

THE IMPACTS OF INTERNATIONAL REDD+ FINANCE

MEXICO CASE STUDY

Paola Bauche

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ACRONYMS

CICC	Inter-Secretariat Commission on Climate Change
Conafor	National Forestry Commission
COP	Conference of the Parties
CSO	Civil Society Organization
CTC-REDD+	Technical Advisory Committee for REDD+
ENAREDD+	National REDD+ Strategy
ERP	Emission Reductions Program
ERPIN	Emission Reduction Project Idea Note
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
FREL	National Forest Reference Emissions Level
GT-REDD+	Working Group on Reduced Emissions from Deforestation and Forest Degradation
IUCN	International Union for Conservation of Nature
LAIF	Latin America Investment Fund
LGDFS	General Sustainable Forest Development Law
LGDRS	Sustainable Rural Development Law
MRV	Measuring, reporting and verification
PECC	Climate Change Special Program
Profepa	Office for the Federal Attorney for Environmental Protection
RBF	Results-based finance
R-PP	Readiness Preparation Proposal
Sagarpa	Agricultural and Livestock Ministry
SRD	Sustainable Rural Development
UNFCCC	United Nations Framework Convention on Climate Change
UN-REDD	United Nations REDD+ program

Note that throughout this report all dollar amounts are U.S. dollars.

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INTRODUCTION TO REDD+ FINANCE IN MEXICO

It is estimated that temperate and tropical forests in Mexico place the nation among the top 24 countries with high carbon stocks stored in forest biomass (FAO, 2010; ENAREDD+, 2014). While Mexico has been able to significantly lower its rate of deforestation over the past decade, deforestation and forest degradation are still a serious problem that harms its natural capital and contributes considerably to Mexico’s greenhouse gas emissions. This situation has catalyzed interest on several fronts, including the attention of the national government that has put a strong effort on the REDD+ national process, as well as international agencies that have financed relevant activities that together could result in reductions of emissions from the forest sector.

INTERNATIONAL SUPPORT FOR REDD+ IN MEXICO

Mexico has demonstrated domestic capacity to support forest conservation. It has also had strong interest from both donor government agencies and multilateral institutions in helping Mexico further reduce deforestation and forest degradation. This has resulted in significant amounts of domestic funds committed to forestry, plus international pledged funds (although less disbursed). It has also led to Mexico’s participation in many platforms of technical and financial support for REDD+. It is one of the 44 developing country participants of the Forest Carbon Partnership Facility (FCPF) and one of the eight pilot countries for the Forest Investment Program (FIP). It is also a member of the UN-REDD programme.

According to the REDDX (2013) study, from 2009 to 2012 Mexico has received \$773.5 million in REDD+ and forest-related financial commitments up to 2018, of which 43% comes from the country’s own budget. The same report states that \$70.5 million (6%) has been transferred to beneficiary institutions. A newer source states that Mexico has been pledged an estimated amount of \$758 million, with 14% (\$88 million) disbursed (Guevara and Lara, 2014).

Most of the international funds that have been disbursed were designated for the preparation stage of REDD+, for technical and institutional capacity building. Between 2009 and 2012, most of the REDD+ international funds evaluated by REDDX were invested in development and strengthening institutional and technical capacities, stakeholder participation in the national REDD+ process (mainly the development of the National REDD+ Strategy, or ENAREDD+), feasibility analysis, land use change assessments, analysis of public policy, governance and drivers of deforestation and forest degradation, and the development of the reference level and the measuring, reporting and verification (MRV) system. A smaller portion of international funds has supported REDD+ implementation, in particular programs and activities at the subnational level. There are many inventories that have listed international REDD+ funds in México (Guevara and Lara, 2014). Table 1 shows a summary of the larger international funds that are considered specifically REDD+ finance.

Table 1: International public REDD+ funds (over \$1 million) for REDD+ in Mexico

Donor	Pledged (US\$ million)	Type of REDD+ fund
Forest Investment Program	60	Readiness and Implementation
FCPF Carbon Fund	circa 50 ¹	Results-based

¹ The FCPF Carbon Fund envisions that Emission Reductions programs will be in the range of around \$50 million.

USAID (MREDD program)	30	Readiness and implementation
Norway through UN-REDD (UNDP and FAO)	15	Readiness
FCPF Readiness Fund	up to 8.8	Readiness
Latin America Investment Fund (LAIF)	3.6	Readiness

Additionally, Mexico has received a “Specific Investment Loan” (\$350 million) from the World Bank as part of its Forests and Climate Change Cooperation package. The National Forestry Commission (Conafor) is the implementer of the funds, and has committed an additional \$333 million in co-financing (REDDX, 2013). Mexico also received a Development Policy Loan by the World Bank and the French Development Agency that has enabled REDD+ and other topics in Mexico. However, impacts of the Specific Investment Loan and the Development Policy Loan are not considered in this study since both loans are not dedicated specifically for REDD+ activities. However, they play an important role in allowing continuity of programs associated with forest incentives that seek to lower the deforestation rate and promoting inter-institutional coordination with agencies from the environmental sector as well as with Sagarpa (the Agriculture and Livestock Ministry).

MEXICO AND THE FCPF PROCESS

Mexico’s Readiness Preparation Proposal (R-PP) was approved by the Forest Carbon Partnership Facility (FCPF) in 2010, although it wasn’t until 2014 that the legal agreement was signed for which Mexico received access to \$3.8 million in funding for readiness. The funding aims to develop a participatory and inclusive process for carrying out the ENAREDD+ in Mexico. Also, the grant involves the development of activities to strengthen several Mexican states in the context of REDD+ readiness.

