



MEXICO: THE CONTRIBUTION OF THE FOREST INVESTMENT PROGRAM TO FOREST AND CLIMATE GOALS

TRANSFORMATIONAL CHANGE CASE STUDY - JULY 2021





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THE CLIMATE INVESTMENT FUNDS AND THE TRANSFORMATIONAL CHANGE LEARNING PARTNERSHIP

The Climate Investment Funds (CIF) were established in 2008 to mobilize resources and trigger investments for low-carbon, climate-resilient development in select middle-income and developing countries. To date, 14 contributor countries have pledged over USD8 billion to CIF, which is expected to leverage an additional USD60 billion in co-financing for mitigation and adaptation interventions at an unprecedented scale in 72 recipient countries. CIF's large-scale, low-cost, and long-term financing lowers the risk

and cost of climate financing. It tests new business models, builds track records in unproven markets, and boosts investor confidence, thereby helping to unlock additional sources of finance.

CIF's [Evaluation and Learning Initiative](#) established the [Transformational Change Learning Partnership](#) in 2017 to facilitate a collaborative, evidence-based learning process on transformational change and CIF's role in supporting transformational change since 2008.

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EXECUTIVE SUMMARY

This case study explores the Climate Investment Funds' (CIF) role in Mexico's journey toward transformational change in the forestry (and rural development) sector. Mexico's forests are an important contributor to the national economy, in terms of their provision of raw materials for productive sectors and rural livelihoods as well as the delivery of critical ecosystem services. It is estimated that Mexico's natural resources sector, including forests, agriculture, fisheries, and coastal resources, represents approximately 11 percent of the country's Gross Domestic Product (GDP).¹ In addition, it directly supports the livelihoods of more than 30 million people, thus attesting to the country's high level of reliance on forest goods and services.²

However, the contribution of the forestry sector to the national economy between 2012 and 2016 was, on average, 0.2 percent of the national GDP.³ Furthermore, the country has long experienced high rates of deforestation and forest degradation, resulting in significant greenhouse gas (GHG) emissions. In the

1990s, Mexico experienced the second-highest overall rate of deforestation across Latin America, with forest land decreasing from 35.6 percent to 33.7 percent from 1990 to 2015. This represents a loss of about 3.7 million hectares (ha) of forests in 25 years.⁴

Since the 1990s, concerted action by the Government of Mexico (GoM), in collaboration with a range of development partners, has aimed to strengthen forest conservation, reduce deforestation and forest degradation, and support forest communities in the management of their forest resources.⁵ The creation of a National Forestry Commission, *Comisión Nacional Forestal* (CONAFOR), in 2001 was a landmark measure in advancing the administration's oversight of forests.

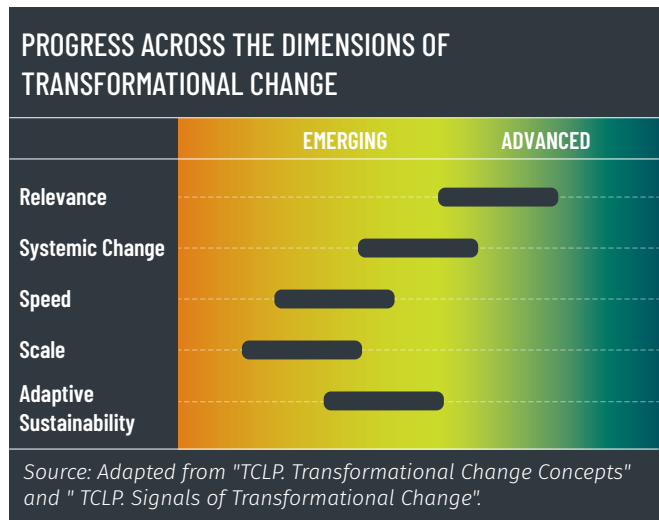
Over the last two decades, the GoM, working with its development partners, including the World Bank and Inter-American Development Bank (IDB), has focused on strengthening and consolidating community forestry efforts. This emphasis on the community forestry approach is a key element of the country's

conservation, social development, and poverty reduction strategies in forest areas.⁶

Since 2011, CIF, through the Forest Investment Program (FIP), has supported the GoM in addressing the key drivers of deforestation and forest degradation. A strategic investment plan was prepared through a highly participatory, multi-stakeholder process that identified two major change pathways. First, coordinated, multi-level efforts that strengthen policy, institutional, social, and market capacities were needed to address fundamental market and policy shortcomings related to the valuation of natural capital and wider environmental externalities. Second, working in alliance with technical intermediaries and supporting value chain development were effective for delivering transformations within the context of smaller-scale investments in climate goods and services. Recognizing the role that forests play for rural communities, much attention was focused on supporting community forest enterprises (CFEs).

With USD63.81 million⁷ in funding and secured co-financing of over USD490 million, FIP aimed to support these change pathways through three strategic projects implemented over the course of the 2010s by two partners, the World Bank and IDB. FIP activities at the national level were related to institutional strengthening, while specific support for sustainable land management and scaling up finance primarily focused on some of Mexico’s Early Action REDD+ areas⁸, targeting sub-regions within five states: Campeche, Jalisco, Oaxaca, Quintana Roo, and Yucatán.⁹

Interventions, such as the one in Mexico, aim to contribute to CIF’s overarching goal to advance transformational change towards low-carbon, climate-resilient development. Advancements along the five dimensions considered within the CIF’s transformational change framework—relevance, systemic change, speed, scale, and adaptive sustainability—would demonstrate progress towards this goal. To realize lasting transformational change, all five dimensions must materialize over time, though typically, they do not progress in a linear, sequential, or even fully predictable manner.



The FIP approach, encompassing a country-led design, a highly participatory investment planning process, and adaptability in response to changing circumstances at the international, national and project levels, as well as mid-course adjustments in response to how the projects develop, has been particularly relevant in contributing to transformational change (**see the figure above**).

Efforts to mainstream sustainable landscape interventions that involved small-scale forest owners have helped to maintain the **strategic relevance** of FIP investments. **Signs of systemic change** include a shift in thinking towards the feasibility of extending credit to CFEs as a central element of a strategy that advanced integrated landscape management. FIP investments were particularly relevant to this dimension of transformational change (systemic change) and contributed significantly to this shift in thinking by mitigating risks and attracting increased investments in sustainable forestry.

This change in mindsets represents a strategic opportunity for simultaneously supporting communities and *ejidos*,¹⁰ promoting sustainable forest management, and protecting Mexico’s national forests, thereby reducing GHG emissions in the forestry sector. In recognizing the urgency for transformative climate action to address deforestation and forest degradation, FIP was also relevant in terms of the **speed dimension** of transformational change within the project’s supported groups and regions.

Through successful demonstrations of the financial intermediation model, FIP projects accelerated a shift in thinking around gender mainstreaming and the commercial viability of CFEs, thus creating a window of opportunity for future scaling. However, documented **evidence of scaling** beyond specific project investments remains limited to date, although the size of FIP-supported interventions within the government's selected priority areas has been significant and the financial intermediation model has created the conditions for potential future scaling.

Emerging prospects of **adaptive sustainability** also appear promising. The institutional collaboration that was promoted across sectoral boundaries supported integrated landscape management for sustainable production and resource conservation. Furthermore, the strengthened engagement, participation, and capacity of the population in forest landscape management have also enhanced the prospects of adaptive sustainability.

As this case study shows, the complexity and diversity of Mexico's rural economy preclude short-term solutions to securing a low-carbon and climate-resilient future. While immediate action to address the drivers of deforestation and forest degradation is necessary, investments need long-term planning for transformational change to be achieved. In this regard, there is evidence that indicates how FIP projects have addressed some of these short-term challenges as well as supported institutional capacity, policy, and regulatory changes to generate long-term impacts.

However, market and governance failures that drive deforestation and forest degradation highlight the need for continued cross-sectoral coordination, integrated landscape approaches, a steady flow of private and public resources, along with the concerted collective action of forest owners, the government, the private sector, and international partners. Overall, Mexico's efforts, with support from CIF/FIP and others, have made considerable progress in addressing the drivers of deforestation and forest degradation as well as advancing Mexico toward a low-carbon, climate-resilient future. Going forward, the innovative approaches piloted by the FIP-supported projects offer much hope for further expansion across the country.





INTRODUCTION

This case study details Mexico's story of transformational change towards a low-carbon, climate-resilient rural economy, with a focus on the contributions of the Climate Investment Funds' (CIF) Forest Investment Program (FIP). It describes the FIP-supported activities that were carried out between 2011 and 2020, by national and international stakeholders, to address the drivers of deforestation and forest degradation in the country.¹¹

Specifically, the case study draws from the CIF Transformational Change Learning Partnership, namely, two independent studies published in 2019,¹² project documents, and the knowledge of the stakeholders involved. It is part of a series of CIF case studies¹³ that explore specific stories of transformational change, with the aim of enhancing the understanding of transformational change elements and increasing the transformational potential of future interventions.

The case study first documents the national context in Mexico and then summarizes the approach FIP-funded projects took towards improving forest management through a strategic investment plan and a series of projects, led by Mexico's federal government and implemented over the course of a decade. It also includes evidence from CIF's Dedicated Grant Mechanism (DGM), a special initiative designed and governed by, and for, Indigenous Peoples and Local Communities (IPLCs). The progress made towards transforming the forestry and rural development sector, including the details of the work undertaken, is then described. Finally, the case study closes with brief reflections and a look ahead.



