2e for the year 2020 and 96 million tons for the year 2030. These projections indicate that the forest sector in Mexico would be a net sink in the year 2022. The FIP investment plan is expected to become a strategic instrument that would contribute to both generate an enabling environment for these activities and meeting this target[22].

29. Mexico's track record in effective programs for mitigation and removals of greenhouse gas emissions, particularly during the last five years, is very encouraging. Through the restoration, reforestation, CONAFOR's programs have contributed to achieving major reforestation and forest landscape restoration targets of over 3 million hectares between 2007 and 2012 while the Program of Payment for Environmental Services has covered more than while 3.27 million hectares since its creation in 2003. These programs have made significant progress in increasing forest carbon.

[22] Semarnat/INE (2010) Potencial de mitigación de gases de efecto invernadero en México al 2020 en el contexto de la cooperación internacional;

30. Mexico's Special Program of Climate Change (PECC) has identified and encouraged several viable interventions now in partial implementation by the federal government such as conservation and sustainable management of forest ecosystems, which has demonstrated effectiveness in preventing forest cover loss and fragmentation through the above mentioned ongoing CONAFOR programs. Mexico´s support programs has added 1 million hectares under management in the last 3 years, but additional support is needed.

31. For the past three decades Mexico has been addressing some of the causes of deforestation and degradation with relative success, through policy instruments, particularly those related to forest policy and institutional reforms. In fact the actual establishment of CONAFOR is a tangible output with documented results such as forest administration decentralization at the State level, promotion of community forest management and ambitious reforestation and forest landscape restoration.

32. A prospective project portfolio resulting from the target setting process of PECC includes: (i) emissions reduction by preventing conversion to grassland for meat producing livestock; (ii) emissions reduction by preventing deforestation from slash and burn agriculture; (iii) emissions reduction by increasing forest areas under sustainable forest management; (iv) emissions reduction by preventing forestland conversion resulting from the increasing trend of agro-industry and other commercial expansion; (v) removals by afforestation on existing grasslands; (vi) removals by reforestation of degraded forestlands; and (vii) removals by incorporating afforestation and agroforestry in agricultural farmlands.

33. Themes and projects included in the FIP Investment Plan are expected to provide the needed enabling framework for the Mexican Government and stakeholders to develop a comprehensive national REDD+ Strategy. Options included in the PECC mitigation measures are consistent with CONAFOR's current programmatic agenda and those proposed for the FIP portfolio. While those partially or unfunded options represent opportunities for FIP interventions, undertaking them would require significant resources and technical assistance to overcome such barriers as extensive demands for capacity building, institutional strengthening and alignment and integrated actions by the public sector at the local level – in other words, the basic elements for enabling conditions for a successful strategy for mitigation of GHG.

34. Removing some of the above mentioned key barriers to allow successful emissions reduction undertakings are a basic pre-condition to a successful comprehensive strategy. Such roadblocks as lack of integrated cross-sectoral action for program implementation, poor governance related to natural resource management, particularly related to forest and land use issues at the sub-national and local levels, lack of effective financial services for rural production, particularly for forest management, have significant influence on the viability of the FIP portfolio. Effective implementation of actions to address the above challenges should include a phased approach with the understanding that addressing key selected barriers would take time and resources.

35. The FIP investment portfolio is expected to include selected strategic opportunities to mitigate GHG. Through its proposed forest landscape-based and productive mosaics strategy, the sponsored institutionalization of the Forest Landscape Management Entity and the support of the local participatory Strategic Assessment Platforms in the Early Action REDD+ Areas, FIP sponsored initiatives will launch integrated efforts to address the challenges of forest loss and degradation. The following activities are planned:
    a. Reducing emission from deforestation and forest degradation using sustainable forest management as an instrument for stabilizing the agricultural and livestock frontier. By improving forestry operations through promoting the use of low carbon sustainable logging practices and improved, cost effective SFM, emission targets are expected to be met. Furthermore, the use of low emission silvo-cultural operations aimed at increasing biomass productivity will enhance uptake of CO2 making forest management more attractive than land conversion. All of these, together with institutional changes, are expected to increase profits from forest management for the benefit of forests and their owners and to increase carbon stocks both in biomass and in land.
    b. Programs to reduce emissions from forest fires by changing the patterns of land use away from slash and burn agriculture and pasture-burning that have a devastating impact on primary and mature secondary forests in tropical moist and dry forest ecosystems such as those in the States of Chiapas, Oaxaca and those of the Yucatan Peninsula.
    c. Programs aiming at forest landscape restoration and stabilization of the agriculture and livestock frontier by co-sponsoring together with SAGARPA and other rural development programs the introduction of forest cover in productive mosaics. The tool kit of sustainable rural production systems includes silvo-pastoral techniques, grazing rotation, conservation tillage (Zero tillage), agro-ecology and other techniques, afforestation, reforestation, restoration and forest certification to reduce emission by stabilizing migratory and commercial agriculture and grazing frontier and mitigating the pressure on primary forests in tropical moist forests and temperate forests.
    d. Reduce emissions from mature secondary and production forests degradation caused by unsound overharvesting and firewood extraction through encouraging the use of firewood from local wood lot plantations cultivating energy efficient species, sustainable firewood and logging debris collections in production forests, improving the efficiency of firewood use, promoting formalization and registration of commercial firewood collectors and traders.
    a. Reducing emissions from forestland conversion by increasing agricultural productivity applying phased approaches to change conventional and mainstream livestock and agro-technical practices with more environmentally sound and efficient practices.

36. This package of options is consistent with a range of strategies tested in the field and documented by several studies on mitigation potential in the forest sector[23]. A significant part of the identified proposals and ongoing programs are currently funded by the federal government budget.

37. The proposed cross-sectoral actions on the ground are expected to strengthen governance structures and the effectiveness of the FIP program portfolio resulting in higher mitigation results. These interventions will also enhance the impact of the PECC and other forest programs, generating greater and more efficient mitigation results in strategic regions.

38. In addition to the extensive experience in community management of natural resources[24], some of these production systems are already being tested in several areas of Mexico. The forest landscape management models such as the *Junta Inter-municipal del Río Ayuquila* (Inter-municipal Association of the Ayuquila River), as well as the integrated experience of planning and promotion from the Mesoamerican Biological Corridor or the cross-sectoral technical assistance for both forests and agricultural programs offered by the Consejo Civil Mexicano para la Silvicultura Sustentable in Amanalco, State of Mexico, represent some of the viable models that can be used to ensure short-term results. In fact, some of these models are being supported by REDD+ funds.

POLICY AND INSTITUTIONAL FRAMEWORK

39. Mexico's policy and a regulatory environment meet the demands for assisting REDD+ initiative and the FIP investment Plan. This allows Mexico to cope in addressing the scale and the implementation challenges of the REDD+ National Strategy. The following are a brief account of some of its features:
    a. well-defined property rights that recognize the community property and establishes institutional frameworks for conflict resolution;
    b. forest issues are now a national priority, with strong institutions and strengthened instruments of forest policy, which includes both the creation of the National Forest Commission (CONAFOR), the Mexican Forest Fund, the Strategic Forest Plan through 2025, an extensive battery of assistance programs such as ProArbol with a increased budget of more than 16 times in the last decade, totaling more than 520 million dollars in 2011;
    c. coordination platforms at the highest political level, with two inter-ministerial committees relevant to REDD+, the Climate Change and the Sustainable Rural Development;

[23] See, for example, Johnson, T et al (2009) Low-Carbon Development for Mexico, World Bank, Washington; De Jong, B. et al (2007) Opciones de captura de carbono en el sector forestal, en Martínez, J. et al. coord. Cambio climático: una visión desde México, Semarnat/INE, México; Galindo, L.M. coord. (2009) La economía del Cambio Climático en México, Semarnat,Secretaría de Hacienda y Crédito Público, México.