Mexico’s Emission Reduction Project Idea Note (ERPIN) was approved in April 2014 and Mexico successfully entered the pipeline of the FCPF’s Carbon Fund, which will allow Mexico access to results-based finance (RBF) for REDD+ emission reductions achieved. The letter of intent for an Emission Reductions Program (ERP, also called “Mexico’s Emission Reductions Initiative”) was signed on November 2014. During 2015, the Emission Reductions Program will be prepared, with the intent to present the ERP by March 2016.

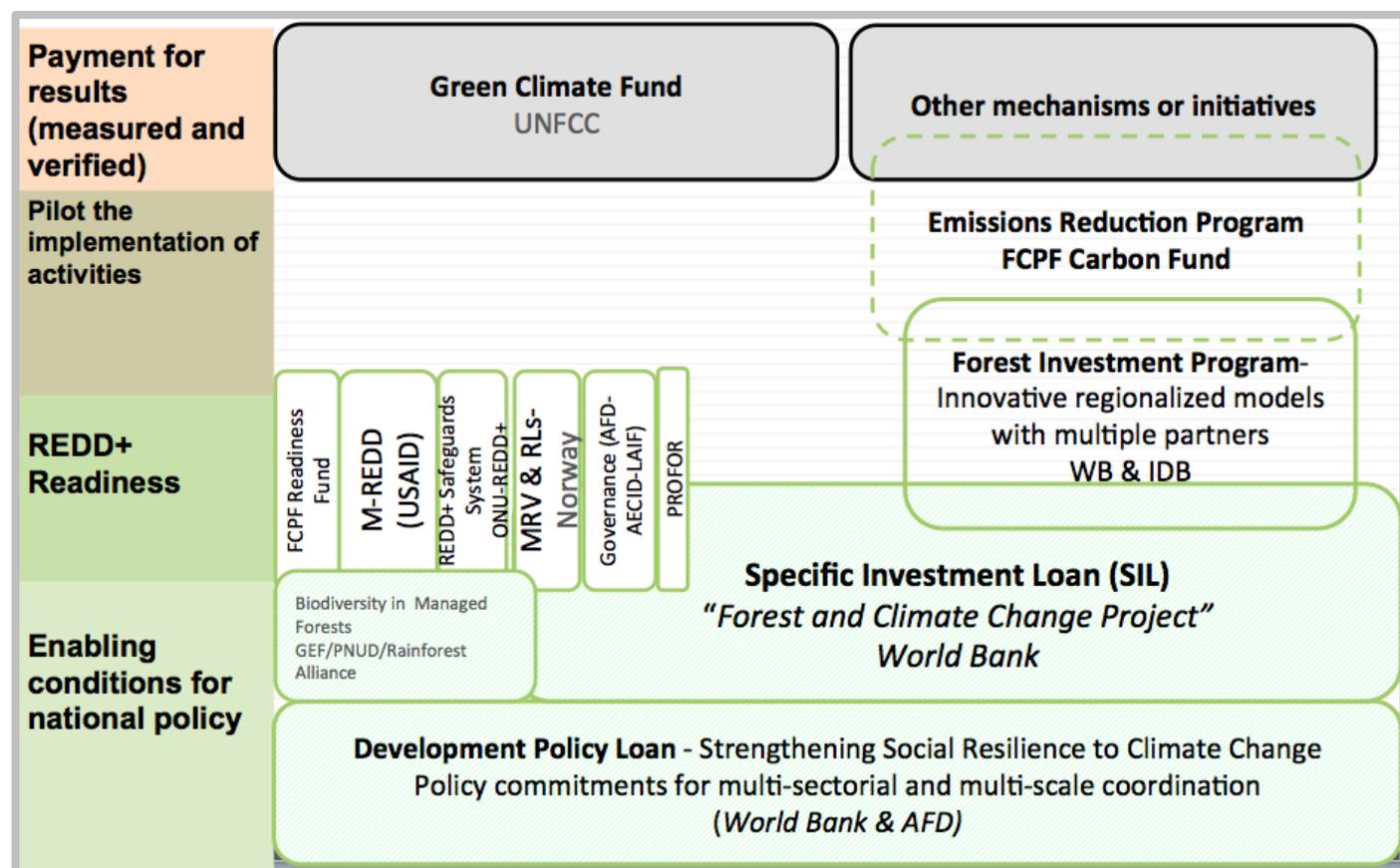
HOW INTERNATIONAL REDD+ FINANCE SUPPORTS MEXICO’S REDD+ VISION

In Mexico, REDD+ must be understood as a set of strategies that simultaneously address mitigation and adaptation, through an integrated landscape management approach that promotes low carbon Sustainable Rural Development (SRD), a convergence between the environmental and development agendas. This model of integrated landscape management with a focus on SRD, proposed by the Mexican government, recognizes that deforestation and forest degradation are both internal and external to the forest sector, and require an integrated, landscape-scale perspective to restructure and reduce the pressures on forest resources. The aim of REDD+ implementation, therefore, is not only the conservation of forests to address climate change, but also to ensure the maintenance of the quality of life of human communities, which includes encouraging the provision of ecosystem services, allowing food production, and guaranteeing an acceptable level of food security for the country. Mexico has been preparing the development of its National REDD+ Strategy (ENAREDD+) in a progressive and participatory manner since 2010

and its presentation of the REDD+ vision of Mexico (*Visión de México sobre REDD: hacia una estrategia nacional*)² at COP16 in Cancun.

Figure 1 below shows how various streams of international REDD+ finance in Mexico combines to produce a landscape vision and a sustainable rural development approach.