COUNTRY CONTEXT

Mexico is the second-largest economy in Latin America and the 12th in the world.¹⁴ Its 138 million hectares (ha) of forest vegetation (70 percent of the national surface) and biodiversity offer numerous opportunities for social and economic development.¹⁵

However, the management of the country's natural resources presents a challenging task, given Mexico's socioeconomic complexity. In 2018, as much as 48.8 percent of the national population (registered in 2020 at 126 million) lived below the monetary poverty line.¹⁶ Based on the 2008 estimates, of the 47.2 million Mexicans living under multidimensional poverty, about 24.4 million were women.¹⁷ The country is also notable for its ethnic diversity: 12.7 million indigenous peoples represent almost 10 percent of the national population.¹⁸ These often marginalized communities remain dependent on natural resources for their livelihoods, with a significant part of Mexico's forests managed under a collective land tenure system called *ejidos* and communities, both of which commonly include indigenous populations.¹⁹

Mexico's natural resource base, including agriculture, forests, fisheries, water, and coastal resources, represents approximately 11 percent of Mexico's Gross Domestic Product (GDP) and directly supports the livelihoods of more than 30 million people in rural areas.²⁰ Forests are thus particularly relevant to Mexico's rural development, as they sustain key sectors and employ millions of people, while also contributing to the overall economy through the provision of critical ecosystem services. They also provide important national environmental benefits, including the regulation of the hydrological regime and water quality, erosion control, along with the provision of habitats for wildlife.

Forests, therefore, play a critical role in achieving the country's commitments, as outlined in its most recent National Determined Contributions (NDC) that were adopted in 2015 and updated in 2020.²¹ In fact, Mexico's updated NDC emphasized the opportunities that the country has in leading "transformational changes in its productive sector

focusing on the population's welfare and in the protection and sustainable use of its cultural and natural wealth".²² According to its NDC, Mexico is committed to unconditionally reducing 22 percent of greenhouse gas (GHG) emissions by 2030 and lowering up to 36 percent of its GHG emissions by 2030 with conditional contributions, in comparison to the baseline business-as usual (BAU) scenarios. Also, Mexico's NDC goals, specific to the Land Use, Land Use Change, and Forestry (LULUCF) sector, to "reach a 0 percent deforestation net rate for 2030" and increase the total existences of biomass in ecosystems under forest management, have a joint mitigation potential of more than 47 million tons (Mt) of carbon dioxide equivalent (CO₂e). This represents around 22 percent of the total reduction commitment specified in the 2015 NDC.²³

Deforestation and forest degradation have been pressing issues in Mexico for many years, with the country having experienced the second-highest rate of deforestation in Latin America in the 1990s.²⁴ However, based on the definition of "forests" adopted by Mexico in its Food and Agriculture Organization (FAO) reports and the analysis of available sources at the national level, net deforestation has diminished in the last two decades from 154,600 ha/year between 2000 and 2005 to 91,600 ha/year between 2010 and 2015.²⁵ As of 2000, the Government of Mexico (GoM), in partnership with national and international partners, including the World Bank, undertook efforts to address this challenge, such as establishing the National Forestry Commission (CONAFOR) in 2001.

Despite these efforts, however, high rates of deforestation and forest degradation have persisted, often due to actions outside the forestry sector, such as rural development policy incentives and the profitability of alternative land uses (**see Box 1**). During the 2015–2020 period, the country lost approximately 128,000 ha per year on average.²⁶



Box 1:
**DRIVERS OF DEFORESTATION AND FOREST DEGRADATION
IN MEXICO FROM THE 2011 FIP INVESTMENT PLAN**

- Relative profitability of alternative land uses other than forest management, which makes them more attractive, further exacerbated by the limited access to financial services and viable market opportunities for forest management;
- Rural development policy incentives generating unintended and indirect impacts that intensify land use change, particularly in relation to agriculture and livestock production;
- Lack of management and organizational capacity/capabilities of *ejido* and indigenous communities to effectively and efficiently conduct forest operations, develop business administration practices, and access market information;
- Weak governance structures and leadership capacity of *ejidos* and indigenous communities, which have contributed to increased informal or illegal practices; and
- Additional pressure created by other rural landless populations on *ejidos* and indigenous communities' forest resources.

Source: Forest Investment Program. Investment Plan for Mexico. September 2011.

Deforestation and forest degradation continue to be a source of considerable emissions of GHG. Emissions in the Agriculture, Forestry and other Land Use (AFOLU) sector were estimated at 102 Mt of CO₂ in 2015, accounting for approximately 14 percent of the country's total.²⁷ The significance of this data can best be understood by looking at the country's overall emissions: as of 2020, Mexico was ranked as the 12th-highest global emitter of CO₂.²⁸ This reflects the country's large economy, population growth, the extensive use of land and forest-related sources, as well as its high vulnerability to climate change throughout the country. Worth considering as well is the fact that a significant share of the emissions from the forest sector has underlying causes that stem from other productive activities, such as livestock and agriculture.

However, opportunities to reduce forest emissions exist. These include capitalizing on Mexico's land tenure system that provides a basis for the collective management of forest resources. Unlike many countries, Mexico has had a clear, well-established, and legally recognized system of land tenure governing its forest lands since the country's agrarian reforms of the last century. This is particularly important, given that communities and *ejidos* collectively own around 61 percent of forests.²⁹ Out of a total of 31,514 *ejidos* and communities in Mexico, approximately 9,000 are forest owners, a third of

whom are engaged in forestry as their main economic activity.³⁰

Furthermore, Mexico's "National REDD+ Strategy (ENAREDD+)", published in 2017, is based on an integrated land management approach, where all sectors related to forests must coordinate their activities as a convergence point between the environment and development agenda. This document, created under the leadership of CONAFOR, focuses on five key areas, including: social and environmental safeguards; governance and social participation; a legal framework and public policy; financial architecture and benefit distribution; as well as a monitoring, reporting, and verification (MRV) system.³¹ In addition, in 2012, the Mexican Law for Climate Change was approved. Its objective is to guarantee a healthy environment and establish synergies between stakeholders towards climate change adaptation and GHG mitigation. It set the goals of reducing emissions by 30 percent by 2020 and 50 percent by 2050, along with achieving net zero deforestation by 2030.³²

To achieve these commitments, one of Mexico's strategies has been to foster and maintain long-lasting relationships with international actors that provide financing for climate change activities, including support for sustainable and rural development initiatives for its forests and the communities that live in them.³³



CIF'S STRATEGY TO SUPPORT MEXICO'S FORESTS AND CLIMATE AGENDA

Mexico was one of the first participants of the FIP pilot country programs. Its investment plan was developed through a strong participatory process during 2010, which involved stakeholders from different sectors, including representatives of governmental institutions (forestry and non-forestry),³⁴ IPLCs, forest community-based organizations, civil society and non-governmental organizations (NGOs), academia, and financial institutions, among others. Two major change pathways were identified through this process:

- Invest in coordinated, multi-level efforts that strengthen policy, institutional, social, and market capacities to address fundamental market and policy failures concerning the valuation of natural capital and wider environmental externalities; and
- Work through intermediaries and support value chain development to deliver transformations within the contexts of smaller-scale investments in climate goods and services.

The design of FIP's investment plan is built upon years of close collaboration on the forestry sector between the GoM and FIP's implementing partners, i.e., multilateral development banks (MDBs)—the World Bank and the Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF/IDB Lab)—and it has benefited from the comparative advantages of both organizations. The World Bank has been deeply involved in the development of Mexico's climate change agenda and has led efforts for public policy coordination as well as a broad set of financial and non-financial tools for this sector. The IDB, on the other hand, has offered its experience in developing innovative financial models that includes green investments and fostering the participation of the private sector. Furthermore, both MDBs have had previous experience with helping the country in technical assistance and capacity development.

Based on an in-depth understanding of the Mexican context, the FIP investment plan identified strategic interventions that were aligned with the ongoing forestry efforts in Mexico, which had the potential to address known drivers of deforestation and forest degradation, reduce GHG emissions, and promote sustainable rural development. These interventions were aimed at achieving the following social and environmental outcomes and objectives:³⁵

- Innovative financing mechanisms targeted at low-carbon emission activities, the strengthening of institutional capacity, and improved access to funding for indigenous communities, *ejidos*, and their forest businesses to invest in such activities;
- Reduced poverty in indigenous and local communities through increased income from sustainable forest landscape management and productive landscape mosaics;
- Greater gender balance and inclusion of vulnerable groups, including IPLCs, in sustainable forest management and governance; along with
- Decreased losses in biodiversity and environmental services as well as the increased resilience of forest landscapes to variability and climate change.

The investment plan aimed to achieve these objectives through three projects implemented by the World Bank and IDB. To complement these government-led FIP projects, CIF established the DGM, a special initiative targeted towards IPLCs, in 2017 (**see Table 1**).