[24] See, for example, Carabias, Julia, *et al.* (coords.), 2010. *Patrimonio natural de México. Cien casos de éxito.* México, Comisión Nacional para el Conocimiento y Uso de la Biodiversidad.

d. multiple platforms for social participation, that include various Advisory Councils– sustainable development, forest, for the natural protected areas – , various Technical Committees for specific programs, including National and State Technical Advisory Committees REDD (CTC-REDD), as well as others that are not exclusively environmental like the National Council of the CDI, among others.
e. commitment and global leadership in climate action, reflected in international strategies, programs and commitments, including the National Strategy of Climate Change and the Special Program of Climate Change, with an inspirational goals in the reduction of 20% of greenhouse gas emissions through 2020, and 50% through t2050. After Copenhagen, the inspirational goal of Mexico has increased with a commitment of 30% through 2030;
f. relevant experience in the implementation of innovative programs relevant to REDD+, this includes the Program of Payments for Environmental Services (PES) and the Community Forest Development Program (PROCYMAF), as well as the Community Conservation Project for Biodiversity (COINBIO).
g. important experiences and capabilities for forest monitoring and for evaluation of policies, on the monitoring side, with instruments such as a National Forest Inventory based on a network of more than 24,000 permanent sampling sites and multiple monitoring community experiences, including carbon monitoring for various initiatives of voluntary carbon markets and the evaluation of policies with periodic studies for the evaluation of programs, including the one carried out by the National Council of Social Policy Evaluation (CONEVAL)[25].

40. There are specific mandates for coordination of forest policies and rural development. At federal level, the Ministry of Environment and Natural Resources of Mexico (SEMARNAT), is the government agency responsible for natural resources including forests. The General Law for Sustainable Forestry Development (LGDSF) states that the SEMARNAT is responsible of "formulating and implementing the national policy for the sustainable forest development, and to ensure its consistency with the national natural and environmental resources, as well as with the policies for rural development". The SEMARNAT is also responsible of the sectoral plan and maintains control over the formulation of forest management plans.

41. The creation of the National Forest Commission attracted very significant support creating an important critical mass together with other agencies with responsibilities in the forestry sector. In 2001 the National Forest Commission (CONAFOR) was established and is responsible for, among other things, the implementation of the 2025 Strategic Forest Plan. CONAFOR's mandate is developing, promoting and carrying out activities related to the production, conservation and restoration of forests. The Federal Attorney for Environmental Protection (PROFEPA) is also a decentralized body of the SEMARNAT, and is in charge of the inspection, surveillance and sanctions in the areas of forest production and natural protected areas. CONAFOR coordinates efforts with SEMARNAT through policy instruments that include relevant elements for REDD+ such as: the Forest Development Plan;

[25] For more information, see www.coneval.gob.mx

the Information System and the Forest Registry; the National Inventory of Forests and Land; the forest zoning; and the Annual Satellite Assessment of Forest Changes. In addition, the Act that created the Mexican Forest Fund as a financing mechanism in order to support the sustainable forest administration and to recognize the importance of the environmental forest services. All these policy and institutional instruments will become a key critical mass in the design and implementation of REDD+.

42. The Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA), also plays an important role in the forest lands through various programs and components specifically focused on rural development. In the present administration and in the framework of the Special Climate Change Program, the SAGARPA has implemented measures aimed at reducing pressure on forests, such as the installation of wood efficient stoves and the promotion of planned grazing and reforestation in marginal corn-fed production areas. However, there are important coordination areas yet to be strengthened.

43. There are cross-sectoral coordination platforms. The need of coordination between sectors in order to confront climate change and the national interest to address sustainable rural development resulted in the establishment of two high level coordination bodies, the intersecretarial Commission for Climate Change (CICC)[26] and the Intersecretarial Commission for Sustainable Rural Development (CIDRS)[27]. Both are in the initial operations. Progress made in this context include the design of a National Strategy for Climate Change, the Special Climate Change Program 2009-2012, and the Special Concurrent Program (PEC) for Sustainable Rural Development, aiming at achieving horizontal integration of public policies on one hand to combat climate change and on the other to achieve sustainability in the rural area.

44. Producer organizations and civil society have an important role, in some cases as technical support to communities and also they are relevant in disseminating information and in building capacity for collaborative forest management.

45. There are several platforms for social participation. In terms of formal participation, various participative processes and consultation mechanisms have been established for environmental issues and related topics. These include the National Forest Council, the National Sustainable Development Council, the Technical Committees for Protected Areas, the Technical Advisory Committee for REDD+ and the National Indigenous Council. Several of them also have sub-national bodies. In relation to consultation instruments, CDI has developed a robust consultative process for all issues related to indigenous peoples, including those concerning natural resources.

[26] Integrated by the Secretaria de Relaciones Exteriores; Desarrollo Social; Recursos Naturales y Medio Ambiente; Energía; Economía; Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; Comunicaciones y Transporte; y, como invitados, las Secretarias de Salud; Finanzas y Crédito Público; y de Gobernación (Publicado en el Diario Oficial de la Federación, 2005).

[27] Integrated by the Secretaria de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; Economía; Medio Ambiente y Recursos Naturales; Finanzas y Crédito Público; Comunicaciones y Transporte; Salud; Desarrollo Social; Reforma Agraria; Educación Pública; y Energía (Diario Oficial Federación, 2001).

REGULATORY GAPS AND GOVERNANCE CHALLENGES

46. Mexico's challenges in forest sector regulatory regimes rest primarily in the area of policy and legislation compliance and enforcement. Significant progress is needed to foster cross-sectoral coordination and integrated cross-sectoral action at the local level to provide better public service and to ensure desperately needed capacity building for such forest stakeholders as local communities (Ejidos) and indigenous communities, who own approximately 70% of forestlands. Attaining greater consistency in sectoral policies remains a critical task to ensure full alignment between forest policy and the regulatory framework governing the agricultural, animal husbandry (particularly cattle ranching), mining and other extractive industries.

47. Once policies and regulations are fully synchronized, the next task involves the alignment of the regulatory framework with sector development programs implementation. Special attention should be paid to ensuring built-in features that will promote synergies among agriculture and forest financing programs. This not only requires coordination between CONAFOR and SAGARPA, but also with other federal and state agencies that provide support for agricultural and livestock production. The formally adopted Vision of Mexico in REDD+ provides a great opportunity to review and identify the necessary steps to increase integrated cross-sectoral actions at the local level.

48. It is also essential to strengthen and increase the operational capacity of such government law enforcement agencies as the Federal Attorney for Environmental Protection (PROFEPA). Particular attention is needed to provide instruments for effective forest control and monitoring. Technical assistance would focus on establishing forest control checks and balances to ensure verification of the legal origin of forest products in the field and throughout the supply and value chain and on implementing simple, secure and effective systems for cross-checking data using appropriate and affordable technology for monitoring forestry operations. Participatory transparency and accountability systems and protocols will significantly improve forest control and supervision, particularly when seeking cooperation from local community stakeholders.

49. Considering the challenges posed by events related to climate change and the uncertainties resulting from the volatility of the domestic and global markets, greater capacity is needed for land use planning. Effective planning includes active participation of sub-national and local governments and stakeholders and will require significant assistance in building capacity regarding sustainable land use planning in order to launch a meaningful land use planning initiative. The unfunded mandate for municipal governments to conduct land use planning processes within their respective territories will need to be resolved.

50. Technical assistance and the establishment of financial services programs are critically important to better assist local forest stakeholders (Ejidos and indigenous communities) and to ensure sustainable community forest management. Assistance may also be directed toward implementing a step wise approach for forest certification.

51. An additional challenging task remains to review the forest control and supervision regulatory framework with the goal of both simplifying the forest permit approval process while maintaining transparent forest monitoring and control and legislation compliance based on valid verification of forest permits. Such reform should reduce significantly the transaction costs for granting forest permits and result in generating incentives for sustainable forest management.

EXPECTED CO-BENEFITS FROM FIP INVESTMENTS

52. Activities included in the Mexico FIP investment Plan would generate extensive multiple co-benefits (co-benefits) particularly in the Early Action REDD+ areas. Taking advantage of its strong links with the SIL for Forests and Climate Change, Early Activities are expected to have nationwide influence with additional co-benefits to improve local and indigenous community livelihoods, increase capacity for local self-development, foster access to environmental benefits and improve biodiversity conservation in productive landscapes throughout the country.