Figure 1: International support for Mexico’s ENAREDD+



Source: Conafor, 2015.

As mentioned above, Conafor is matching the Specific Investment Loan with its own funding. Conafor’s budget is around \$520 million per year for programs and activities to promote sustainable forest management, conservation and restoration. This is in addition to the national budget that has been designated for the development of the Forest and Soil National Inventory (INFyS) and the creation and modification of laws that enable REDD+. However, it is important to mention that one of the main drivers of deforestation and forest degradation in Mexico, agriculture and cattle ranching, largely compete with REDD+ funds. The budget approved in 2014 for the Agricultural and Livestock Ministry (Sagarpa) was over \$6 billion.

² Mexico’s vision on REDD+ can be found at: http://www.conafor.gob.mx:8080/documentos/docs/35/2520Visión%20de%20México%20para%20REDD_Ingles.pdf

OBSERVED IMPACTS OF INTERNATIONAL REDD+ FINANCE

Assessing the impacts of international REDD+ finance in Mexico represents a challenge since most funds are fairly recent and, unlike other countries, Mexico has pledged a large share of the overall funding from its domestic budget for the sector. On-going domestic programs have enabled the REDD+ process and make impacts difficult to disaggregate or separate between national and international REDD+ funds.

As part of the search for insights about impacts of international REDD+ funds, twelve qualitative interviews were conducted with Mexican stakeholders from a range of institutions and roles regarding REDD+, including federal and state governmental officials, multilateral and bilateral donor agencies, delivery agencies created specifically for REDD+ funds, pre-existing delivery agencies, local civil society organizations (CSOs), consultants and representatives of local communities. Perceptions from these stakeholders on the impacts of international REDD+ funds are included in this section.

ENVIRONMENTAL IMPACTS

According to Conafor (2012), the historic deforestation rate in Mexico has decreased from around 1% in the 1980s and 1990s, to 0.24% between 2005 and 2010. Greenhouse gas emissions from land-use change and forestry between 1990 and 2002 were estimated around 90 GtCO₂e annually, but by 2010 had dropped to around 47 GtCO₂e. This significant reduction of the deforestation rate and respective emissions is mostly due to changes in agricultural and cattle ranching policies that had previously promoted cutting down the forest to establish cultivated areas during the 70s, 80s and 90s. In addition, Mexico adopted policies that promoted the sustainable management and conservation of forests. Therefore, international REDD+ funds arrived in Mexico during an already declining deforestation trend. Indeed, those interviewed had a general perception of declining emissions from the forest sector, however, felt it was unlikely that this trend is a result of new REDD+ interventions, but rather a continuing inertia of declining deforestation due to the government's previous and ongoing efforts to tackle forest loss. Interviewees also believe that RBP will reinforce this trend.

Regarding degradation, a process that has increased in the country during the past years (Conabio, 2009), international REDD+ finance, through site-specific project funding, has built on local level activities (capacity building and equipment to cope with forest fires, and efficient wood stoves) to counteract this degradation process, although it is not yet feasible to measure the impacts.

However, even though it is not yet possible to quantify the impacts, there are on the ground no-regrets activities that give insights about how emission reductions from deforestation and forest degradation can be achieved. These activities are mainly implemented by CSOs with support from international funds and promote sustainable management practices such as:

- Silvopastoral systems and improved *milpa* systems in the Yucatan Peninsula that tackle deforestation drivers by promoting species enrichment of agrosystems;
- Community-based forestry in Chihuahua and Estado de México that tackles deforestation and forest degradation by promoting best management practices;
- Forest and soil restoration activities that increase carbon stocks;
- Fire lines to tackle forest degradation.

Although on the ground activities are still limited, financing these types of activities is important to demonstrate future activities that can be scaled up to access RBF. Many of the on the ground activities financed by international funds are showing lessons that may be adopted for the development of the Carbon Fund Emission Reductions Initiative and, once scaled up, can expect to result in notable emission reductions and environmental impacts in the future. Most of the international finance for REDD+ has been used to prepare the country to reduce carbon emissions. Stakeholders believe that if there is a reduction in carbon emissions, biodiversity and other ecosystem services will also be safeguarded. Lessons learned from such programs, like payment for ecosystem services, are therefore important to promote non-carbon benefits at the national level once the ENAREDD+ is under implementation.

ECONOMIC IMPACTS

Mexico has a total population of more than 112 million inhabitants, of which 11 million people live in forest areas, with very high levels of poverty (poor infrastructure, education and health services). Therefore, the goal of REDD+ in Mexico is sustainable rural development that lowers carbon dioxide emissions as it improves forest owners' livelihoods. In this sense, interviewees believe that economic impacts of REDD+ funds have been scattered, since most of these funds have been for the readiness phase. Economic impacts can be found at the local scale:

- REDD+ funds have created temporary jobs at the community level in a few communities resulting from the management practices promoted by MREDD (fire lines construction, restoration and soil conservation practices). The amount of jobs can increase if REDD+ activities are scaled.
- Community monitoring efforts supported by MREDD, Norway and LAIF have also had modest economic impacts in communities, mainly by paying wages, promoting capacity building and purchasing equipment.
 - Community monitoring activities in San Agustín community at the Yucatan Peninsula promotes youth to learn about monitoring technologies that, combined with the elderly traditional knowledge, has allowed communities to have a better understanding of their natural resources;
 - Community monitoring in Ejido Barranca del Calabozo in Jalisco State, has supported the community to access FIP funds;
 - Women groups in the Yucatan Peninsula that don't have land rights are being supported by MREDD and IUCN funds to integrate an association to perform economic activities related to forest products.