The first FIP project, implemented by the World Bank and executed by CONAFOR, focused on building institutional and adaptive capacity, strengthening forest policy and governance, as well as implementing pilot projects in the REDD+ early-action areas. Although this project was originally conceived as two separate initiatives (FIP1 and FIP2), they were eventually rolled into a much larger package of support from the World Bank to CONAFOR, called the Forests and Climate Change Project (FCCP). This change allowed for the provision of large-scale assistance through policy, advisory, and investment instruments.³⁸ At the time, this was the World Bank's largest forest-related operation.

FIP3 and FIP4, implemented by IDB, focused on creating and piloting innovative financing mechanisms, as well as improving access to finance for *ejidos* and micro-, small-, and medium-scale enterprises (MSMEs). This was done with concessional loans channeled through local financial intermediaries to support community forest enterprises (CFEs) in the creation of financially and environmentally sustainable

Table 1.
SUMMARY OF FIP'S INVESTMENTS IN MEXICO

PROJECT TITLE	MDB	EXECUTING ENTITIES	FIP FUNDING ³⁶ (USD MILLION)	CO-FINANCING (USD MILLION)	APPROVAL DATE	CLOSURE DATE
FIP1 and FIP2: Forests and Climate Change Project (FCCP) ³⁷	World Bank (WB)	CONAFOR	42.0	350.0 (WB) 333.0 (GoM)	Nov 2011	Feb 2018
FIP3: Financing low-carbon strategies in forest landscapes	IDB	FND	15.0	0.0	Sept 2012	Jul 2020
FIP4: Support for forest-related micro, small and medium enterprises in <i>ejidos</i> and communities	IDB Lab	FINDECA / FMCN	3.0	3.52 (MIF) 0.5 (GoM)	Mar 2013	Oct 2019
Dedicated Grant Mechanism (DGM) for Indigenous Peoples and Local Communities (IPLCs)	World Bank	Rainforest Alliance	6.0	0.0	May 2017	Aug 2022
TOTAL			66.0	687.02		

businesses in forest landscapes. Furthermore, grant funding was provided to support technical and financial assistance, capacity development, and knowledge exchange in FIP4, along with a guarantee fund in FIP3. These two projects were implemented through three executing agencies. FIP3 was executed by FND (National Financial Development Agency for Agriculture, Rural Development, Forestry and Fisheries), a national development finance institution. In the case of FIP4, a civil society organization, FMCN (Mexican Fund for the Conservation of Nature), and a financial services company based in Oaxaca state, FINDECA, were in charge of the implementation. For each of these projects, the inter-institutional coordination between the relevant actors provided a basis for the integrated land management approach that was being piloted. The executing agencies proved to be crucial in organizing interventions at the local level, coordinating donors, leveraging resources, and spreading lessons.

A key aim of FIP's concessional finance was to provide access to finance and lower the overall risk for the participating financial intermediaries. This facilitated the financial inclusion of *ejidos* and communities, thus helping to strengthen their entrepreneurial culture, while supporting the establishment of the forest sector as a viable economic opportunity among other "competing" sectors.³⁹ The support for CFEs, under FIP3 and FIP4, included a broad range of *ejidos* and community enterprises within the areas of intervention. This model aimed to explore new approaches that were intended to improve the profitability of CFEs through increased productivity and strengthened value chains for timber and non-timber forest products in forest landscapes. These approaches were aligned with the country's efforts of tackling deforestation and forest degradation.

The FIP DGM seeks to strengthen the capacity of forest-dependent people to participate in local, national, and international processes related to REDD+. Approved in 2017 with a projected end date of 2022, the FIP DGM is implemented by the World Bank through a national executing agency drawn from the International NGO sector (Rainforest Alliance).⁴⁰ The program provides grant funding and capacity building to IPLC groups in five states to enhance their participation in REDD+.⁴¹

Designed for and governed by IPLCs, the DGM enables IPLCs to identify and implement sustainable and productive forest management activities, not only by improving their ownership, participation, and adaptive capacity, but also by providing sources of income and livelihoods. As a result, the DGM contributes to tackling poverty alleviation among the rural poor, while addressing deforestation and forest degradation. By building the adaptive capacities of IPLCs and ensuring strong socio-economic and environmental outcomes that are aligned with Mexico's rural development and the REDD+ agenda, the DGM could significantly enhance the prospects of adaptive sustainability.

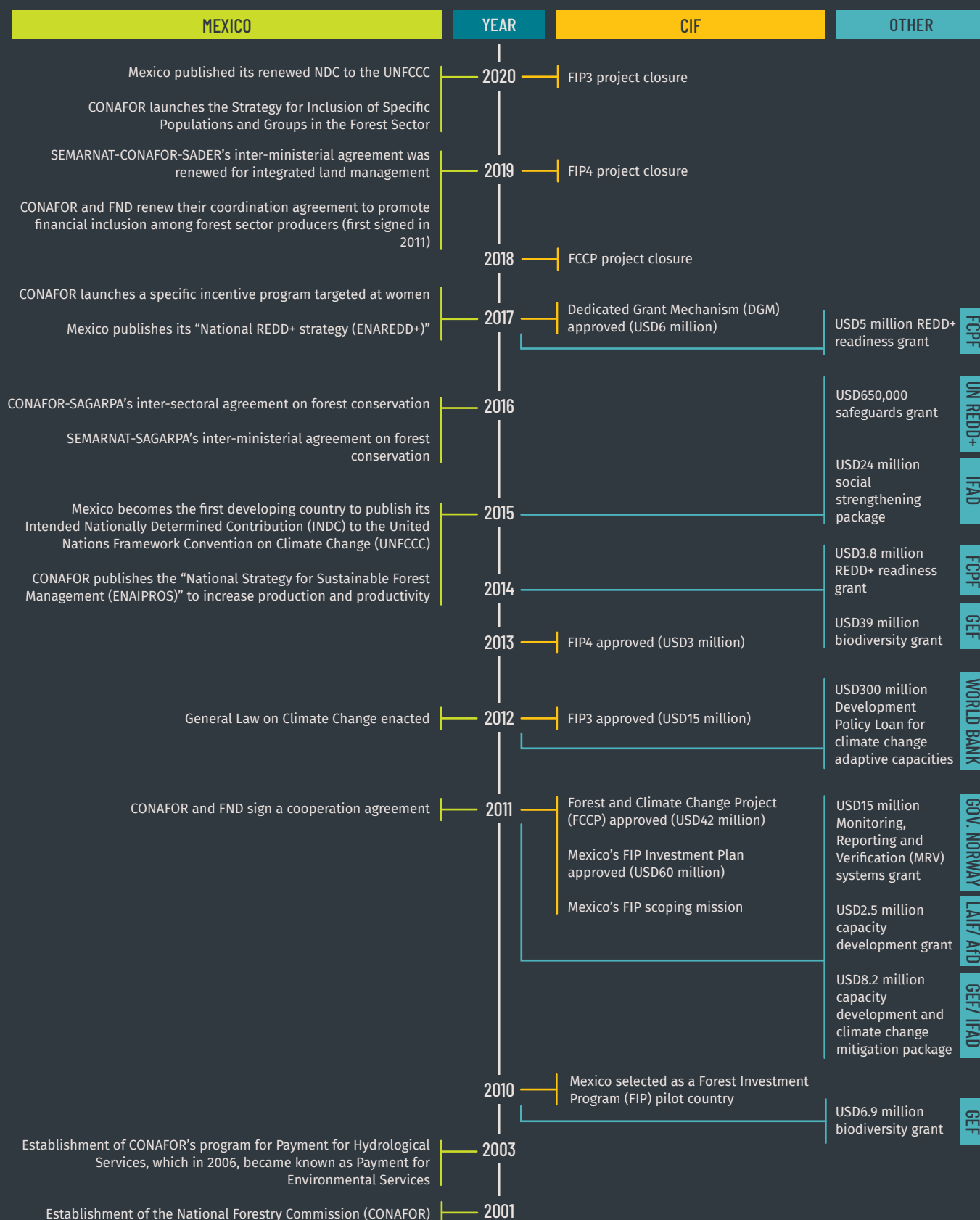
These FIP investments that operated alongside other internationally supported initiatives were encompassed within a broader strategy to finance forest and climate change interventions under a programmatic approach. The key elements of this approach included a strong alignment with ENAREDD+ and an emphasis on multi-stakeholder consultations, cross-sectoral coordination, and national ownership.⁴² These other efforts reached almost USD600 million in concessional loans and grants from 2010 to 2020, providing support for community-level sustainable forest management, biodiversity mainstreaming into forest practices, capacity development at the local level, the strengthening of market-based instruments, along with REDD+ MRV systems, among others (see **Figure 1**). In addition, CONAFOR's own subsidy programs contributed to the overall FCCP by achieving major reforestation and forest restoration targets, providing payments for environmental services, and supporting forest production and productivity inside and outside of FIP areas. The FIP investment plan was also aligned with other REDD+ implementation mechanisms, including the Forest Carbon Partnership Facility (FCPF).

MILESTONES OF CHANGE

Mexico has achieved several major policy milestones related to transforming the forestry sector and made a significant number of major project commitments. These are described in greater detail in the following section. **Figure 2** provides a timeline demonstrating these milestones. A list of these events can also be found in further detail in Annex 1.⁴³

Figure 1:

TIMELINE OF MAJOR FORESTS AND CLIMATE CHANGE MILESTONES IN MEXICO



Note: This list is not meant to be exhaustive, nor does it demonstrate causality between FIP's milestones and other events.