53. **SOCIAL**: FIP activities included in the Priority Actions are targeted in such areas as the Coastal watersheds of Oaxaca, Jalisco, Chiapas, the Yucatan Peninsula and the area of Cutzamala, between the State of Mexico and Michoacan. Activities will focus on increasing capacity and will contribute to improving livelihoods, resulting in poverty alleviation of indigenous and local communities (Ejidos). Thematic, priority actions and the four investment projects offer clear social co-benefits that will build self-reliance of community members and leaders engaged in local stakeholders platforms at the community and forest landscape level. Stakeholder platforms are expected to guide the implementation of integrated sustainable development programs based on environmentally sound productive activities in and outside of the forest sector. Sponsored low carbon impact agricultural and animal husbandry production practices are expected to contribute to improving the quality not only of natural resources management but also of livelihoods by providing increased local employment and income opportunities. Developing capacities include designing and implementing self-development plans at the community and productive mosaics levels. Based on an aggressive strategy to promote integrated multi-sectorial actions and to incorporate forests in the productive mosaics, the implementation of self-development plans will prepare communities to practice resilience and adapt to climate change[28] events and disasters. In order to successfully promote community self reliance the Early Actions will sponsor activities targeting rural households rather than individuals thus offering opportunities for leadership and benefit sharing and for including traditionally vulnerable community members such as women, children and the elderly.

54. **ENVIRONMENTAL**: Consistent with the strong environmental commitments and policies of the Government of Mexico, FIP initiatives are expected to focus on investments that will highlight the benefits of hydrological services to ensure quality water for human

[28] See CICC (2010) Marco de Políticas de Adaptación de Mediano Plazo, Semarnat, México.

consumption, for productive activities and for maintaining hydrological regimes. Community forestry, sustainable agricultural and animal husbandry production systems will contribute to healthy productive landscapes by using best practices for land and other natural resource planning and watershed management. These services will particularly benefit those women and children settled in vulnerable landscapes such as those found in the coastal areas and in downhill forestlands. Securing ecosystem connectivity through rural productive mosaics that include agro-forestry, afforestation, silvo-pastoral production systems and landscape restoration activities will increase forest, freshwater and coastal ecosystem resilience to climate change disaster events. These activities will also increase forest landscapes' biodiversity richness thus ensuring their capacity to improve the quality of environmental goods and services for the benefit of the local population.

55. **INSTITUTIONAL**: FIP sponsored activities will also focus on the establishment of proposed Territorial Management Entities, cross-sectoral development bodies, together with new or existing Strategic Evaluation Platforms. In collaboration with Municipal governments and other existing participatory schemes, the Territorial Management Entities and Strategic Evaluation Platforms would make up the cornerstone of local governance and the socio-economic development framework. Full stakeholder engagement, transparency and accountability will provide the basic local building blocks for the eventual low carbon development strategy. The Territorial Management Entities are expected to implement an integrated multi-sectorial agenda that includes technical assistance, capacity building and resource mobilization in support of environmentally sound development of local and indigenous communities within the targeted landscapes. The Territorial Management Entities, the Strategic Evaluation Platforms and others would assist the Financiera Rural in the process of providing financial services and capacity building to set up local financial mechanisms. The rules of engagement and participation for all stakeholders (particularly for the most relevant --those who own the forests-- such as Ejidos and indigenous communities) are expected to foster opportunities for full democratic participation in policy, legislation and program implementation.

COLLABORATION AMONG MDBs AND WITH OTHER PARTNERS

56. In Mexico, FIP investments will be made in a multi stakeholder environment where various development partners will be contributing in generating technical, institutional and financial capacities needed to develop low carbon activities that will reduce emissions from deforestation and degradation. MDBs, multilateral development agencies and other partners will be coordinated so as to create synergies.

57. The French Development Agency (AFD), the Spanish Agency for International Development (AECID) and CONAFOR are implementing a project aimed at building local technical and institutional capacities in the implementation of Early REDD+ Actions in some priority

watersheds. The subnational FIP implementation strategy will result from this existing collaboration.

58. Mexico has developed a partnership with the Norwegian Government aimed at creating a Monitoring, Reporting and Verification (MRV) system as well as in identifying reference levels. This cooperation program will help in guiding the MRV approach in the Early Action REDD+ Areas.

59. The launch of the USAID REDD program creates a new opportunity for bilateral cooperation. The program's specific action areas are yet to be defined, however the Mexican government will make sure that these resources will add to the Investment Plan's objectives in scaling and replicating the activities and experiences learnt in the Early Action REDD+ Areas.

60. At a national level, government entities that deal with rural policy are considered important partners in providing political, technical and financial support in the implementation of the Investment Plan. SAGARPA is a key actor with which CONAFOR will look to develop schemes for mobilizing coordinated government support.

61. On the other hand, local state governments will provide the political and financial support needed in the creation of territorial management bodies, such as inter-municipal association in Early Action REDD+ Areas.

62. In terms of national entities, The Mesoamerican Biological Corridor-created by CONABIO-will become a key partner in providing the technical assistance required to assure that all FIP related activities are adequately designed and implemented. The National Commission for Protected Natural Areas (CONANP for its acronym in Spanish) will support all FIP efforts through their network of protected areas which are located in the regions where the Investment Plan will be implemented.

63. In addition to these resources, financial agencies and non-governmental organizations (NGOs) will complement national REDD+ efforts during the entire FIP lifespan. NGOs have a key function in accompanying local communities. Furthermore, they are particularly relevant in disseminating information and in developing local capacities for forest community management.

64. MDBs play an important role in Mexico's economic, social and environmental development. The experience, strengths and comparative advantages of the IBRD, the International Finance Corporation (IFC), and the Inter-American Development Bank (IADB) are noted, as is their experience in the national financial sector. In considering their potential role in the design and implementation of FIP, Mexico aims to take advantage of the individual strengths of each of these institutions so as to maximize FIP's effectiveness. Mexico is grateful for the opportunities that it has received in gaining feedback and interacting with all of the MDBs during the development of this Investment Plan.

65. The IBRD has become involved in Mexico's climate change agenda through various mechanisms, and it is currently engaged in developing a wider scheme through which it can coordinate and integrate financial and non-financial instruments more effectively.

66. FIP investments will directly contribute in this coordination and integration scheme, as will do the Social Resilience and Climate Change Development Policy Loan (DPL). These funds will facilitate the development of high impact activities for the alignment of public policy. Within the framework of the Specific Investment Loan- through which CONAFOR`s programs will be consolidated and strengthen- FIP will provide an innovative element that will inform future national policy in terms of the development, implementation and evaluation of cross sectoral public policies. Furthermore, the Investment Plan is aligned with the proposal for REDD+ Readiness in Mexico (R-PP), which was presented in the Forest Carbon Partnership Facility (FCPF).

67. As was stated during the Scoping Mission and reflected in the Aide *Memoire*, Mexico wishes to include FIP within an extensive group of operations being implemented through the IBRD jointly with CONAFOR. This will not only reduce transaction costs but also contribute in creating synergies within a broader range of instruments being designed by the IBRD.

68. Nonetheless, Mexico considers that the FIP funding distributed through Financiera Rural, a national development finance institution, will provide an ideal opportunity to take further advantage of both the MDBs and this particular financial institution. Financiera Rural was created in 2002 as part of a larger government strategy aimed at increasing the supply of financial services in the rural sector. Financiera Rural's main objective is promoting the development of economic activities linked to the rural sector aiming at increasing productivity and improving the livelihoods of its population. In this regard, it generates innovative financial and non-financial tools, aiming particularly at productive units with little or no access to financial services and which represent a high productive potential for the country.

69. IADB's and IFC's experience with the private sector is particularly relevant to Mexico. Therefore, both institutions where sought out in order to incorporate them in the activities related with the design and implementation of new financial instruments appropriate to the rural sector. From the design to the implementation phase, technical assistance is of vital importance, and it should be noted that both the IADB and IFC have experience in this particular field.

70. In the process of identifying the specific products that the IADB and IFC could add to the Investment Plan, various areas of interest where explored with each bank. Actions beyond carbon benefits where sought out, specifically those which would assure sustainable forest management while increasing the competitiveness of the national forestry sector. These would include targeting areas such as operations (inventory, chain of custody and transport), financial planning, environmental performance and governance.

71. Despite efforts made to channel FIP funds through the IFC, the Corporation's operative restrictions made it difficult to include them in a direct operation within the Investment Plan; however, IFC involvement in the future stages of the development and improvement of the Plan is not ruled out if the conditions are appropriate.

72. The IADB, through its various operations with national financial institutions, has gained ample knowledge of the financial sector within the country[29]. Due to the IADB's collaboration in the Consolidation Program of the Rural Financial Sector (2003), it is also familiar with Financiera Rural's operations and normative codes. Currently the IADB is in the process of negotiating a loan with Financiera Rural with the objective of increasing the offer of financial services to a greater number of economic actors, whilst diversifying its project portfolio in sectors with a high social and environmental impact.