According to interviewees, the FIP was identified as having more visible economic impacts in the country, since it reaches the community level by supporting the development of business models to improve timber and non-timber forest production. However, since FIP funds are implemented in some of the REDD+ early actions areas, there is a need to expand these practices and replicate these models in other regions of the country.

Apart from these pilot projects, the interviewees believe that international REDD+ funds so far do not have notable economic impacts. This may be due to the fact that large economic drivers, such as subsidies for agriculture and livestock (through Sagarpa) have yet to be aligned with REDD+ goals. In addition, RBF is not set in place yet, but the Carbon Fund may change this to some extent.

POLITICAL IMPACTS

The Mexican Government had shown strong commitment to REDD+ before the arrival of international funds, for example:

- The development and presentation at COP16 in Cancun of the vision of Mexico for REDD entitled “Visión de México sobre REDD: hacia una estrategia nacional”, that constituted a platform to build the ENAREDD+;
- The creation of the Inter-Secretariat Commission on Climate Change (CICC) composed of various ministries and seeks to: (i) promote coordination of the actions of federal government units and agencies in the area of climate change; (ii) formulate and implement national policies for mitigation of and adaptation to climate change, and their incorporation into the corresponding sectorial programs and actions; and (iii) develop criteria to ensure that public policies for dealing with climate change are mainstreamed and comprehensive and that centralized and semipublic federal government entities and agencies apply them. To perform its functions, the CICC has set up various working groups and one of these is the Working Group on Reduced Emissions from Deforestation and Forest Degradation (GT-REDD+).

However, while Mexico’s commitment to reduce deforestation rates started before international funds arrived, there is a general perception among interviewees that international REDD+ funds have triggered a stronger political discourse among ministries and high-level government officials regarding the links between forest conservation and climate change mitigation. That said, outside of the forest sector there is still no pronouncement and actions from high-level officials regarding REDD+. In addition, this strengthened political discourse has not resulted in power shifts between ministries, and Sagarpa still retains its influence over land use decisions, and manages a much larger budget than the environmental ministry. While there is participation of high-level officials from Sagarpa in conferences and workshops regarding REDD+, it is not reflected in real actions. So, despite its interest in REDD+, Sagarpa has not created or reformed programs or strategies to tackle deforestation or forest degradation in conjunction with Conafor or under the REDD+ national agenda.

That said, commitments taken by the country with international donors have bound national and state government to get involved in REDD+. For example, the participation of Mexico in the FCPF readiness fund, as well as the FIP, Norway and LAIF projects, have required binding commitments from the government and will require that commitments be met even if the government loses interest. Also, international REDD+ finance has brought technical rigor to the political debate mainly through the monitoring system and baseline development.

Political support for REDD+ has been strengthened by finance, but is not yet deeply rooted. Stakeholder involvement has been reinforced by communication and outreach efforts of different initiatives (e.g. the bilateral cooperation with Norway and France, the MREDD program, etc.) that have invested in creating capacities around communication and outreach, such as newsletters and videos that aim to inform society and government on REDD+. However, despite positive impacts, there is a general sense that outreach efforts are limited and not sufficient to maintain REDD+ momentum in the country, and there is a generalized risk of REDD+ losing relevance in the political debate compared to other topics, such as energy reform in Mexico.

POLICY IMPACTS

The development of the ENAREDD+ has been strongly supported by all international funds in Mexico, mainly through financing studies, consultancies and workshops. These have strengthened the development of the seven ENAREDD+ strategic lines: 1. Public policy and legal framework, 2. Financial instruments, 3. Institutional arrangements and capacity building, 4. Reference level, 5. MRV, 6. Safeguards, and 7. Communication, social participation and transparency. The consultation process for the ENAREDD+ has also benefited from international funds, which have financed discussion meetings and outreach material.

International REDD+ funds have also supported the development of a forest policy that, instead of promoting separate programs, considers a landscape approach to ensure low carbon emission rural development. This is demonstrated through the creation of three special programs in the REDD+ early actions areas: The Special Program for the State of Jalisco Coastal Basins, The Special Program for the Yucatan Peninsula and The Special Program for

Conservation, Restoration and Sustainable Use of the Lacandon Rainforest in the State of Chiapas. The latter program harmonizes forest, agriculture and cattle ranching policies and, after 4 years of operation, has been effective in reducing deforestation and improving livelihoods. There is a need to replicate these coordination activities among ministries in other REDD+ early actions areas.

Regarding the legal framework for REDD+ in Mexico, international funding has not impacted the creation of new laws, but has contributed to the inclusion of REDD+ issues, like safeguards, in the modification of the General Sustainable Forest Development Law (LGDFS) and the Sustainable Rural Development Law (LGDRS). At the state level, REDD+ finance has driven state governments to develop climate change laws that include REDD+ issues. An example is the Jalisco State Law on Action Against Climate Change that seeks to impact forest-related emissions through state public policies that incentivize sustainable development. While the creation of this law was not directly financed with international REDD+ funds, the state of Jalisco has been an important recipient of international REDD+ funds that triggered the inclusion of forest-related emission reduction in its content.

Moreover, international REDD+ funds have contributed to the development of the Mexican Carbon Fund, a mechanism still being designed that could manage REDD+ funds as well as resources from the voluntary carbon markets.