PROGRESS TOWARDS TRANSFORMATIONAL CHANGE

Transformational change is an emerging guiding concept for international climate action. The CIF Transformational Change Learning Partnership’s working definition of transformational change for climate action is: **fundamental change in systems relevant to climate action, with large-scale positive impacts that shift and accelerate the trajectory of progress towards climate-neutral, inclusive, resilient, and sustainable development pathways.**⁴⁴

Five dimensions—relevance, systemic change, speed, scale, and adaptive sustainability—must be achieved to realize comprehensive transformation, although they often do not progress in a linear or sequential manner. For each dimension, transformational change, at any moment in time, can be considered on a continuum of advancement from emerging to advanced stages (**see Boxes 2.1 and 2.2**).⁴⁵

OVERALL PROGRESS

The transformation that the GoM sought to achieve, with the support of the FIP investment plan, was a reduction in GHG emissions from deforestation and forest degradation, the enhancement of forest carbon stocks, and the promotion of sustainable rural development, along with a reduction in the levels of poverty and biodiversity loss. The investment plan recognized that such a change was a long-term, cross-sectoral goal that was beyond the capacity of a single development actor. The transformation would entail the convergence of multiple activities over time and across sectors.⁴⁶ The drivers of deforestation described earlier (**see Box 1**) represented a challenging context in which FIP’s innovative climate change program had to operate. Some of these drivers were deeply rooted in the rural economy and constituted ongoing threats to the outcomes of project activities.



Box 2.1.
DIMENSIONS OF TRANSFORMATIONAL CHANGE

THE DIMENSIONS OF TRANSFORMATIONAL CHANGE

A dimension is an attribute of change in systems for addressing climate change.

- **Relevance:** Alignment with context and opportunities to advance transformational change goals. Relevance is an action-oriented framing dimension that illuminates the ongoing, dynamic relationship between the desired goals, context, and opportunity.
- **Systemic change:** Fundamental shifts in system structures and functions. Systemic changes involve shifting the structures, functions, and interrelationships of elements within systems that produce or shape outputs and outcomes, which are relevant to climate action.
- **Speed:** Accelerate or decelerate impacts to achieve an appropriate speed of change. The speed of change is typically affected by the alignment of systemic changes, scaling pathways, and shifts in other related social, economic, and environmental systems.
- **Scale:** Contextually-large transformational change processes and impacts. Scale involves expansion within and across levels as well as scaling up and/or out at increasing magnitudes.
- **Adaptive Sustainability:** Robustness, resilience, and adaptiveness of change. Adaptive sustainability recognizes the importance for systems and change processes to have the capacity to respond to changing circumstances and evolving needs over time.

Box 2.2.
STAGES OF PROGRESS TOWARDS TRANSFORMATIONAL CHANGE

EMERGING AND ADVANCED STAGES OF PROGRESS

Signals are ways of recognizing and capturing progress toward transformational change in climate action.

- **Emerging:** Suggests that transformational change processes are under way, but outcomes across both lower- and higher-level systems are not yet visible. These can include: transformational outcomes within unconnected systems or process signals that can facilitate fundamental shifts in systems; scaling between lower- and higher-level systems; or the durability of transformational change.
- **Advanced:** Signals of large-scale positive impacts (such as changes that can be identified in larger systems at the sectoral, national, and global levels) as well as fundamental changes in the structure, function, or interaction of a system. They can also arise directly from specific project interventions, depending on the scale, ambition, or timing. Or they may occur through the scaling and deepening of smaller demonstration interventions over time.

At a given time, progress may be at or in between these stages.

After almost 10 years of the FIP experience, progress can now be observed across the five dimensions of transformational change⁴⁷ at the implementation sites (see Figure 1 in the Executive Summary). Most of the progress can be found in the **relevance** and **systemic change** dimensions, both of which have reached more maturity within the emerging stage, with outcomes extending beyond program boundaries. Signals of transformational change are at an earlier emerging stage with respect to **speed** and **scale**. However, it is important to point out that, as project support only ended recently, there has been limited time for these dimensions to be fulfilled. With regards to **adaptive sustainability**, signals appear to be particularly promising, even though it is at an emerging stage. By increasing the knowledge, skills, and agency of individuals, communities, and institutions, FIP and DGM support is enhancing their adaptive capacities and paving the way for more sustainable outcomes.

Figure 1 in the Executive Summary shows a summary of the stages of progress across these dimensions. The following sections further explore the progress in relation to each dimension.

RELEVANCE

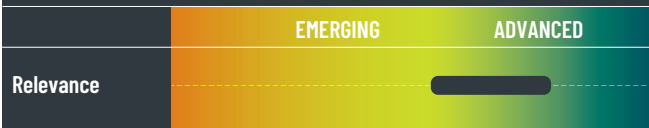
Early advanced signals of relevance to achieving transformational change are evident. The FIP projects were designed and implemented to catalyze transformational climate action for addressing the drivers of deforestation and forest degradation, while also promoting inclusive sustainable development (see Figure 2). The investment plan in Mexico, designed through a multi-stakeholder consultation process and in close partnership with the GoM to ensure strong country ownership, was in alignment with the relevant climate, rural, and forest policies, plans, and priorities at the time. The goal was to create a flexible and responsive intervention that was appropriate for the national conditions, while leveraging upon the landscape of forestry initiatives already implemented at the territorial level in a way that promoted sustainable rural development and transformative climate action.

FIP-supported projects have helped advance forest conservation in Mexico through the mainstreaming of sustainable landscape approaches in the public and private sectors at multiple levels. As outlined above, FIP projects were designed in partnership with the World Bank and IDB in order to harness the comparative advantages of the two implementing MDBs. By including the two MDBs in the FIP design and implementation, the country benefited from the individual strengths of both institutions, along with their particular experiences in the Mexican forest and climate change as well as financial sectors.

The DGM emerged out of the ongoing international discussions held at the time on the role of IPLCs in REDD+ as well as from the FIP multi-stakeholder investment planning and design process. IPLC observers stressed the need for dedicated resources to augment their capacity to participate in the FIP implementation.⁴⁸

Figure 2.

RELEVANCE DIMENSION OF TRANSFORMATIONAL CHANGE: STAGE OF ADVANCEMENT



Based on the needs expressed by the GoM, FIP supported the development of institutional capacities and facilitated initial cooperation between different institutions and levels of government. FIP's project activities were planned to support the development of the country's National REDD+ Strategy, particularly during the readiness and implementation/piloting phases. They provided important and innovative financing for relevant activities and prepared Mexico for the REDD+ results-based funding for emissions reductions.

FIP projects were also relevant for addressing a major barrier to advancing sustainable forest management.

The historical reluctance of the financial sector in Mexico to provide credits tailored to CFE's needs and capacities, as well as market opportunities for communal forestry operations, had limited the availability of financial services to many forest owners and small-scale CFEs. This significant barrier was identified during the preparation of Mexico's investment plan and addressed in subsequent FIP investments, thereby creating new opportunities for small-scale forest enterprises. In FIP3 and FIP4, a multi-level approach drew on the capacity of a range of relevant financial and technical stakeholders to pilot innovative models in support of forest enterprises, including those led by IPLCs, and sustainable community forest management (see Box 3). By reducing the perception of risk, FIP enabled innovation and experimentation among financial stakeholders, while building their confidence to engage groups that had previously been excluded from the financial system.



Box 3.

INSTITUTIONAL ACTORS FACILITATING SMALL-SCALE PRIVATE SECTOR INVESTMENT IN FOREST CONSERVATION

Mexico’s investment plan laid out FIP’s first private sector operation. It was implemented through the Inter-American Development Bank (IDB)-supported investment projects—FIP3 and FIP4. Securing sustainable business models for community forestry enterprises (CFEs) is challenging. While many CFEs aim to improve their long-term viability through investments in sustainable forestry management, they have traditionally been held back by limited access to financing as well as a lack of business development skills and mutual coordination to strengthen one another.

FIP brought together the following local, national, and regional institutional actors to provide access to both debt finance and technical assistance for CFEs to bring about change:

- The **Multilateral Investment Fund** (MIF, now IDB Lab) of the IDB Group drives innovation for inclusion by supporting low-income populations through the building of successful business models for small and medium-sized enterprises (SMEs).
- **FINDECA** is a private financial intermediary based in southern Mexico. It offers financial services in productive rural sectors, including forestry, and acted as the executing

agency of FIP4, along with FMCN (the Mexican Fund for the Conservation of Nature).

- **FMCN** supports conservation projects through technical assistance and project management. It was the executing agency of FIP4, along with FINDECA.
- **FND**, Mexico’s national development finance institution for rural areas, provides credit to support various activities related to the rural environment. It was the executing agency of FIP3. By strengthening the capacities of CFEs, it set the basis for a relationship between CFEs and commercial banks.

SYSTEMIC CHANGE

Systemic change within the rural economy has reached a mature emerging stage towards transformation (see Figure 3). Signals of systemic change, arising from the FIP Mexico program, are already apparent, in terms of the changed mindsets (toward CFEs and women) and strengthened institutional processes.