73. Parallel to this operation, the IADB is preparing two technical cooperation programs with Financiera Rural which are particularly relevant: i) designing and implementing a social and environmental risk analysis tool aimed at evaluating the qualitative impact of Financiera's financial operations; ii) analysis of its portfolio in views of agriculture, forestry and other land use activities and their emission reduction potential.

74. The Multilateral Investment Fund (MIF), which forms part of the IADB group, was created with the objective of defining new ways to increase private investment, promote the development of the private sector, improve the entrepreneurial environment by supporting small and micro enterprises, and support economic growth and poverty reduction within the region. The MIF is a major provider of technical assistance[30] geared at the development of the private sector in Latin America and the Caribbean. At the same time, MIF has a unique role within the IADB Group, in proving innovative means at creating economic opportunities and poverty reduction[31].

75. With this in mind, the MIF and Financiera Rural jointly developed the project "Assistance to Financial Intermediaries" with the objective of enhancing and consolidating a system of rural financial intermediaries that emphasized the successful management of agricultural credit. The specific goal was to develop and implement a technical financial model capable of channeling in a sustainable and replicable way, financial services to small and medium rural enterprises. This was done in conjunction with a series of Credit Dispersing Entities.

76. The implementation of the Forest Investment Plan looks at creating synergies with local and national strategies. As a result, it has been enriched through its collaboration with various partners, as demonstrated throughout this section. It will in turn look to be further benefitted and enhanced through the incorporation of new partnerships during its implementation.

[29] Loan operations with national development Banks such as Nafin, Bancomext, Sociedad Hipotecaria y Banobras, as well as various technical cooperation programs it has with these and other national financial institutions.
[30] Approximately US$120 million a year, where average individual donations stand at US $1.5 million.
[31] Mobilizes approximately US $1.60 for every dollar invested

IDENTIFICATION AND REASONING OF THE PROJECTS AND PROGRAMS TO BE CO-FINANCED BY FIP

77. In order to reach higher transformational impact of interventions sponsored by the Mexico's FIP Investment Plan it will target specific strategic priority areas at State and forest landscape level. This will allow shaping investments taking into account the diverse ecological and socio-economic conditions of the target areas. Selected forest landscapes for deploying investments were prioritized taking in consideration: (i) maximizing emissions reduction outcomes and ability to offer additional environmental co-benefits as biodiversity and hydrological services; (ii) short term transformational impact useful for local and national scaling up strategies; and (iii) improving local population livelihoods.

78. The following is the criteria used to identify and select early actions target areas:
    a. areas with important forest blocks under high pressure for forest cover and forest carbon loss. Area assessment was made based on available data and information on forest cover, vegetation and land use changes patterns from the INEGI, the National Institute of Statistics, Geography and Information;
    b. areas with high environmental value; particularly, biodiversity and hydrological value. Assessment was made based on the analytical work on biodiversity gaps and conservation priorities from the National Commission of Biodiversity;
    c. areas with socio-economic development demands assessed based on the existent national poverty indicators.
    d. areas with sufficient presence of local stakeholders with relevant experiences for implementing innovating models able to produce results in the short term.

79. One of the most challenging conditions to be faced by initiatives under the Mexico's FIP Investment Plan is the ability of tailoring national policy implementation and investments for local level actions taking in consideration the very particular socio-economic, political and institutional conditions of targeted forest landscapes. To that end the initiative uses the forest landscape as the spatial unit for resource deployment and activities implementation. Within the context of the FIP initiative, forest landscapes are defined as forested rural spatial units together with productive mosaics. The spatial configuration of those forest landscapes could be set by the specific objectives related to the natural resource management and sustainable rural development. Natural resource management and their governance at the rural landscape level could have diverse configurations depending on the particular local conditions; for instance, conditions posed by the management needs of watershed, protected areas, biological corridors or forest good and services production. In this fashion selected forest landscapes for FIP investments are chosen according to the above described criteria. Financial resources will be implemented based on the given local conditions.