IMPACTS ON THE CREATION AND STRENGTHENING OF INSTITUTIONS

Mexico has a strong institutional framework for forest governance; however, interviewees suggested that international REDD+ funds have contributed to the further strengthening of national and subnational institutions:

- At the national level, new structures have been created within Conafor since the arrival of international funds, like the Forest Carbon Projects Division and the safeguards advisor; although these are not being paid with international funds, they respond to the needs created through international REDD+ finance in the country.
- At the national and subnational level, international funding has ensured broad participation at the CTC-REDD+, a Technical Advisory Committee that aims to analyze and provide feedback on the REDD+ process in Mexico. The CTC-REDD+ is a national stakeholder dialogue platform with representatives of various government institutions, CSOs, representatives of ejidos, communities and associations, indigenous peoples, academics and representatives of private companies. This committee was created in 2010, is open to all interested stakeholders, and has actively participated in the process of the ENAREDD+ and the definition of other readiness measures and early REDD+ implementation.
- At the subnational level, state governments have created new positions to address climate change and REDD+ issues. The state of Jalisco has included REDD+ in its Development Plan and has open consultant opportunities for many professionals.
- At the local level, international funds (e.g. LAIF) have created and strengthened local governance structures (e.g. inter-municipal boards) that aim at coordinating on the ground activities with a landscape vision to reduce emissions from deforestation and forest degradation.

One of the lessons learned regarding the creation or reformation of institutions with international finance, is the importance to consider the time when international funds end in order to be able to continue performing initiated activities. International REDD+ funds have enabled Mexico to perform activities in preparation for REDD+; some of these activities could not have been financed through the national budget, due to shortfalls. In this regard, Mexico has worked to develop strategies to ensure continuity of the activities financed through the international REDD+

projects, e.g. those activities started by Norway funds, through the FCPF grant, and the LAIF project, including through agreements with state governments.

STAKEHOLDER PERCEPTION AND PARTICIPATION

Generally, CSOs that have participated in the REDD+ national process have an adequate understanding of REDD+ and have changed the simplistic vision of REDD+ based on payment for ecosystem services, to a more integrated approach that includes low carbon rural development. This evolution in thinking was driven mainly within the CTC-REDD+, and although this evolution in thinking cannot be attributed to REDD+ finance, it took place at the CTC-REDD+, a participatory platform that has received REDD+ funds for its operation.

Workshops, learning communities, exchanges and other methods have been financed with international REDD+ funds, resulting in positive impacts in the participatory process and allowing the development of the ENAREDD+ since 2010 (now under consultation). The national process has been successfully replicated at the subnational level involving local governments and CSOs. International funds have played a particularly important role in this regard due to shortfalls of state governments, in terms of financial, human and technical capacities.

There is a general sense from stakeholders that the most important achievement of the national REDD+ process in Mexico is the active participation of civil society, both during the preparation and implementation of the REDD+ early actions. The development of the ENAREDD+ has been one of the most participative, open and inclusive processes in public policy in Mexico, integrating the views and involvement of civil society and academia. This extensive consultation process has created a precedent of including civil society in public policy design and is being replicated in other sectors such as energy. REDD+ has therefore represented an opportunity for civil society to be actively engaged in forest policy design.

Despite this openness to the participation of stakeholders, interviewees also believe that some CSOs do not have the means (financial and technical) to participate at the CTC-REDD+ meetings and have very low understanding regarding REDD+. Therefore there remains a need for more funds and time to continuously inform stakeholders and to reach broader audiences—in particular to support CSOs who are not based in Mexico City to participate in discussion meetings and to be part of the national processes.

IMPACTS ON CAPACITIES

International REDD+ finance has had a significant impact in capacity building in Mexico and has been well aligned with the ENAREDD+ strategic lines, particularly regarding safeguards, MRV, preparation of the jurisdictional level, local governance, gender issues and financial architecture. Main beneficiaries of this capacity building process are federal government staff through the FCPF, FIP and Norway funds, and state governments, and to a lesser extent CSOs, communities, women's groups, and (with exception to MRV capacity building) academia.

At the national level, Norway funds have greatly contributed to creation of capacities that helped to develop the National Forest Reference Emissions Level (FREL) that was submitted to the UNFCCC in December 2014. It is expected that the final document incorporating the experts' recommendations will be published in October 2015 on the UNFCCC website.

At the regional level, MREDD has put a lot of effort in building local capacities that has resulted in the creation of *Observatorio Maya*. This regional participatory platform seeks to provide relevant information to governments, CSOs, technicians and communities for decision making on forest management and public policies for reducing emissions from deforestation and forest degradation in the Maya tropical forest within the Yucatan Peninsula.

At the local level, funds channeled through different CSOs have strengthened the capacities of some civil society organizations to participate actively in the construction of the ENAREDD+ and to start focusing on additional issues,

such as transparency and indigenous peoples rights. However, as mentioned above, more can be done to strengthen the capacity of CSOs based outside Mexico City, which will be particularly critical as Mexico begins to scale up activities to reduce deforestation and forest degradation.

In summary, international REDD+ finance has been extremely helpful regarding capacity building at different scales in Mexico, supplementing the national public budget which is insufficient to build the capacities needed to prepare the country for REDD+. Capacity building through international REDD+ funds has strengthened Mexico's social capital regarding REDD+ and climate change, and has also contributed to developing well-prepared national professionals in decision-making positions. On the other hand, while there is progress on capacity building among government staff and some CSOs, there are still needs to further strengthen capacities for a broader set of stakeholders, especially at the state and local level. At this scale, the funding for readiness was perceived as insufficient, and interviewees stated that therefore the country is not ready yet to start REDD+ implementation.