DEMONSTRATING THE BANKABILITY OF COMMUNITY FOREST ENTERPRISES

The first signal relates to **a shift in thinking towards the feasibility and capacity of small-scale forest enterprises to access private credit** as opposed to a mainly state-led, subsidy-driven financial offer. The FIP financial models were tailored to the particular needs of the forestry sector and catered to the conditions of each CFE. This change in thinking was largely driven by the success of FIP’s financial intermediation model that delivered specific credit products. It yielded positive results that generated a demonstration effect, in terms of how access to finance can be increased for the CFEs and community businesses through adequate models that catered

Figure 3.

SYSTEMIC CHANGE DIMENSION OF TRANSFORMATIONAL CHANGE: STAGE OF ADVANCEMENT



to their needs. In this sense, FIP4's approach of supporting the CFEs as a business unit allowed them to develop their skills in administration, governance, financing, operation, and the market, thereby making them more efficient, competitive, and reliable.

For example, FIP4, via FINDECA, provided 92 loans totaling USD1.8 million to 28 CFEs, exceeding the original goal of the number of CFEs reached by 86.7 percent. In addition, 18 CFEs obtained more than one loan, surpassing the original goal by more than 80 percent.⁴⁹ With no credit repayments outstanding, this initiative has helped build the business case for investing in small-scale forest conservation. The financial intermediation model was thus critical in mitigating risks, which attracted increased investments in the forestry sector and supported projects led by *ejidos* and communities in becoming bankable and economically feasible.⁵⁰ Through this model, credits were given to CFEs that worked on both timber and non-timber forest products such as coffee, honey, rubber, and pepper, thus demonstrating the profitability of forest activities and highlighting the profile of CFEs as potential credit subjects.

Under FIP3, 285 projects were financed with concessional loans to smallholders who would not have had access to finance otherwise due to the land tenure structure in Mexico, among other reasons. Of these projects, 172 were women-led or involved the participation of indigenous communities. The grant funding provided by CIF supported the financial viability of the projects by establishing an innovative guarantee mechanism (IDB Guarantee Fund or *FOGABID*) that FND developed and executed. This financial tool covered first losses for up to 18 percent of the projects financed, but with an incentive structure that assured repayments from the *ejidos* and communities receiving the FIP loan. The FIP grant also allowed for provisions of financial and technical assistance to the loan beneficiaries, which supported the loan processes and the projects' feasibility.

Through both the FIP3 and FIP4 projects, **the work of IDB served to improve perceptions around the viability of providing credit finance to CFEs.** IDB's financial intermediaries, FND and FINDECA, achieved

nearly 100 percent repayment rates on the loans they provided.⁵¹ A 2017 case study analysis describes, for instance, how the credit provided to a CFE in Oaxaca facilitated higher returns for harvested wood by increasing activities in more aspects of the value chain. Using a USD265,000 loan provided via FINDECA to finance a new sawmill and two drying kilns, the community was able to increase the quality and volume of forest products produced under a sustainable management plan, improve market access, and increase financial returns for the community by 50 percent.⁵² Similarly, FIP's support to another CFE in Durango led to higher harvest volumes and a wider variety of finished products, thereby increasing the annual profit-sharing returns for households by 179 percent between 2012 and 2016. This was the only Mexican CFE exporting timber products directly to the United States at the time.

These loans also signified an articulation between government policies and FIP projects, since having a loan facilitated the access of some CFEs to public subsidies. This shows that there are virtuous combinations between subsidy and credit, which indicates a change in the way of understanding forest businesses.

The FIP experience has showcased a way to increase the profitability of CFEs without compromising ecological assets and environmental sustainability.

While FIP projects sought to advance productive forest landscapes and generate income for CFEs, communities, and *ejidos*, sustainable land management remained at the core of FIP's approach. For example, under FCCP, by project completion, the forest area managed by communities and *ejidos* under sustainable management practices had doubled. Moreover, 374 additional CFEs were certified under national and international standards for their sustainable forest practices.⁵³

Additionally, FIP projects were required to comply with environmental and social safeguards as well as sustainable forest management plans, which helped to ensure the sustainability of the investments. CONAFOR, for instance, mainstreamed the World Bank's environmental and social safeguards within

its own operating rules, while FMCN was required to verify the potential impacts of all investments to ensure that they reduced social and environmental consequences.

As noted above, **FINDECA was also able to leverage FIP funding to effect systemic change in the way it conducts its financing operations.** This has transformed the way the organization provides credit beyond FIP, as it expands credit lines to the forestry sector with its own resources. At the same time, the credits provided by FINDECA generated “financial credibility” for the beneficiary CFEs, some of which can now access loans from some commercial banks and even governmental financial resources. FIP’s experience in Mexico demonstrated the viability of extending credit to micro-, small-, and medium-scale sustainable forest enterprises. It also showcased how doing so can positively impact vulnerable forest-based households by providing them with income and livelihood options, while stimulating broader rural economies and conserving forests.⁵⁴

CROSS-SECTORAL INSTITUTIONAL COORDINATION

A second signal of **systemic change relates to the laying of the foundations for the institutional coordination between different government agencies,** which acknowledged the wider pressures on forests (particularly from agriculture and livestock). This is in a national context where there are approximately 12 federal government institutions that provide financial support for agricultural and forestry-related activities.⁵⁵ Institutional agreements that support forest conservation within a broader rural landscape were initiated in 2016 between CONAFOR and the Ministries of Environment and Agriculture (SEMARNAT and SAGARPA, now SADER⁵⁶) at the 13th Conference of the Parties to the Convention on Biological Diversity held in Mexico (**see Box 4**).

The objective of these coordination efforts was the mainstreaming of biodiversity in productive sectors, including forestry, agriculture, fisheries, and tourism. These inter-institutional agreements were related to REDD+ and aimed to include forest restoration and integrated watershed management, thus opening

up an opportunity for a more holistic view on forest conservation and rural development. While these agreements could lead to transformational outcomes, they did not come into full operation, in terms of joint operational guidelines and landscape-level implementation, in a coordinated way. Nevertheless, in 2019, the collaboration agreement between SEMARNAT-SADER and CONAFOR was renewed. It now integrates specific working groups and activities to be undertaken jointly as well as identifies designated areas for follow-ups and collaborations. This has allowed for more targeted efforts to operationalize these agreements since 2019.

Sectoral policies that have led to competing programs in rural areas have posed a challenge. Despite the GoM’s strong commitment to reducing deforestation levels, continued subsidies for agriculture and livestock farming have, in some instances, led to forest loss.⁵⁷ FCCP included inter-sectoral coordination mechanisms, such as a joint database between CONAFOR, SADER, SEMARNAT, and CONABIO⁵⁸, which is already being used for decision-making and landscape planning.⁵⁹ However, an ongoing coordination of their operational guidelines has yet to be established. As long as these competing sectors operate without coordination, and the government prioritizes investments in sectors that drive deforestation over long-term support to sustainable forest management, the depth of these fundamental systemic changes and the overall transformational change potential of FIP-type investments will be limited. This key challenge may also provide the justification as to why large-scale public investments are not only relevant to the forestry sector, but also continue to be warranted.

Furthermore, during its operation, FIP4 was guided by a Steering Committee that facilitated the identification of strategic adjustments, stakeholder participation, and attention to operational problems to meet the project goals. This decision-making body was a collaborative effort that included CONAFOR, FINDECA, FMCN, and IDB.



Box 4.

2016 SEMARNAT-SAGARPA AND SAGARPA-CONAFOR COLLABORATION AGREEMENTS

- Sought to develop a work plan to coordinate the activities of both ministries so that agricultural production does not affect biodiversity.
- Sought to avoid the delivery of economic incentives, financing, or credits to projects that promote land conversion.
- Intent to achieve the commitment of zero deforestation, as set out in the Paris Agreement.
- CONAFOR to provide subsidies so people living in forest areas can develop agricultural activities while conserving forest habitats.

Source: http://dsiappsdev.semarnat.gob.mx/datos/portal/publicaciones/mexico_fao_mainstreaming_dialogue.pdf

EXPANDING THE GENDER PERSPECTIVE IN FORESTRY

Another emerging signal of systemic change relates to gender, where **FIP-funded interventions have contributed to a shift in gender mainstreaming policies** within CONAFOR through measures, including staff training related to the participation of women as well as online training on inter-cultural and behavioral approaches.⁶⁰ For instance, in 2014, CONAFOR established an institutional intervention program to mainstream gender perspectives across all its operations. Increased gender awareness led CONAFOR to launch an incentive program that specifically targeted women in productive activities in 2017. With FIP and World Bank support, and in partnership with the National Women’s Institute (INMUJERES), CONAFOR also built staff capacity on gender integration and enhanced technical support at the field level for productive forest enterprises led by women in indigenous communities.⁶¹ Most recently, and as part of the National Forestry Program 2019-2024, CONAFOR published the “Strategy for Inclusion of Specific Populations and Groups in the Forest Sector”. It includes work that incorporates a gender

perspective,⁶² thereby indicating a sustained shift in CONAFOR’s thinking around gender mainstreaming within its operation.