80. The following map reflects the application of the proposed criteria:

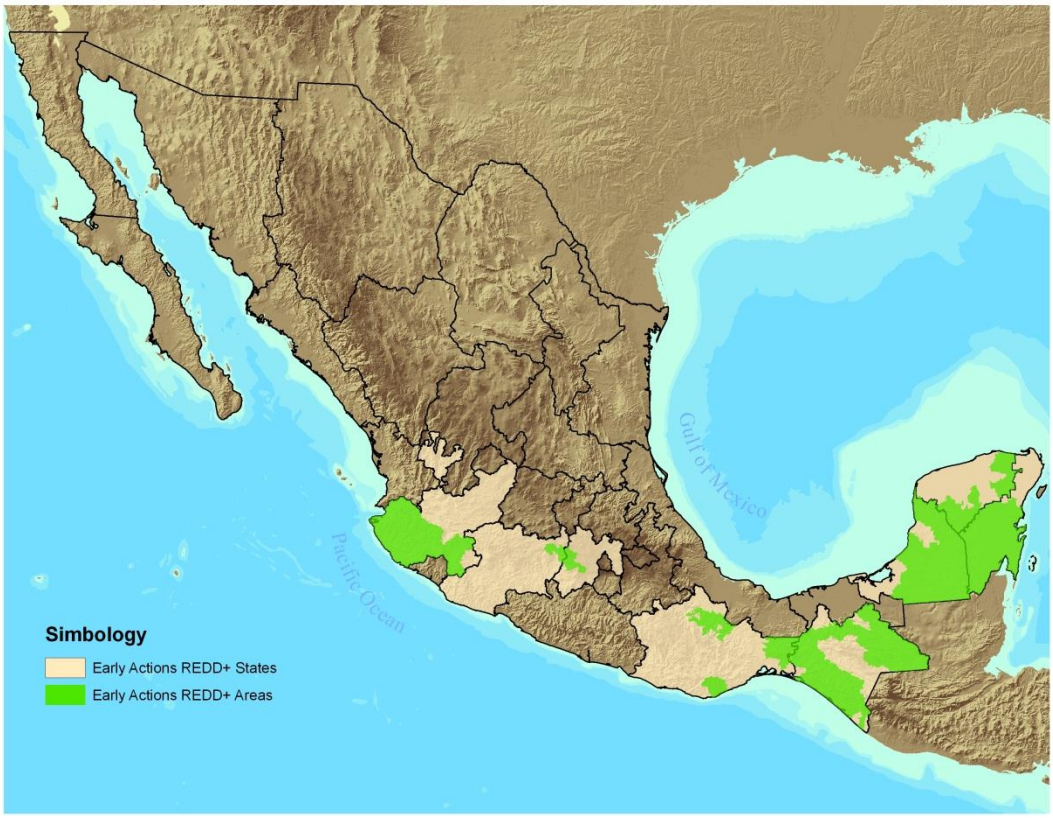


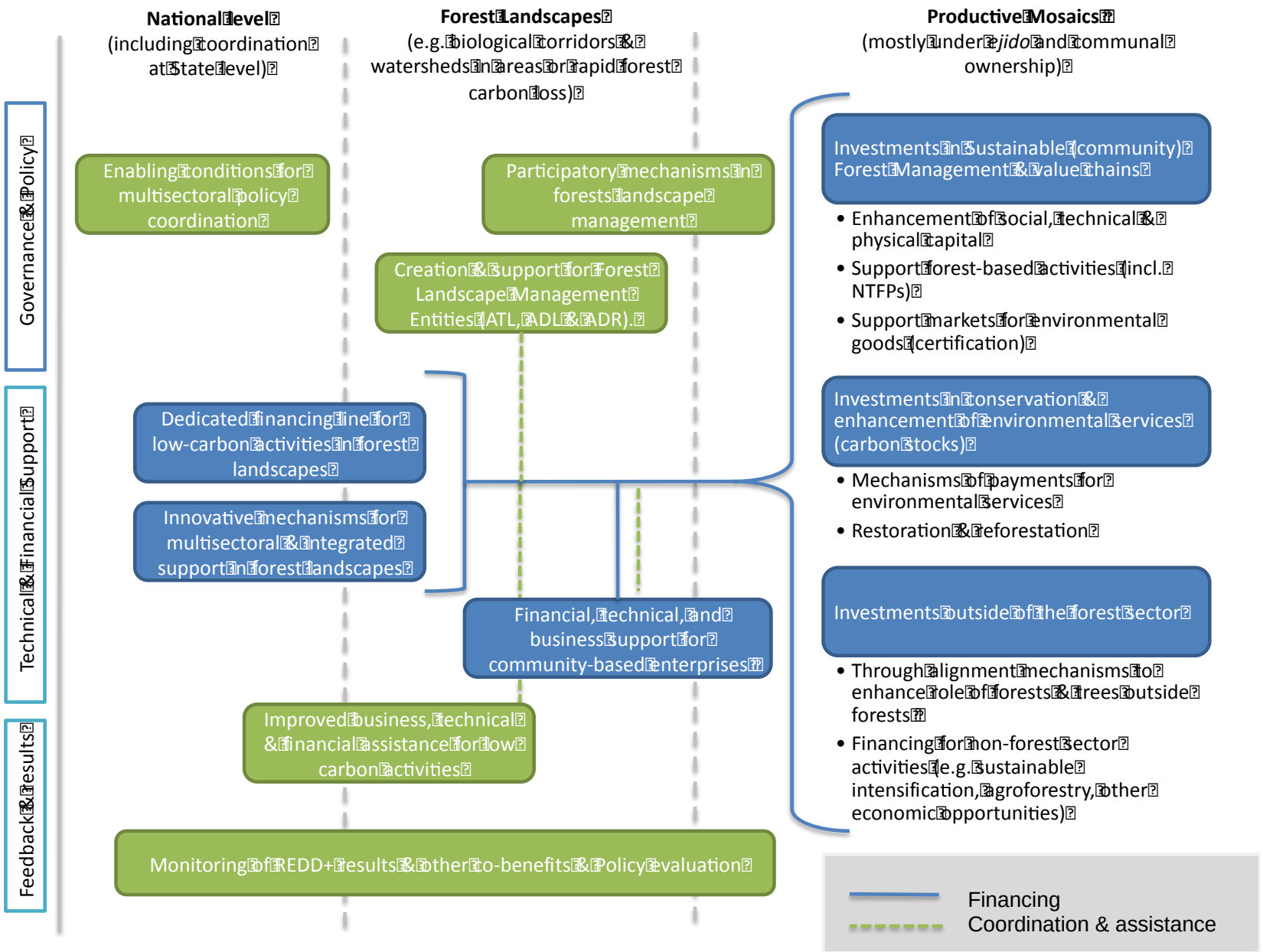
Figure 3. Proposed Early Action Areas for REDD+.

81. Projects to be financed are clustered under the general objective of their ability to increase institutional and local capacity, the potential for sustainable investment to address the direct and underlying drivers of deforestation and forest degradation in the Early Action REDD+ Areas. Investments are guided around five general specific result areas:
    e. investment within the forest landscapes, and capacity for launching a step wise approach for sustainable competitive productive mosaics;
    f. investments on institutional capacity development, forest governance, implementation of Territorial Management Entities and the Strategic Evaluation Platforms;
    g. strengthen participation of indigenous and local communities in the overall forest landscape management and the strategic evaluation platforms;
    h. create financing mechanisms targeting at low carbon emission activities; and enabling access to financing to communities and *ejidos* and promotion of productive mosaics in forest landscapes

82. Throughout the implementation of all projects under the FIP and the design of investment and institutional mechanisms, particular attention will be given to indigenous peoples as well as addressing gender issues. There are criteria and mechanisms to promote a greater social balance and inclusion of vulnerable groups in forest public policy, such as elegibility criteria

and specific indicators being incorporated across the federal government agencies. FIP investments will reinforce such mechanisms.

83. An overview of the Investment Plan is presented below. Coordination of activities at the National level (partly promoted through other instruments) and the development of the National Level MRV system will provide a broad platform for effectively addressing drivers and monitoring results. At the Forest Landscape level is where most institutional transformative changes will occur, with the creation of Landscape Management Entities at the center of the proposed new model for territorial alignment of public policy. Several support efforts will be coordinated at this level, and the main grant and credit pipelines will be aligned at that scale. The greatest transformative impact, however, will occur across the landscape, with a more agile blend of investments occurring across the landscapes. Investment will increase with enhanced incentive power to stop and revert forest and carbon loss.


National level
(including coordination at State level)
Forest Landscapes
(e.g. biological corridors & watersheds in areas or rapid forest carbon loss)
Productive Mosaics
(mostly under *ejido* and communal ownership)
Governance & Policy
Technical & Financial Support
Feedback & Results
Enabling conditions for multisectoral policy coordination
Participatory mechanisms in forests landscape management
Creation & support for Forest Landscape Management Entities (ATL, ADL & ADR).
Dedicated financing line for low-carbon activities in forest landscapes
Innovative mechanisms for multisectoral & integrated support in forest landscapes
Financial, technical, and business support for community-based enterprises
Improved business, technical & financial assistance for low carbon activities
Monitoring of REDD+ results & other co-benefits & Policy evaluation
Investments in Sustainable (community) Forest Management & value chains
• Enhancement of social, technical & physical capital
• Support forest-based activities (incl. NTFPs)
• Support markets for environmental goods (certification)
Investments in conservation & enhancement of environmental services (carbon stocks)
• Mechanisms of payments for environmental services
• Restoration & reforestation
Investments outside of the forest sector
• Through alignment mechanisms to enhance role of forests & trees outside forests
• Financing for non-forest sector activities (e.g. sustainable intensification, agroforestry, other economic opportunities)
Financing
Coordination & assistance

84. These activities will be structured around four projects which are described below:

Project 1. Capacity building for sustainable forest landscapes management

Objective: Enable and promote policy and program implementation alignment for integrated multi-sectoral action in priority forest landscapes using the support of Territorial Management Entities and enhancing coordination mechanisms to effectively assist sustainable forest management and prevent deforestation and degradation and enhancing forest carbon stocks.

Description
This is expected to promote innovative mechanisms for public policy and incentives program implementation by establishing structures for landscape management with spatial operational capacity, closely integrated to other government agencies with influence in the development of productive mosaics within the forest landscapes. This component also secures participative platforms to design and conduct local rural development strategies. Furthermore, this component is expected to ensure participative strategic evaluation of the overall investment plan, assessment and monitoring of project outcomes to ensure successful replication and scaling of successful project activities.

Proposed territorial structures including Local Technical Agents (ATLs) and the Local Development Agents (ADLs) that are expected to provide on the ground technical assistance and follow up for deployed investments for local and indigenous communities in the Early Action REDD+ Areas. The ATL is a governmental agent responsible for public service delivery and has specific mandates to contribute towards a particular sub-national rural development strategy. With legal status and assigned budget and resources the ATL is the key sustainable development promotes at the landscape level. Among others it could include the creation of Inter-municipal Agencies, resulting from municipal associations established as a decentralized public agency which includes in its organizational structure representation of diverse stakeholders present in the forest landscape area and according to the local socio-economic conditions. ADLs or Rural Development Agencies (ARD) are non-governmental organizations able to submit specific project proposals to promote activities included in the FIP sponsored initiative agenda. They have legal status as non-profit organizations. Any existing organization based on the Early Action REDD+ Areas that qualify as ARD could have opportunity to become engaged in the FIP sponsored initiatives.

Project 2. Mitigation resilience and sustainable profitability in forest landscapes

Objective:
Promote investments in sustainable productive mosaics targeting local and indigenous community organizations, as well as small landholders in priority forest as well as their value chains. Selected investments should be able to generate mitigation, increase resilience to climate change, increase the economic value of forest products and contribute to the sustainable economic viability of productive mosaics.

Description:
This Project is expected to deploy investments in two main areas:

(i) sustainable forest management primarily for local communities with investments aiming at improving supply and value chains, including but not limited to training, appropriate technology development, land and natural resource use planning, strengthening organizational capacity, technical assistance for community-based enterprises, forest certification, etc.; investments also include sponsoring mechanisms for forest ecosystem service compensation , use of innovative conservation practices and landscape restoration, etc;

(ii) outside forest sector investments through alignment mechanisms and co-investments from other sectors aiming at increasing the value of productive mosaics incorporating forest within other rural productive activities (agro-forestry, afforestation, reforestation, silvo-pastoral production systems, etc.);

These investments are expected to be primarily channeled through the Mexican Forest Fund, using special guidelines that should include protocols for funding application and fiduciary protocols for using of funding resources. Designing these guidelines would be one of the main initial activities of the Investment Plan (see Project # 1) in order to ensure that guidelines respond to the local needs. Also these guidelines are expected to facilitate consistency with fiduciary demands from other funding sources, such as those from the federal government and other donors so that co-financing opportunities would further increase leverage and synergies.