IMPACTS ON MEXICO'S FOREST SECTOR PATHWAY

Temperate forest and tropical forest represent 45% of vegetation cover in Mexico, and 11 million people live in these forest areas that present very high levels of poverty. Around 80% of forests in Mexico are owned by *ejidos*³ and indigenous communities, which represent 8,500 agrarian properties. Only 7.4 million hectares of forest are used for timber production, contributing to 0.59% of Mexico's GDP, and the national forest production is not enough to satisfy the domestic demand. Forests have a fundamental role in climate change mitigation efforts in Mexico, contributing to 19.7% of the committed goals in emission reductions for 2009–2012 according to the Climate Change Special Program (ENAREDD+, 2014).

According to Conafor (2012), the historic deforestation rate in Mexico decreased to 0.24% between 2005 and 2010 (155,000 ha per year) compared to what Masera et al. (1997) reported a decade ago (670,000 ha per year, or around a 1% rate of loss per year). Drivers of deforestation differ within the country, but generally include land use change for cattle raising and for agriculture, low investment in forest related industries, illegal cutting, natural disasters and uncoordinated implementation of public policies (ERPIN, 2014; Balderas, *et.al.*, 2013). Forest degradation, a process much difficult to measure, could be affecting between 250,000 to 300,000 ha per year (for the 2005-2010 period) (FAO, 2010). Degradation drivers include non-sustainable forest management, overgrazing, wood extraction for fuel and fences, forest fires, and forest plagues (ERPIN, 2014). These deforestation and degradation drivers are related to underlying causes according to the Forest Investment Program (FIP, 2011) and can be merged in three broad groups:

- Economic drivers: associated with higher opportunity costs of agricultural and cattle ranching activities, high transaction costs for sustainable forest management, and significant public budget to subsidy programs that support agricultural and livestock activities above forest activities;
- Institutional and political drivers: including public policies for agricultural and livestock that encourage deforestation, and infrastructure and development plans that do not consider effects on deforestation and forest degradation; and
- Social drivers: including a lack of organizational capacity among communities and *ejidos* to develop sustainable forest management plans.

Taking into account deforestation and degradation drivers, interviewees stated that international REDD+ funds in Mexico have mostly addressed institutional and political drivers as well as social drivers. Economic drivers of deforestation and forest degradation have been the least addressed with REDD+ funds in Mexico, although there has been some support to improve access to credit by *ejidos* and communities for sustainable forest management (mainly by the FIP). To date, no support from REDD+ funds has been used to address, reorient, or improve agricultural and cattle ranching subsidies.

REDD+ funds have addressed institutional and political drivers by improving inter-sectorial coordination through the development of the ENAREDD+, as well as the early implementation of on the ground integral landscape approach programs that harmonize forest, agriculture and cattle ranching policies, for example in the Lacandon Rainforest in Chiapas (Devhint, 2015).

REDD+ funds have also successfully addressed the *social drivers* of deforestation and forest degradation by financing territorial ordinances that promote capacity building on organizational aspects within *ejidos* and communities. This has also been done through LAIF funds for the development of local governance models, based on joint efforts of municipalities sharing the same basin and looking to address sustainable management challenges on a local scale.

³ A community of people with its own legal personality, assets, and administrative bodies, which owns land that it has been given or has acquired by any other means.

This model involves three levels of government and builds local capacities for integrated land management, making possible a coordinated approach to addressing climate change mitigation and adaptation issues by promoting activities designed to halt deforestation and forest degradation. At present, there are four governance models (intermunicipal boards) operating in the Jalisco coastal basins region with LAIF funds: The Intermunicipal Environmental Board for Integrated Management of the Lower Ayuquila River Basin (JIRA); The Intermunicipal Board for the Coahuayana River (JIRCO); The Intermunicipal Board for the Sierra Occidental and Coastal Regions (JISOC); and The Intermunicipal Board for the Southern Coast (JICOSUR).

There is a general belief that the preparation phase in Mexico set an important foundation of collaboration and participation among sectors, and that future funds need to focus on aligning programs (taking some of the lessons learned from the Lacandon Rainforest Program) and working on reorienting or adjusting subsidies from Sagarpa. These economic drivers may be addressed by the ERP financed by the FCPF Carbon Fund, through investment plans that now are being developed.

A previous study (Balderas, et. al., 2013) identified remaining barriers to successfully implement REDD+ in Mexico, which are:

- Low competitiveness of sustainable forest management, mainly because subsidies for agriculture and cattle are higher and easier to obtain than subsidies for forest management;
- High transaction costs associated to public sector coordination;
- Low law enforcement regarding illegal cutting and forest fires;
- Poor knowledge regarding existing subsidies and incentives;
- Low valuation of ecosystem services and the creation of market systems for ecosystem services;
- Lack of finance and access to capital to develop sustainable forest related activities;
- Lack of adoption of new technologies in rural areas.

Some of these barriers have been addressed with REDD+ funds; however, there are barriers that have not received attention from international REDD+ funds, and that need to be considered in future efforts, if reductions in emissions from the forest sector are to be achieved:

- Illegal logging and non-sustainable forest management practices are mostly due to the lack of law enforcement in Mexico. The Office for the Federal Attorney for Environmental Protection (Profepa) lacks public funding to have sufficient inspectors on the ground;
- Sustainable community forestry needs to be promoted through financial support for permitting processes, access to credits, modernization of infrastructure and capacity building to develop management plans;
- Better management of natural disasters (forest fires, hurricanes, plagues) should be implemented through an emergency fund;
- Promotion of rural development activities that decrease the use of wood extraction.

According to interviewees, the readiness phase has put a lot of effort in preparing the country's infrastructure for REDD+ but there is now a need (from the national government with the help of international finance) to work

directly to address drivers of deforestation and the identified remaining barriers to successfully implement REDD+, in order to strengthen the implementation and RBF phases.