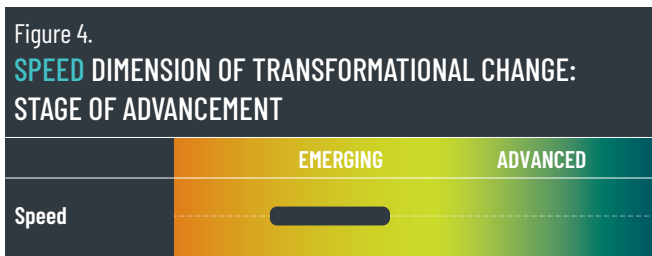
With employment in the forestry sector heavily dominated by men, FIP investments in mechanization and training have sought to create opportunities for women in the sector. For example, a 2017 study reports that through the FCCP, FIP support to a CFE that manages approximately 70,000 ha of forestland in the state of Durango helped create 80 new jobs as of 2012. Nineteen of the new positions were held by women, including the first woman director.⁶³ Covering 225,000 ha of land, FIP3 provided 285 loans, 60% of which were led by women and/or indigenous peoples.⁶⁴ Similarly, FIP4’s support that contributed to the sustainable management of 595,135 ha by CFEs and created 1,315 jobs also led to positive gender outcomes. Out of the 95,521 indirect beneficiaries, 49,051 were women, indicating an increasing focus on the importance of targeting women as beneficiaries of forest investments.⁶⁵

In addition, **FIP investments have allowed the piloting of behaviorally-informed communication and outreach strategies** that are aimed at increasing women’s participation in natural resource management programs. A recent study by the World Bank and CIF finds that expanding communication channels and using messaging that addresses behavioral barriers, such as beliefs and social norms, can successfully increase the number of women expressing interest in productive natural resource management programs/activities.⁶⁶ The learning generated could foster systemic changes related to the ability of CONAFOR and the GoM to increase women’s participation in such programs, and ultimately, improve gender outcomes in forestry programs. Also, regional exchanges have been organized to share knowledge and lessons learned, as well as showcase progress, in terms of gender mainstreaming and increasing the outreach to women and their participation in productive forest management projects and activities.⁶⁷ This is a testament to the shift in thinking that is under way in Mexico, as it relates to mainstreaming gender in forestry investments, which will be critical for the achievement of transformational outcomes in the forestry sector.

The Mexico DGM project has also promoted social inclusion by empowering women to engage directly in project implementation and developing specific evaluation criteria to ensure that women-led initiatives are funded.⁶⁸ Through its social inclusion window, the DGM is financing 55 sub-projects, of which 47 are women-led. Evidence suggests that these gender-inclusive efforts and approaches are already yielding positive results. In 2019, for instance, DGM Mexico selected and trained 20 Local Community Promoters, of which 70 percent were women.⁶⁹ While not explicitly reflecting systemic change, this development, nonetheless, demonstrates a shift in thinking around the need to integrate gender considerations in forestry project planning, design, and monitoring for more successful and inclusive project outcomes.

SPEED

The FIP investment plan was developed and approved in record time during 2011, with the first of its projects, FCCP, shortly following within the same year. FCCP was a key part of the World Bank’s strategic engagement in supporting the GoM’s ambitious agenda on forests and climate change. The fact that the FIP investment plan was linked to this larger, strategic World Bank engagement helped speed up the approval process. This rapid progress also benefited from the momentum generated in Mexico, where national policies around climate change and forests were positioned highly in the country’s development agenda. Since REDD+ in Mexico based its activities on sustainable rural development, all sectors related to forests must coordinate their activities to achieve integrated land management and rural development. The timing of FIP and the ongoing relevance of its activities were, therefore, well-aligned with the national priorities, such as the approval of the General Law of Climate Change in 2012, and eventually, the development of the “National REDD+ Strategy” in 2017.



Despite the strategic relevance and timeliness of FIP, less progress was observed in terms of seizing the momentum to accelerate climate action (see Figure 4). While FIP-supported actions, and the programmatic planning underpinning them, were carried out in a timely manner, the speed of change at the systems level has been less rapid, with the barriers to change in the rural economy remaining considerable. Competing sectoral priorities, as well as a lack of sufficient and opportune finance flows, continue to hinder the transformation of the rural economy as a system, thereby adversely impacting deforestation and forest degradation rates. FIP investments have tried to address this issue by building the institutional capacity of CONAFOR

and putting in place cross-sectoral coordination mechanisms between CONAFOR and other agencies involved in rural development.⁷⁰ While more needs to be done for Mexico to achieve its ambitious mitigation and adaptation goals, FIP has created supporting processes at the institutional and community levels to further accelerate transformational outcomes.

A particularity of the forestry sector is that the timing of the investments needs to coincide with harvesting cycles. Often, a well-intentioned investment may come at a time when the resources are no longer needed or the work cannot be done (e.g., rainfall season). To address this issue, FINDECA, the financial institution executing FIP4, provided efficient and personalized support for CFEs as well as operated streamlined models for its credit line, thus facilitating the lending process and avoiding bureaucratic delays to ensure that the CFEs received funding in accordance with their needs.

Another signal of efficient timing can be observed in the steering committees of the FIP projects. These decision-making bodies included executing agencies, implementing partners, and other relevant stakeholders. They made decisions democratically on operations, the provision of technical assistance, contracts, and synergy opportunities with other initiatives, providing a space for open communication. Their decisions often demonstrated the flexibility of the interventions, especially when involving a need to adapt to changing circumstances. In one occurrence, several agroforestry organizations expressed the need to regulate a particularly destructive disease affecting their harvest. The FIP4 Steering Committee tackled this sensitive issue by promptly authorizing specific assistance, including productive, technical, and financial capacities, even when it was not a part of the original productive models. The package effectively contributed to the recovery of the crops.⁷¹ Incorporating this new set of activities that were considered to be useful for achieving transformational change is also an example of the relevance of FIP throughout the implementation process.

Additionally, in response to the COVID-19 outbreak, the DGM in Mexico has operationalized a Contingency

Plan that has allowed for activities to continue. This plan includes specific activities regarding capacity building, targeted financing, and subproject oversight. It has also been supported by remote communication tools that have bridged the gap between the project executing agencies and their beneficiaries. The DGM team in Mexico also developed a Protocol for Consultation, Feedback, and Validation to remotely support the communities in their development of financing proposals. As a result, more than 50 technical proposals were finalized and ready for execution as of November 2020. The budget of about USD1 million for developing productive activities that contribute to the sustainable management of forest landscapes will benefit more than 800 women and 100 men.⁷²

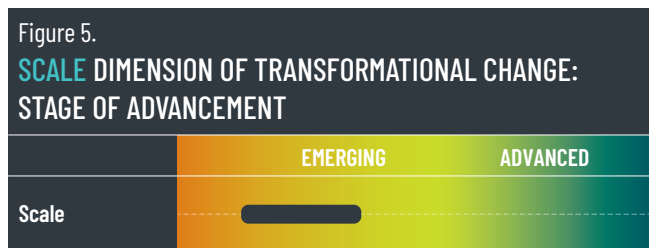
In terms of building gender inclusion into forest landscapes, FIP has also demonstrated emerging signals of speed. Recognizing the challenges of equal participation in productive forest landscapes as well as the important role women play in achieving the sustainable forest management and rural development agendas, **FIP investments have accelerated efforts to mainstream gender into forest policies and investments.** By providing training and capacity building on gender integration to CONAFOR staff, FIP helped CONAFOR incorporate gender considerations across all its operations, which culminated in the development of a gender-specific funding window in 2017. As part of its National Forestry Program 2019-2024, CONAFOR published the “Strategy for Inclusion of Specific Populations and Groups in the Forest Sector” that includes factoring in a gender perspective in work, thus confirming its commitment to targeting marginalized communities and women more directly as beneficiaries in future community forestry programming.⁷³

While more efforts are required to scale up gender-focused forest investments in Mexico, **FIP and DGM have played a key role in accelerating this change in thinking around gender within institutions and IPLCs.** This is already yielding positive results, as evidenced by the development of dedicated funding windows targeted at women in productive and sustainable forest landscapes.

SCALE

The scaling of climate compatible activities is in the early emerging stages of transformation (see Figure 5).

Having reached over a quarter of a million direct project beneficiaries through FCCP, CONAFOR estimated that the forest area under the sustainable management of communities and *ejidos* in the project pilot areas doubled as a result of the program, from approximately two million to four million ha between 2012 and 2018.⁷⁴



However, the replication of sustainable forest management practices will depend on continuing public investment. While approaches led by the public sector are not considered to be a successful strategy in many sectors, the severity of the market failures involved in forest conservation are such that reasonable arguments may be made for a continuing role for public subsidies, not to mention the lack of functioning global carbon markets and the associated REDD+ revenue streams. Another challenge for scaling is linked to project monitoring and evaluation as well as the high costs of project supervision.

Private finance also plays a critical role as an engine for scaling up a promising pilot experience.