Targeted beneficiaries are primarily local and indigenous communities and small landholders with emphasis among others on such vulnerable groups as women, children, indigenous peoples and the landless.

Project 3. Creation of a dedicated financing line for low carbon strategies in forest landscapes.

Objective: The project objective is to create a dedicated financing line accessible by communities and *ejidos* to finance low carbon activities in forest landscapes.

Description:
Project objective is to create dedicated financing line accessible by communities and *ejidos* to finance low carbon activities in forest landscapes, addressing one of the drivers of deforestation. The credit line will be provided by Financiera Rural, a public financial institution focused on rural development. Project 3 will provide specific lines of credit, with terms that are appropriate for the cash flow structure and risk profile needed to support community-based projects which would meet REDD+ targets. It is expected that the project will have an impact in slowing or even reverting the processes of deforestation and forest degradation, thereby reducing emissions of GHG.

Project's activities include:

1) Framework analysis

a. Analyze Financiera Rural's credit portfolio and project pipeline in order to identify potential activities within forest landscapes that may be eligible to receive financing geared at low carbon emission.
b. Market research so as to identify potential demand for local production.

2) Design and prepare financing strategies aimed at low carbon community based activities within forest landscapes that will in turn facilitate credit access to *ejidos* and communities.
    a. Design these strategies will take into account local and national strategies.
    b. A particular emphasis will be given to the creation of financial intermediaries within these forest landscapes.
3) Develop and train credit agents and promoters within Financiera Rural to identify and handle these low carbon loans.
4) Promote, implement and monitor these loans and related financial instruments.

Project 4. Strengthening the financial inclusion of *ejidos* and communities through technical assistance and capacity building for low carbon activities in forest landscapes.

Objective: Project 4 will establish a technical assistance facility expected to build community capacities to develop viable financial and technical proposals, and developing basic business administration and entrepreneurial skills for sound community-based enterprises to meet REDD+ targets. This will help reducing the risks on the loan recipient side that other financial intermediaries are not willing or able to take, even if adequate financing instruments are developed.

Description:
The few existing financing options available for forestry projects have not been fully taken advantage of by the target beneficiaries (i.e. ejidos and indigenous communities, technical assistance organizations) due to their own limited capacity to present adequate loan applications, to absorb and manage financial and technical responsibilities associated with these funds coupled with the high risk associated with these projects and their lack of knowledge of funding availability. Thus, the project will support the creation of a facility aimed at:

- Supporting the identification of *ejido* and community needs related to REDD+ projects and financing.
- Strengthening the technical, administrative, institutional and financial capacity of community organizations to create bankable projects to support profitable social enterprises with high environmental and social co-benefits.
- Developing community enterprises and economic integration of productive chains in forest landscapes under a low carbon approach.
- Leveraging additional financial resources by mobilizing other sources of funding from private investors.
- Developing business models for promoting sustainable and productive low carbon activities in participating communities in forest landscapes.

Together, Projects 3 and 4 are expected to have a demonstration effect to show that low carbon projects in forest landscapes are financially viable, aside from their contribution for environmental benefits, and

hence fostering increased participation by financial intermediaries and by the communities that will invest in these activities.

IMPLEMENTATION POTENTIAL WITH RISK ASSESMENT

CAPACITY OF THE EXECUTING AGENCIES

85. **CONAFOR**, as the main executing agency has a solid organizational and technical capacity. The Commission is also leading the Readiness phase of the REDD+ strategy that actively promotes the coordination and synergies between different tasks and activities at the national and sub-national levels. CONAFOR has also experience in managing grants/international loans, including two World Bank operations related to Payments for Environmental Services and Community Forestry. It is also managing a *Global Environmental Facility (*GEF) project related to sustainable forest managing in the south of the country. The Mexican Forest Fund, also administered by CONAFOR with the support of Nacional Financiera (NAFIN) -a national development bank, has demonstrated its capacity to increase the number of operations without compromising the transparency and efficiency of various programs. The annual budget of the Commission reached almost US$500 million dollars in 2011. Many of the elements proposed in the Forest Investment Plan are compatible with the experience of CONAFOR, particularly those related to capacity building at the local level.

86. In relation to the compliance of environmental and social safeguards, CONAFOR has the experience of past projects and from its current practices. It successfully works with local and indigenous communities through the implementation of its programs. It has successfully met the safeguard requirements of the IBRD in the past. It has also launched a Social and Environmental Strategic Assessment for REDD+ as part of the development of its Readiness Preparation Plan for REDD of the FCPF, with two workshops that had the participation of stakeholders representing different sectors.

87. **Financiera Rural.** Facilitating access to financial services is one of the objectives stated by CONAFOR through the Mexican Forest Fund. However, it does not have the capacity to offer specific credit services. This is why it must rely on key partners. One of them has been Financiera Rural. Created in 2002 as part of the efforts to restructure the rural development banks that had very high operating costs. Financiera Rural was created as a decentralized agency of the Federal Government, with its own legal status and responsibilities[32].
88. Financiera Rural's mission is to promote agriculture, forestry and fishing as well as other economic activities related to the rural sector with the purpose of improving productivity and the livelihoods of rural populations through access to credit. All this in order to consolidate a financial system that can provide financial resources, technical assistance, capacity building and consultancy services for the rural sector.

IDENTIFICATION OF POSSIBLE RISKS

[32] see www.financierarural.gob.mx

89. **Capacity risk at the national and sub-national level.** The diversity of ecosystems and social and productive mosaics of the country, poses a capacity challenge in order to reach the necessary participation of local stakeholders in a national program. To address this, the Cancun Climate Change Talks allowed for the interim sub-national implementation of REDD+ actions. The proposal to concentrate efforts in some regions of the country allows for a greater control of implementation and mitigates this risk. The overall risk of the lack of capacity to perform the planned work in the proposed areas is considered relatively low.

90. **Risk of inconsistency in the approaches.** While each proposed area will develop its own processes, including the determination of reference levels, assessment and intervention schemes, the role of CONAFOR as the coordinating agency, and the additional support offered through of the readiness funds for REDD+ of the FCPF will help ensure national consistency. Naturally, other actors and initiatives in the country may emerge and possibly overlap with the FIP.

91. The various forums for participation and the leadership role of federal agencies will promote greater coordination, minimizing the risk of inconsistency in the schemes.

92. **Risk of the lack of harmonization of forest and non-forest policies.** The harmonization of policies in all sectors and government levels is not easy, where number of legal, technical and political aspects become relevant for this matter. This may be a risk for FIP since the timeframe available to develop the necessary coordination models is limited. It is worth noting that the Vision of Mexico on REDD+ was supported by the Inter-secretarial Commission on Climate Change and by the Sustainable Rural Development Commission. In fact, the Vision was presented by the President of Mexico in Cancun, with the participation of both the Secretary of the Environment (SEMARNAT) and the Secretary of Agriculture (SAGARPA). This fact may be seen as a favorable indication that the process for the harmonization of policy objectives across sectors is arising, and this reduces the above-mentioned risk.

93. **Social and governance risks.** Mexico has a strong history implementing initiatives with indigenous peoples and other forest dependent communities, of which it is worth mentioning the PROCYMAF and PSA programs. These programs demonstrate the capacity to operate in several areas relevant for REDD+ nationally and at the local level, including the recognition of the rights of the Indigenous Peoples. However, the Government of Mexico recognizes the need to further promote the full participation of civil society and other key actors, particularly indigenous and local communities.

94. **Community involvement and profit-sharing risks.** Carbon rights and other environmental services could be linked directly to land tenure and to specific management practices while others related to avoided emissions may be more diffuse and associated with the performance of larger areas. Mexico recognizes the need to ensure that REDD+ benefits are effective in providing incentives to indigenous and local communities to protect and sustainably manage their forest resources and achieving results at scale. In this regard, it will continue to build on the approaches of PSA and PROCYMAF. CONAFOR will establish mechanisms for the distribution of benefits relevant for REDD+. The mechanism will be defined as part of the National REDD+ strategy and will be informed by

consultations held with key stakeholders, including Indigenous Peoples and other forest-dependent communities.