FACTORS THAT AFFECT THE IMPACTS OF REDD+ FINANCE

According to literature, there are certain factors or conditions necessary for international finance to be effective. The following section assesses these factors or conditions to see if they had an effect on the observed impacts.

Pre-existing conditions: Mexico had pre-existing conditions that had notable effects on the observed impacts of REDD+ funds, such as:

- An already decreasing rate of deforestation;
- An important annual budget for forest management and conservation;
- A robust forest and soil inventory in place;
- Enactment of a General Climate Change Law;
- The CICC and numerous fora for social participation, such as the various technical committees for specific programs;
- Agreement on climate action, reflected in strategies and programs including: State Climate Change Action Programs (PEACCs), Municipal Climate Action Plan (PACMUN);
- Well-defined property rights (individual and collective private ownership of forests is recognized).

These existing conditions and structures have positively influenced the effectiveness of REDD+ readiness finance by allowing international funds to find fertile soil to support strategies that can lead to further reducing emissions from deforestation and forest degradation. For example, well defined property rights enables support for on the ground activities with *ejidos* and communities that would have otherwise been very difficult to implement. Also, the existence of a robust forest inventory enabled the development of a MRV system with Norway funds. Moreover, existing and diverse fora for social participation helped to build a participatory ENAREDD+, a condition that makes Mexico attractive for international finance.

Additionally, the World Bank has been very active in the forest sector of Mexico for many years, supporting the creation of the “community forestry program” in 1998 and the “payment for ecosystem service program” in 2003. These programs, both implemented by Conafor long before REDD+ funding, allowed private and public agencies as well as local communities to better and faster understand REDD+. Interviewees believe that due to the existence of these two programs and their related success stories, international REDD+ funds found solid and reliable ground to invest in Mexico. In addition, the experience in designing, implementing and reporting to a multilateral agency enabled Conafor to quickly enter a REDD+ readiness phase under the FCPF and now to join the Carbon Fund.

Country ownership: Forest issues are a national priority, and the country has strong forest policy institutions and instruments, including Conafor, the Mexican Forest Fund and the Strategic Forestry Plan 2025. Also, Mexico has been leading a strong national process for REDD+, thus international REDD+ funds have had positive impacts because the government feels a strong ownership of the national process and has driven the REDD+ process according to the country’s priorities; working to ensure REDD+ funds are aligned with the national vision. Moreover, Mexico’s considerable contribution through its domestic budget for REDD+ demonstrates ownership.

Alignment: Most international REDD+ funds have been well aligned with existing national laws, policies and programs. This includes alignment with the National Development Plan 2013-2018 (PND, 2013) that seeks to promote sustainable development and reduce environmental degradation, the General Climate Change Law, the

General Sustainable Forest Development Law, and pre-existing forest development and conservation subsidy programs.

Almost all international REDD+ funds have had a clear link in the chain of the national REDD+ process (see table 1). This is a result of strong alignment efforts by the federal government at two levels: i) alignment of external/international finance, and ii) domestic alignment to ensure programs are prioritized or adjusted to meet the objectives set in national goals and policies.

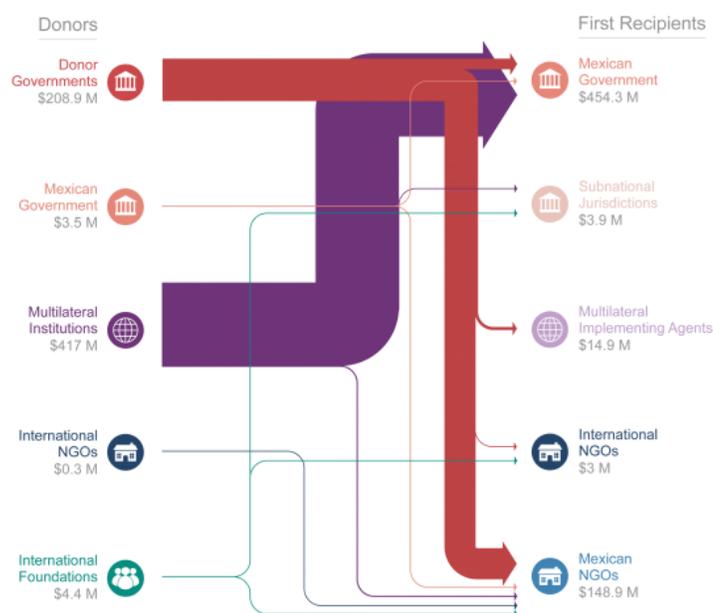
Due to this, there is almost no duplicity among funds—each one of which has a crucial role in the REDD+ national process and will feed into the Carbon Fund ERP. It is very important that the federal government continues to have a clear vision of the REDD+ process, so that future funds continue this trend.

Building local capacity: International REDD+ finance has had an important impact regarding capacity building in Mexico, resulting in the strengthening of Mexico’s social capital regarding REDD+ and climate change. However, before Mexico received any REDD+ funds, there were well-prepared professionals that embraced REDD+ as a new way of promoting sustainable rural development. These professionals had positions within the federal and state governments, as well as within CSOs, increasing Mexico’s absorptive capacity to receive REDD+ funds and also to quickly begin a REDD+ dialogue in Mexico.

Coordination of support: As mentioned before, international REDD+ finance has largely contributed to the national process, mostly due to the clear strategy posed by the federal government in aligning the international budgets to the country’s needs. Conafor has been the agency that has coordinated and harmonized this international funding as presented in figure 2.