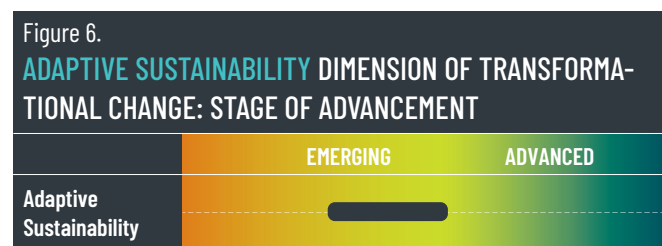
FIP3 and FIP4 provided strategic support to financial intermediaries for business incubation services around value chains that not only generated revenue for forest enterprises, but also supported additional employment opportunities. For example, FIP3 supported 285 MSMEs, while FIP4 incubated approximately 82 MSMEs and generated 1,315 jobs, representing 87 percent more jobs than originally expected, with a view of supporting these enterprises in becoming higher-capacity, larger, and more successful businesses.⁷⁵

This strategy offers a way to reduce the need for public subsidies, although the extent of the scaling-up required to achieve viable landscape-level forest conservation models has yet to be secured. However, through the Guarantee Fund established by FND with the FIP3 grant resources cited above, coupled with additional IDB lending programs and technical assistance for capacity building through FND and another public financial institution (FIRA⁷⁶), scaling may be possible. Both the credit schemes of FIP3 and FIP4 operated with enough flexibility to be connected with two additional guarantee funds that these national financial institutions had through their coordination with CONAFOR. As a result, beneficiaries had access to an increased pool of funds to mitigate risks.

ADAPTIVE SUSTAINABILITY

There are emerging signals on the adaptive sustainability of FIP-supported actions, including a strong alignment with Mexico's broader economic, social, and environmental goals (see Figure 6).

Developing joint and cross-sectoral institutional strategies to sustain financing will be key to building climate action in the forestry sector. In July 2019, the coordination agreement between FND and CONAFOR, initially signed in 2011, was renewed to continue promoting financial inclusion among producers dedicated to the country's forest sector. The agreement between the two institutions aimed to strengthen existing efforts, such as guarantee funds already set up for the forest sector, and generate specific financial instruments for the forestry sector. It was made during the first quarter of 2019; at that point, FND had put in place loans of approximately USD5 million to boost forestry activities nationwide.



With this agreement, greater financial inclusion among producers will be promoted, in addition to the provision of technical assistance in coordination with the CONAFOR technical body, to help sustain forest conservation investments.⁷⁷ According to a FND analysis, the increased relevance put into forest investments has seen the amount of credits double from 2019 to 2020.

As noted earlier, **long-term public investments for sustainable forestry programs will likely continue to be relevant and necessary, given the significant market failures involved in forest conservation and the competing sectoral priorities.** This often leads to the government prioritizing investments in sectors that drive deforestation and forest degradation. However, this reliance on public funds and development partners poses a challenge for the sustainability and replicability of FIP-type investments.

In this regard, **the proven success of the financial intermediation model in Mexico,** in terms of expanding the reach and facilitating direct access to finance for CFEs and IPLCs, **is another promising sign of adaptive sustainability.** Government credit guarantees, along with capacity-building support, allowed FINDECA and FND to work with smallholder farmers and CFEs by absorbing financial risks.⁷⁸ FINDECA, for example, generated “financial credibility” for beneficiary CFEs, giving them access to loans from commercial banks, which had been challenging to obtain before. This is crucial, as it means that CFEs, *ejidos*, and communities are at a better standing to access finance and sustain their productive forest management activities. **FIP investments, therefore, have provided a demonstration effect of the role that financial intermediation can play in making projects in ejidos and communities bankable.** This has strengthened financial inclusion for *ejidos* and communities, which, in turn, is yielding significant benefits and economic gains for these vulnerable and marginalized communities.

Another emerging signal that advances adaptive sustainability is FIP’s focus on the institutional strengthening and capacity building of CFEs and IPLCs. By increasing the knowledge, skills, and agency of individuals, communities, and institutions, the support of FIP and DGM is enhancing their adaptive capacities, bolstering their resilience against future changes, and paving the way for more sustainable outcomes. For example, CONAFOR is now better placed to coordinate with other institutions and sectors (SEMARNAT and SADER), mainstream gender considerations into its operations, and target marginalized communities as direct beneficiaries of its productive and sustainable forest landscapes programs. The capacity building support of FIP and DGM has strengthened the institutional foundations of CFEs and IPLCs in producing important tangible outcomes. As the FIP experience demonstrates, such support not only generated increased social cohesion, more jobs, and additional income for CFEs and marginalized communities, but also did so in a sustainable way. FIP interventions in Mexico are yielding results that have contributed to wider socio-economic and environmental development goals, therefore signaling progress in the adaptive sustainability dimension of transformational change.



STATUS AS OF 2021

The FIP projects delivered continuous support to the GoM to advance its forests, rural development, and climate change agenda for almost a decade. The largest of these investments, FCCP, closed in early 2018. According to the “World Bank Implementation Completion and Results” report, FCCP has made a significant contribution towards supporting rural communities in increasing their capacities and investments for the sustainable management of their forests, the building of social organizations, and the generation of additional income from forest products and services, including REDD+ activities.⁷⁹ At project completion, there were approximately 265,000 direct project beneficiaries, with almost four million ha of forest under sustainable management, representing a two-fold increase compared to the baseline.⁸⁰

At the time, the FIP projects operated in the same territory as various other initiatives that had forests and climate change at the core. Therefore, attributions could not be made, in terms of GHG emission reductions. However, a reduction in GHG emissions

from deforestation and forest degradation of 492 Gigagrams (Gg) of CO₂e per year in the REDD+ early action areas was estimated by 2018. GHG emissions dropped from 11,469 Gg of CO₂e at (adjusted) baseline to 10,907 Gg of CO₂e, representing a modest five percent decrease from the baseline.⁸¹

The continuity of the World Bank engagement beyond the CIF-supported phase is now being channeled through a new project. The Strengthening Entrepreneurship in Productive Forest Landscapes Project (2018–2023), operating in 20 states that include some of those previously supported under FCCP, provides USD185 million.⁸² This project has been designed with the remaining resources from FCCP, along with an additional grant of USD10 million from the BioCarbon Fund Initiative for Sustainable Forest Landscapes (BioCF ISFL). It has incorporated lessons learned from previous World Bank-supported forestry projects, including FCCP, into its design. Building on the FIP approach of placing forestry activities within the context of a sustainable rural economy, the

project “embraces the importance of mainstreaming productivity within forest landscape management activities” as a means of generating income for forest-dependent communities and enterprises, while promoting sustainable forest management and conservation.

FIP4 closed in October 2019 and FIP3 closed in July 2020 (although all FIP3 loan disbursements, worth USD10 million, were finalized in 2019). Moving forward, IDB support is now evolving to scale up the FIP experience by providing financial solutions for green projects, including those related to forestry and rural land management, with the approval of a Financing Program for Productive Inclusive and Sustainable Rural Development in December 2019. This USD250 million loan, which has yet to be formalized to date, would provide resources to FND to support agricultural investments that increase rural financial inclusion, improve environmental sustainability, and enhance climate resilience in the rural economy.⁸³

Additionally, lessons from FIP4 have been intentionally included in further initiatives involving FMCN. One such project is led by the Global Environmental Fund (GEF) and the World Bank, including CONAFOR as an executing partner (Project CONECTA), and another is the first Green Climate Fund project in Mexico (Project RIOS). They partially replicate the FIP4 model, whereby local organizations act as medium-term providers of specialized technical assistance to support the entrepreneurial development of communities and rural productive groups that adopt sustainable practices.⁸⁴ Finally, the FIP experience has supported the possibility of obtaining additional green finance for forestry and bioeconomy activities in Mexico, an initiative to be executed through FIRA.





REFLECTIONS AND LOOKING AHEAD

The complexity of Mexico's rural economy, with its economic, social, and environmental diversity, has set a considerable challenge for achieving transformational change in sustainable development practices. Since its approval in 2011, the FIP investment plan has contributed to the strengthening of institutional foundations for the delivery of forest and climate change goals, with its relevance established by its alignment with Mexico's forests and climate change policies. **It piloted a model that combined environmental benefits, economic improvement, institutional coordination, and social strengthening, thereby highlighting the relevance of the initiative.**

Progress has been made on key issues, such as cross-sectoral coordination and the mainstreaming of landscape approaches into the rural development program design. **Pilot projects relating to community forest management and forest finance have generated demonstration effects to transform**

the mindsets of actors by convincing them that small-scale forest management can make business sense. And what the case of Mexico has made clear is the **key role that national and local financial intermediaries** play in this new understanding. Moreover, FIP's communication activities have been an important tool for informing different audiences in Mexico and abroad about the projects' progress, lessons learned, and best practices.

In particular, **concessional finance and capacity-building support** have proven to be a catalyst for systemic change in the rural economy by reducing financial risks and creating a more attractive commercial risk-return profile for investments in forest-related enterprises. This de-risking of finance has enabled intermediaries to extend credit to micro-, small-, and medium-scale sustainable forestry enterprises and proven the commercial viability of doing so. Additional public funds have been leveraged to build on these investments, with Mexico now seen

on the international stage as a leading example of sustainable, community-led forestry for climate change mitigation.

The timeliness of the FIP design and implementation facilitated the leveraging of additional financing from national and international sources. As such, it profited from a critical juncture that supported the alignment of Mexico's national strategies with the global sustainable development goals and helped to project the country as a regional leader in the fight against climate change.