95. **Risks associated with land rights and resources.** The rights of land and resources are an issue of international concern in relation to REDD+. With respect to various countries, Mexico has established secure community land rights, so the risks relating to the infringement of these rights are minimal. The Land Law provides the legal framework for the *ejidos* and communities and clearly outlines their internal structures and procedures. The *ejido* or community Assemblies, serve as a decision making body on land use on communal lands matters. Their internal rules regulate land use in detail. The specific land titles both individual parcels and for common lands within the *ejido* and are certified and registered in the National Agrarian Registry. PROCEDE, a major agrarian reform program, issued certificates for plots/parcels and for the use of common lands (which include forests) in most of the *ejidos* and communities. The program concluded its work in 2006, with over 85% of *ejidos* and communities with certified land titles.

96. There a regions where conflicts on land such as disputes of demarcation boundaries between *ejidos* and internal conflicts among *ejidatarios*. Such disputes can be settled with the mediation of the Procuraduría Agraria (Agrarian attorney) or through the Agrarian Tribunals. The land allocation decisions by the *ejido* assembly can also be taken into the agrarian courts, directly or through the Agrarian Agency. Agrarian Tribunals are specialized courts in regular administrative matters. Conflicts over land extension vary significantly between States and it is difficult to provide exact figures of these land-related disputes nationwide. Most of the conflicts appear to affect only a portion of the land and many seem to find a resolution through a process outside agricultural courts. However, as part of the preparatory phase, it is important to pay attention to how a REDD+ mechanism will address the disputed areas in the future, to promote the inclusion and prevention of conflict situations that might prevail.

97. **Risks associated with technical complexity.** The design of REDD+ strategies, the MRV and the Reference Level can pose technical challenges. REDD+ is a new and untested instrument and will be operated in a broad national scale. The preparation and implementation will necessarily involve a wide range of governmental and nongovernmental stakeholders, which will be added to the complexity of its coordination.

FINANCING PLAN AND INSTRUMENTS

98. The total funding to be requested from the FIP will be of US$60 million dollars. However, the total funding available to support and leverage the investments related to the FIP will be much higher.

99. Operations by both the IBRD and the IDB contain elements that will be supportive or synergic with the proposed FIP investment. In addition, existing financing from other bilateral and multilateral sources will significantly increase investments in key areas, such as monitoring and governance.

Figure 4. Budget allocation between related projects and investments (million dollars)

Project	MDB	FIP	FCPF	IBRD (SIL)	IDB	ADF-AECID-EU**	Norway ***	GEF	TOTAL (l)	TOTAL
1	IBRD	6				0.27	15			21.27
2	IBRD	19.66 16.34 (l)	3.6	150-300 (l) *		2.86		13.64 5 (l)	171.34 – 321.34	39.76
3	IDB	5 10 (l)			20 (l)				30	5
4	IDB	1.5 1.5 (l)			3				1.5	4.5
Total									202.84 – 352.84	70.53

Notes: (l) loan, otherwise, is a donation

* Indicative range pending final negotiations between the World Bank and the Government of Mexico

** Estimated in Euros

*** 90 million Norwegian kroner

RESULTS FRAMEWORK FOR INVESTMENT PLAN

100. In this section the logic model for the Investment Plan is presented, as well as the indicators corresponding to the results framework. The logic model follows the framework proposed for the CIFs, in order to allow for comparisons within FIP Pilot Countries. The results framework includes indicators proposed for the CIFs. During the implementation phase of the Investment Plan, these indicators will be complemented with a gender analysis to ensure that they include a gender perspective.

Logic model of the FIP Mexico Investment Plan

Global – CIF Final Outcome (15-20 years)	**Improved low carbon, climate resilient development**

Mexico Transformative impact (10-15 years)	**Core objective:** Reduced GHG emissions from deforestation and forest degradation, and enhanced forest carbon stocks contributing to achieve the net zero national 2020 target*	
	Co-benefit objective 1: Reduced poverty in indigenous and local communities through increased incomes from sustainable forest landscapes management and productive mosaics	**Co-benefit objective 2**: Reduced loss in biodiversity and services, and increase resilience of forest landscapes to variability and climate change

Mexico Catalytic Replication Outcomes (5-10 years)	**Reduced deforestation and forest degradation and enhanced conservation through forest landscapes management**		
	Increased direct management of forest landscapes by indigenous and local communities	Improved enabling environment for REDD+ and sustainable management of forest landscapes including Territorial Management Entities	Access to predictable and adequate financial resources, including results-based incentives for REDD+ and sustainable management of forests through direct investments and a dedicated financing line

Regional level: Replication of Mexico FIP learning in non-FIP countries.

Program FIP Outputs and Outcomes (2-7 years)	**Forest and non-forest areas under sustainable management of natural resources in productive mosaics**		
	Sustainable management of forests and forest landscapes to address the drivers of deforestation and forest degradation in the Early Action REDD+ Areas	An institutional and legal/regulatory framework that supports sustainable management of forests landscapes and protects the rights of indigenous and local communities in priority forest landscapes within the Early Action REDD+ Areas	Empowered indigenous and local communities by providing capacity building and financing mechanisms

New and additional resources for REDD+ implementation
Leveraging increased other public and private sources of financing/investment

Integration of learning by development actors active in REDD+
Knowledge management
Learning about piloting and implementation captured and shared across projects

Program – FIP Activities (1-5 years)	**Increased institutional and local capacity, and sustainable investment to address the direct and underlying drivers of deforestation and forest degradation in the Early Action REDD+ Areas**			
	Investment within the forest landscapes, and launching a step wise approach for sustainable competitive productive mosaics	Investments on institutional capacity, forest governance, implementation of Territorial Management Entities and strategic evaluation platforms	Strengthening participation of indigenous and local communities in the overall forest landscape management and the strategic evaluation platforms	Create financing mechanisms targeted at low carbon activities which enable financial access to communities and *ejidos* and promote productive mosaics in forest landscapes

FIP Inputs: New and additional resources supplementing existing ODA flows for REDD+ and related strategies addressing different drivers of deforestation and forest degradation

* Goal specified in *Mexico's Vision for REDD+:* http://www.conafor.gob.mx/portal/index.php/cambio-climatico-y-bosques/1-proceso-de-redd-en-mexico/a-fcpf

Results framework of the FIP Mexico Investment Plan

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
Transformative Impacts[33]					
Core objective: **A.1 Reduced GHG emissions from deforestation and degradation; enhancement of forest carbon stocks**	a) Tons (millions) of CO_2 emissions from reduced deforestation and forest degradation relative to reference emissions level b) Tons (millions) of CO_2 sequestered through natural regeneration, re- and afforestation activities, and conservation relative to forest reference level	National forest inventories or equivalents.	Target to be determined consistent with net zero emissions from deforestation by 2020.	Modalities for the establishment Reference (Emissions) Levels (RL/RELs) as well of the Monitoring systems for REDD+ are still being debated under the UNFCC. Monitoring System primarily being developed through the Mexico-Norway Initiative, to be fully operational within 3 years.	National monitoring systems following relevant UNFCCC/ IPCC guidelines

[33] The transformative impact dimension of the FIP is determined by many factors which are outside of the direct influence of FIP operations in a specific country. Systematic and coherent improvements in this dimension cannot be observed in the short-term and not attributed to a single development actor. Transformation will be the result of multiple activities in a specific country over a longer period of time.

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
Co-benefit objective: A.2 **Reduced poverty through improved quality of life of forest dependent indigenous peoples and forest communities**	a) Percentage of indigenous peoples and local community members/ forest communities (women and men) with legally recognized tenure rights	*Will not be included*		Mexican law clearly defines land tenure rights. *Ejidos* and communities are owners of the lands that have been granted. There is substantial governmental support to enforce such rights, including agrarian attorneys and tribunals and an agrarian registry 92.12% of ejidos and communities where voluntarily issued with land titles under the PROCEDE program to provide security of rights.	CONEVAL's National, State and Municipal level poverty assessments as well as independent Survey for FIP's Early Action Areas.
	b) Percentage of indigenous peoples and local community members/ forest communities (women and men) with secure access to economic benefits and/or the means of maintaining traditional livelihoods	To be estimated at municipal level from CONEVALs estimates for FIP Early Action Areas. *Household indicators will also be derived from an independent survey to be undertaken during the first year of operation*	To be determined within the next 12-24 months (field testing phase)	Mexico applies a multidimensional poverty measurement, and poverty is estimated through national income-expenditure surveys at the National and State levels every two-years. Municipal level estimates are produced every five years (see www.coneval.gob.mx). However, it will be challenging to assign a causal effect between FIP investments or catalytic replication efforts to these data.	
Co-benefit objective: A.3 **Reduced biodiversity loss and increased resilience of forest ecosystems to climate variability and change**	a) Percentage (%) change in forest fragmentation (rate and area)	To be determined under the wall-to-wall monitoring system to be implemented	To be determined	The fragmentation will be determined using the higher resolution products to be developed under Mexico-Norway Initiative.	National monitoring systems or equivalents
	b) Reduction in the rate of loss of intact forest areas important for maintaining native biodiversity, ecosystem functions, including water, air quality, soil protection and resilience to climate stress	To be determined as reduction in the rate of loss of intact forest areas in priority areas defined by the National Biodiversity Commission	To be determined	Reduction in the rate of important intact forest areas will be determined using a number of products generated by the National Biodiversity Commission, including a Gap analysis for biodiversity conservation and of terrestrial conservation priorities, among others, available at www.conabio.gob.mx.	
FIP Catalytic Replication Outcomes					