In Mexico’s case, the majority of funds are disbursed directly to the Government (see figure below), which also helps coordination of activities. More coordination from donors, however, especially projects that are not implemented by the federal government (e.g. funds provided to CSOs), could promote more effective impacts. Coordination could reduce the learning curve and planning processes between project implementers and national government, that usually takes one year of the project.

Figure 2: Flows of REDD+ finance between donors and Mexico recipients



Source: REDDX, 2013

Private sector engagement: One of the weaknesses of the Mexican REDD+ process is the limited involvement of the private sector. On one hand, there has been involvement from private financial agencies through the FIP, specifically for guarantee funds, helping to expand the REDD+ agenda beyond Conafor (e.g. to Financiera Rural, a rural development bank that promotes access to finance, or Findeca a non-regulated but legal financial institution that provides affordable financing). However, on the other hand, there is a lack of involvement from the private sector as part of the drivers of deforestation in Mexico. This can be attributed to the fact that Mexico has been focused on the readiness phase and concentrating efforts in working, mostly among government, to set the enabling factors for future implementation and RBP. However, it is important to start considering the private sector since they play a key role in driving deforestation and have strong potential to contribute to decreasing deforestation. In addition, the development of infrastructure and its impacts on forests have not been addressed to date in Mexico.

CONCLUSIONS AND OUTLOOK

Mexico has taken advantage of international REDD+ funds to promote a low carbon rural development strategy that will benefit the country's environment and its inhabitants regardless of the future direction of REDD+ negotiations or international funding. In this regard, REDD+ in Mexico must be understood as a set of strategies that promote simultaneously climate change mitigation and adaptation, and sustainable rural development, through an integrated landscape management approach, allowing a convergence of the environmental and development agenda. Some of the lessons learned from Mexico's REDD+ experience are summarized here.

Funding for readiness has had positive impacts, but will not automatically lead to results. Most international REDD+ funds have gone to the *preparation* phase: to activities such as development and strengthening of institutional and technical capacities, stakeholder participation in the development of the ENAREDD+, safeguards and the development of reference levels and a MRV system. Smaller portions of the international funds have gone towards REDD+ *implementation* in Mexico, although there have been programs and activities at the subnational level that are considered as REDD+ early actions. Both the funding for 'readiness' and implementation have yielded positive impacts—in particular, in building capacities, contributing to the development of the ENAREDD+ and elevating the political dialogue on forest-related mitigation, as illustrated in Section II of this report. That said, in order to reach the stage of *results-based payments*, significant amounts of money for the readiness phase were needed and a significant amount of funds for *implementation* still needs to be invested.

Better donor coordination can improve the effectiveness of REDD+ finance. One of the main findings from the interviews is that international REDD+ donors do not coordinate their funds. Mexico has a clear strategy regarding REDD+ and thus has harmonized REDD+ funds—particularly those received directly by the Government—to address the country's needs and weaknesses, while also preventing duplication. However, funds directly disbursed by donor governments to CSOs and other organizations could be more effective if better coordinated.

Agriculture will continue to put pressure on forest resources if not better coordinated with the goals of REDD+. Despite the national and international efforts on reducing emissions from deforestation and degradation, it is important to mention that one of the main drivers of deforestation and forest degradation in Mexico (agriculture and cattle ranching) largely compete with REDD+ funds. The budget approved in 2014 for Sagarpa was over \$6 billion, whereas the budget approved for the National Forestry Commission in the same year was \$520 million and pledges of international public REDD+ funds for Mexico total \$162.4 million. Strong attention needs to be directed to this issue, since coordination of both agencies will strengthen the implementation of low carbon rural development policies and projects and help to meet REDD+ goals.

Further capacity building will be needed for *implementation* and *enforcement*, particularly at the jurisdictional level. International finance has had a positive and significant impact in capacity building among government, CSO and communities. However, there is a critical need to strengthen capacity building regarding implementation of REDD+ at the jurisdictional level, including state and municipal governments, Conafor state offices and local development agencies. This will allow integrated rural development planning and small-scale projects to be transformed into a landscape-level approach that can be implemented through investment plans. There is also a need to reinforce the Office for the Federal Attorney for Environmental Protection (Profepa) in order to fight illegal activities in the field.

The participation of civil society in the national REDD+ process in Mexico has value beyond REDD+. Civil society has been actively engaged in Mexico's REDD+ process during the preparation of the national strategy and now in the implementation of REDD+ early actions. The development of the ENAREDD+ has been one of the most participatory, open and inclusive processes in public policy in Mexico, with effective involvement of civil society and academia. This extensive consultation process has set a precedent in including civil society in public policy design and is being replicated in other sectors such as energy.

Countries need an “exit” strategy from dependence on international finance. International REDD+ funds in Mexico have played a positive role in the country, including helping public policies and programs to transition between administrative periods. The challenge the country faces today is the design of exit strategies for each international fund that will allow for the continuity, and sustainability, of REDD+ related activities that are currently not covered by the national budget.

In sum, Mexico has made significant progress regarding REDD+. International funds have contributed to the national process, which has built upon the country’s long-time commitment to tackling deforestation and forest degradation. However, Mexico recognizes that national and international funding for REDD+ has been key but remains insufficient to make the transformational changes needed to stop deforestation. Therefore, REDD+ finance needs to continue and to be scaled up to achieve the objectives of reducing emissions from deforestation and forest degradation. If international REDD+ finance diminishes just as countries reach readiness, the efforts to date will not pay off—as “readiness” does not produce results automatically.

The coming years will determine whether Mexico, and the international community, are fully committed to reversing deforestation in this critical, biodiverse country and can demonstrate that rural development and forest protection can, indeed, go hand in hand.

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