Yet, some barriers remain. As innovative as the FIP was for its time, the path towards sustainable rural development is a process that needs to be undertaken with a systematic approach to ensure the constant alignment of projects and initiatives with national policies for achieving climate action goals as well as maintaining ongoing connections between social, environmental, and economic systems. Even in a country with steady economic growth and the strengthening of social capital, such as Mexico, there are still capacity constraints that need to be addressed. **At the local level, the continuous capacity building of ejidos, communities, and their enterprises, along with social inclusion, are key,** since the strengthening of the social fabric and participation are fundamental for the conservation and effective management of the forest.

In terms of institutional capacity, there is a need to strengthen the national forest monitoring system. While the GoM acknowledges the importance of forests for climate change mitigation and adaptation, and the FCCP project has provided support to strengthen CONAFOR's monitoring system, a comprehensive MRV system for GHGs in the AFOLU sector remains outstanding, in part because of the highly technical demands of such monitoring, the need for the institutionalization of the processes, and the paucity of data.

Additionally, **in a national context of budget restrictions and insufficient long-term finance, supplementary funds need to be mobilized at the landscape level.** Such funding needs to address the

alignment of often counteracting policies that operate in the same territory (such as agriculture and livestock sectors) towards a more efficient and complementary implementation of public and private resources, as well as a significant scaling up of the initiatives, both horizontally and vertically.

Furthermore, the drivers of deforestation and forest degradation continue to exist in Mexico. To address them, **success will remain dependent on the collective action of a broad constituency of forest and rural landowners, government agencies, and international partners.** This will ensure that decision-makers across all levels (federal, subnational, and local) continue to put forests and climate change policies on their priority agendas to **strengthen and fully operationalize existing intersectoral and high-level agreements.** There is space for further research into the mechanisms for identifying and addressing power relations in these initiatives to ensure a wider understanding of the hidden dynamics that influence, and sometimes, even obstruct the effective participation of relevant stakeholders.

Moreover, the current COVID-19 health crisis and related economic downturn have highlighted the already existing inequalities and the precarious situations of vulnerable groups, such as forest inhabitants, as well as the projection of further food and income insecurities that could push displaced populations to look for sustenance in forest-based activities⁸⁵. Under such circumstances, forest products and environmental services could contribute to tackling the current health crisis.⁸⁶ **Mexico's FIP experience has shown that concessional investments in sustainable forestry and forms of dedicated support can produce socio-economic benefits for these vulnerable populations and those affected by COVID-19.** Therefore, securing and scaling up investments in the sector are critical for continuing the transformation towards more sustainable, inclusive, and resilient recoveries, while advancing climate mitigation and adaptation goals.

ANNEX 1: TIMELINE OF MAJOR FORESTS AND CLIMATE CHANGE MILESTONES IN MEXICO

The events listed below represent some of the most significant events related to transforming the forestry sector in Mexico. However, this list is not meant to be exhaustive, nor does it demonstrate causality between FIP milestones and other events. For a visual timeline, see Figure 1.

YEAR	MILESTONE	TYPE
2001	Establishment of the National Forestry Commission (CONAFOR)	Major policy/political event/development
2003	Establishment of CONAFOR's program for Payment for Hydrological Services, which in 2006, became known as Payment for Environmental Services	Major policy/political event/development
2010	Global Environmental Fund's (GEF) USD6.9 million biodiversity grant: Biodiversity of production forests and certified markets.	Other (non-CIF/MDB funder) investment/event
2010	Mexico selected as a Forest Investment Program (FIP) pilot country	CIF Project Event / joint GoM
2011	CONAFOR and FND sign a cooperation agreement	Major policy/political event/development
2011	GEF/IFAD's (International Fund for Agriculture and Development) USD8.2 million capacity development and climate change mitigation package: Mitigation of climate change through sustainable management and the creation of capacity in the southern states of Mexico (Campeche, Chiapas y Oaxaca) (DECOFOS)	Other (non-CIF/MDB funder) investment/event
2011	Mexico's FIP scoping mission	CIF Project Event
2011	Mexico's FIP Investment Plan approved (USD60 million)	CIF Project Event
2011	Forests and Climate Change Project (FCCP) approved (USD42 million from FIP)	CIF Project Event
2011	Latin American Latin America Investment Facility/French Development Agency's (LAIF/AFD) USD2.5 million capacity development grant: Implementation of early REDD+ actions in priority watersheds in Mexico through local governance (Local Governance for REDD+)	Other (non-CIF/MDB funder) investment/event
2011	Norway's USD15 million Monitoring, Reporting and Verification (MRV) grant: Project to strengthen REDD+ readiness in Mexico and South-South cooperation.	Other (non-CIF/MDB funder) investment/event
2012	General Law on Climate Change enacted	Major policy/political event/development
2012	FIP3 approved (USD15 million)	CIF Project Event
2012	World Bank's USD300 million Development Policy Loan (DPL) for climate change adaptive capacities: Strengthening Social Resilience To Climate Change	MDB (non-CIF) investment/event
2013	FIP4 approved (USD3 million)	CIF Project Event
2014	GEF's USD39 million biodiversity grant: Conservation of Coastal Watersheds in Changing Environments.	Other (non-CIF/MDB funder) investment/event
2014	Forest Carbon Partnership Facility's (FCPF) USD3.8 million REDD+ readiness grant	MDB (non-CIF) investment/event

YEAR	MILESTONE	TYPE
2015	CONAFOR publishes the “National Strategy for Sustainable Forest Management (ENAIPROS)” to increase production and productivity	Major policy/political event/development
2015	Mexico becomes the first developing country to publish its Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change (UNFCCC)	Major policy/political event/development
2015	IFAD’s USD24 million social strengthening package: Sustainable Development of Rural Communities in semi-arid areas (Regions North and Mixteca) (PRODEZSA)	Other (non-CIF/MDB funder) investment/event
2015	UN REDD+’s USD650,000 safeguards grant	Other (non-CIF/MDB funder) investment/event
2016	SEMARNAT-SAGARPA’s inter-ministerial agreement on forest conservation	Major policy/political event/development
2016	CONAFOR-SAGARPA’s inter-sectoral agreement on forest conservation	Major policy/political event/development
2017	Mexico publishes its “National REDD+ Strategy (ENAREDD+)”	Major policy/political event/development
2017	Dedicated Grant Mechanism (DGM) approved (USD6 million)	CIF Project Event
2017	FCPF’s USD5 million REDD+ readiness grant: Additional resources from the Readiness Fund	MDB (non-CIF) investment/event
2017	CONAFOR launches a specific incentive program targeting women	Major policy/political event/development
2018	FCCP project closure	CIF Project Event
2019	FIP4 project closure	CIF Project Event
2019	CONAFOR and FND renew their coordination agreement to promote financial inclusion among forest sector producers (first signed in 2011)	Major policy/political event/development
2019	SEMARNAT-CONAFOR-SADER’s inter-ministerial agreement was renewed for integrated land management	Major policy/political event/development
2020	FIP3 project closure	CIF Project Event
2020	CONAFOR launches the Strategy for Inclusion of Specific Populations and Groups in the Forest Sector	Major policy/political event/development
2020	Mexico published its renewed NDC to the UNFCCC	Major policy/political event/development

ACRONYMS

AFD	French Development Agency
AFOLU	Agriculture, Forests and Other Land Uses
CFE	Community Forest Enterprise
CIF	Climate Investment Funds
CONAFOR	Comisión Nacional Forestal (National Forestry Commission)
DGM	Dedicated Grant Mechanism
FAO	Food and Agriculture Organization
FCCP	Forests and Climate Change Project
FCPF	Forest Carbon Partnership Facility
FINDECA	FINDECA SA de CV SOFOM ENR, a financial services company based in Oaxaca state
FIP	Forest Investment Program
FMCN	Fondo Mexicano para la Conservación de la Naturaleza (the Mexican Fund for the Conservation of Nature)
FND	Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero (National Financial Development Agency for Agriculture, Rural Development, Forestry and Fisheries)
GEF	Global Environmental Fund
Gg	Gigagrams
GHG	Greenhouse gas
GoM	Government of Mexico
ha	hectares
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IPLCs	Indigenous Peoples and Local Communities
LAIF	Latin America Investment Facility
LULUCF	Land Use, Land Use Change, and Forestry
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund (administered by the IDB)
MRV	Monitoring, Reporting and Verification
MSME	Micro-, Small-, and Medium-sized Enterprises
NGO	Non-Governmental Organization
REDD+	Reduced emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks
SADER/ SAGARPA	Secretaría de Agricultura y Desarrollo Rural (Ministry of Agriculture and Rural Development), formerly known until 2019 as SAGARPA, Secretaría de la Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación (Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food)
SEMARNAT	Secretaría de Medio Ambiente y Recursos Naturales (Ministry of Environment and Natural Resources)
UNFCCC	United Nations Framework Convention on Climate Change

ENDNOTES

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- 33 CONAFOR, “ENAREDD+ 2017-2030.”
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- 35 CIF FIP, “FIP Investment Plan of Mexico.”
- 36 Amounts by the time of project approval
- 37 Originally envisioned as two separate projects, FIP1 and FIP2 were merged into the larger FCCP project.
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