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
B.1 **Reduced deforestation and forest degradation**	a) Change in hectares of natural forest cover (percentage change against baseline)	To be determined during MRV system deployment	To be determined.	Monitoring System primarily being developed through the Mexico-Norway Initiative, to be fully operational within 3 years.	National or sub-national monitoring systems
	b) Change in hectares of natural forest that are degraded (percentage change against baseline)	To be determined during MRV system deployment	National Vision aims to "significantly reduce forest degradation".	It is not clear yet how degradation is going to be measured since there is still not a definition at national or international level. Mexico plans to test various approaches involving communities' approaches to complement national monitoring efforts.	
	c) tCO2 sequestered/$ by investment plan d) Areas (ha) of deforestation/degradation avoided/$ of investments	To be considered during deployment of MRV system	To be considered during deployment of MRV system	The last two indicators are going to be considered once the MRV system has been deployed with the information needed for policy design.	
B.2 **Increased direct management of forest resources by local communities and indigenous peoples**	Increase in land and resources under legal control and management of indigenous peoples and local communities including through traditional forest management systems	To be determined during the field testing phase	To be determined during the field testing phase	National statistics will need to disaggregate data for forest areas and forest dwellers. Two dimensions of measurements are proposed: A national measurement based on the typology of *ejidos* and communities and the measurement generated through independent surveys.	National M&E

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
B.3 **Improved enabling environment for REDD+ and sustainable management of forests**	a) Change in the extent to which environmental/GHG/ deforestation considerations/ solutions are integrated into the process of creating economic incentives/new policies and programs	To be determined	To be determined	This indicator is going to be determined during the field testing phase since is also one of the objectives of the DPL mentioned in the Investment Plan.	National M&E systems
	b) Area of forests under clear, non-discriminative tenure and territorial rights, including the recognition of traditional rights	*Not to be included*	To be determined	Mexican law clearly defines land tenure rights. *Ejidos* and communities are owners of the lands that have been granted. There is substantial governmental support to enforce such rights, including agrarian attorneys and tribunals and an agrarian registry 92.12% of ejidos and communities where voluntarily issued with land titles under the PROCEDE program to provide security of rights.	
	c) Evidence that infractions in the forest sector are detected, reported and penalized	To be determined	To be determined		
	d) Extent to which indigenous peoples and local communities (women and men) have access to relevant information in a timely and culturally appropriate manner	To be determined			
B.4 **Access to predictable and adequate financial resources, incl. results-based incentives for REDD+ and sustainable management of forests**	Leverage funds through results-based schemes offered by bilateral partnerships, the FCPF Carbon Fund or other mechanisms	0	To be determined during the implementation phase	These indicators are intended to demonstrate the leveraging of funds in the forest sector in a pilot country through the FCPF, bilateral arrangements, etc.	National M&E systems

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
<u>Regional level:</u> B.5 **Replication of FIP learning in non-FIP countries**	Number of non-FIP countries which replicate FIP project and program approaches (e.g., investment documents citing FIP pilot country projects)			The MDBs will compile evidence across their respective countries on the learning program and bring to the attention of the CIF KM function when evidence is available that replication of FIP learning is suspected.	MDB cross-country review Review of national UNFCCC reporting relevant to REDD+
FIP Project/Program Outcomes and Outputs					
C.1 **Reduced pressure on forest ecosystems**	a) Change in hectares (ha) deforested in project/program area b) Change in hectares (ha) of forests degraded in project/program area c) Amount of non-forest sector investments identified to address drivers of deforestation and forest degradation	To be determined under MRV system and Project M&E	To be determined during the field testing phase	The MRV system will determine indicators a) and b). The term degradation will be defined through the development of the MRV system and the international arrangements under REDD+. Mexico anticipates that some dimensions of degradation will require community generated data and do not have baselines at this point. Indicator c) will represent the sum of the amount being leveraged or directly channeled to investments in non-forest sectors but aligned through the territorial management entities and plans.	National monitoring systems Project M&E

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
C.2 **Sustainable management of forests and forest landscapes to address drivers of deforestation and forest degradation**	a) Preservation of natural forests integrated in land use planning process b) Evidence that laws and regulations in project/program are being implemented, monitored and enforced and that violations are detected, reported and prosecuted c) Increase in number of communities building social organization and generating income from sustainable production of forest goods and services	To be determined To be determined during the field testing phase	To be determined To be determined	Indicators a) and b) are going to be determined during the field testing phase since it has to do with the coordination with another federal government agency, PROFEPA. In Mexico the institution that is in charge of monitoring and penalizing incorrect management in the forest sector is different from the one that is in charge of investing in the forest sector. But it has been demonstrated that many times it is better for compliance of good practices if investment in capacity building at the community level is made. That is the reason why the indicator c) is included, and established from an independent survey to be undertaken during the first year of operation	National monitoring systems Project M&E
C.3 **An institutional and legal/ regulatory framework that supports sustainable management of forests and protects the rights of local communities and indigenous peoples**	a) Percentage of participating communities receiving support from new ATLs/ADLs [local entities that integrate REDD+ across sectors, levels, and territorially] b) Number of agreements between CONAFOR, SAGARPA, and States in support of REDD+	0 0	To be determined during the field testing phase To be determined during the field testing phase		Project M&E

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
C.4 **Empowered local communities and indigenous peoples and protection of their rights**	a) Increase in area with clear, recognized tenure of land and resources for indigenous peoples and local communities (women and men)	*Will not be included*		Mexican law clearly defines land tenure rights. *Ejidos* and communities are owners of the lands that have been granted. There is substantial governmental support to enforce such rights, including agrarian attorneys and tribunals and an agrarian registry 92.12% of *ejidos* and communities where voluntarily issued with land titles under the PROCEDE program to provide security of rights.	Project M&E, agrarian information systems
	b) Number of new community-based, economically viable, REDD+ focused initiatives with demonstrated potential for replication at scale	0	18	These indicators will require a mixture of quantitative and qualitative measurement by FIP projects. Use of a common definition for "sustainable management" and "indigenous peoples and local community" and to ensure its full participation" will aid comparison of data across projects and aggregation across projects and countries.	
	c) Improved access to effective justice/ recourse mechanisms	To be determined during the field testing phase	To be determined	Based on information from existing mechanisms to address tenure and other agrarian rights issues, an indicator will be derived	
C.5 **Increased capacity to address direct and underlying drivers of deforestation and forest degradation (as identified in national REDD+ strategies or equivalents)**	a) A national strategy or action plan	0	Yes	FIP resources will contribute to the achievement of these targets. Many of these components will be developed with investments from different partners as mentioned in the Investment Plan.	Project M&E
	b) A national reference level(s)	0	Yes		
	c) A robust and transparent national multi-scale monitoring system including subnational and community level components	0	Yes		
	d) An information system on how safeguards are being addressed	0	Yes		

Results	Indicators	Baseline	Targets	Details on Measurement and Aggregation	Data source
C.6 **New and additional resources for forest and forest-related projects**	Increase in the proportion of coordinated financial resources being mobilized in REDD+ Early Action areas	0	To be determined		Project M&E
C.7 **Integration of learning by development actors active in REDD+**	Number (#) and type of knowledge assets (e.g., publications, studies, knowledge sharing platforms, learning briefs, communities of practice, etc.) created and shared	0	At least 10 knowledge assets	The MDBs will monitor the extent to which non-FIP countries integrate FIP learning. It should be possible to undertake basic aggregation across countries.	Qualitative assessment by the MDBs and CIF AU