

**Meeting of FIP Pilot Countries
October 31, 2012 - Istanbul, Turkey**

Progress Updates from FIP Pilots

Country: México

Investment Plan:

- X Endorsed Not endorsed
- **Endorsement date/Expected endorsement date:** November 15, 2011

Briefly outline three major advances, challenges and lessons learned arising from your investment planning and/or implementation process since the last meeting of FIP pilots.

Advances:

1. Mexico has made significant advances in the implementation of projects 1 and 2, both executed by the National Forestry Commission. This has involved the creation of the institutional structures that will be providing oversight for the activities and making initial changes to our operations.
2. On September 4, Project 3 of the FIP “Financing Low Carbon Strategies in Forest Landscapes” was approved by the FIP Sub-Committee. Regarding Project 4, the project is being prepared, with all the background additional work already made. We expect to submit it early next year to the FIP Sub Committee. This means that more than 90% of the FIP resources have been approved in projects and some 70% will start being implemented before the end of the year.
3. Mexico’s overall direction of forest policy, with great emphasis on community forestry, recognition of environmental services, policy alignment and the aspirational goals of achieving zero net carbon loss in original forest ecosystems have been incorporated into our new Climate Change Law and further amendments to our Forest Development Law. This greatly enhances the relevance of the FIP.

Challenges:

1. A multipurpose and multiscale monitoring system will be needed to both report on progress and assess public policy and inform local actions. The new legal framework created a policy assessment mechanism, a 3-year limit to establish an MRV system for REDD and a national system for information on climate change. We anticipate that these systems will need to be developed as part of an integrated multiagency system. Developing this system is an important challenge for the Mexican government and we are simultaneously developing new procedures, testing approaches and developing new tools.

2. A second major challenge relates to the institutional and cross-sectoral assimilation of the operative model included in the project. The territorial units that will be the focus of policy integration have diverse set of actors with different degrees of coordination. At the same time, the natural leadership of key program managers will change from region to region, e.g. areas where agroforestry will be a dominant strategy, versus areas where conservation or where wood production will be the key articulating factor. A related challenge is the coordination with other sectors.
3. One of the major challenges for project 3 will be to effectively transition from subsidies to credit and private financing mechanisms in the forest sector, and identifying how to appropriately encourage, both communities and financial services providers, to adopt a diverse mix of financing sources. One of the objectives is that *ejidos* and communities see their productive activities as enterprises and that financial services providers see sustainable rural activities (including sustainable forest management) as business opportunities.
4. The financial arrangements to receive FIP resources have been challenging, particularly in project 3 where Financiera Rural acts as an executing agency to implement a dedicated credit line. As individual credits will be given to small landholders in national currency, FIP resources would be more effective if disbursed to Financiera Rural in national currency and not USD. Despite the concessionality in FIP resources the exchange rate coverage is quite significant

Lessons learned:

1. The institutional challenges around implementation of innovative policies should not be overlooked nor the necessary efforts to encourage managers and operators to buy into the new model.
2. While preserving principles and objectives, flexibility in implementation is key for success. The multiplicity of readiness efforts and fast-start finance does not automatically create synergies. Synchronizing work plans, combining outputs and avoiding duplications of these projects and initiatives require a dedicated effort.
3. MDBs need to find practical solutions to overcome the transaction costs involved in small scale financing for these types of projects. Most investments in the forest area for developing countries, particularly those targeting community forestry, will be small in size and agents capable to serve as intermediaries to handle those resources and disperse them are not easily found.

What is the most important value added and/or benefit from the FIP process in your country?

The challenge to innovate in existing approaches to address drivers of deforestation and degradation, coupled with resources at scale enabled us to meaningfully think outside the box in policy design and with sufficient impact to make it politically visible beyond a demonstration

activity.

It was key for us to set up the plan in a short time span. And the agility of the process to access financing was equally important for Mexico.

Finally, the FIP has served as a central link between the small scale intervention and demonstration activities and national policy. The design process enabled us to extract and enhance valuable experiences in other projects and initiatives.

Briefly outline the institutional arrangements for the coordination and oversight of the implementation of the investment plan as a program. What works and what needs improvement?

Mexico's overall plan is being coordinated through CONAFOR, which is also the main focal point for the FIP.

Two of the projects are being implemented through CONAFOR directly, while the other two are being implemented by Financiera Rural, a national development bank, and IDB's MIF. A close collaboration between Financiera Rural, MIF and CONAFOR has developed over the preparation period, which has been critical to ensure coordination.

Within CONAFOR, the FIP components were included as part of a wider operation that will multiply the impact of the FIP investment. The overall operation, almost USD 400m in size, is coordinated through a Management Committee presided by the Head of CONAFOR, and an Operational Committee led by the Director of Planning. In addition, the Unit of Foreign Affairs and Financing provides overall oversight for the project and is the main point of contact with the IBRD.

The Federal Government generally appoints a financial agent to ensure that all aspects of the project are being complied with. In this case, the Ministry of Finance has appointed Nacional Financiera, another development bank with this mandate.

If you have an endorsed investment plan, which of your projects have progressed the most in terms of preparation/implementation and what are the 3 main factors that have contributed to this progress?

Projects implemented by CONAFOR have advanced the most, only awaiting effectiveness, Project 3 implemented by Financiera Rural will be negotiated in October 2012, and the last project is still being developed.

1. Both projects implemented by CONAFOR projects have been an institutional priority, with significant resources being dedicated to setting them up. In fact, both projects are part of a broader model of operations. The close collaboration with the TTL and IBRD staff has been also a key factor.

2. In the case of the Financiera Rural project, a similar alliance exists with IDB. In fact, there are other operations related to the FIP which enhance its institutional visibility.
3. CONAFOR had worked previously with its current local partners for the early action areas selected for focused implementation, enabling a rapid consultations, project design and implementation.

What are the 3 major tasks ahead for your investment plan during the next 6-12 months?

1. Implementation of the Project 3: “Financing line for low carbon strategies in forest landscapes”. Currently, CONAFOR and FinRural, helped by an external consultant, are working together with the design of the credit line financing schemes. They are integrating the first draft of the project’s Program Operational Rules.
2. Development of the Draft Loan Proposal and implementation of project 4: “Strengthening of the financial inclusion of ejidos and communities through technical assistance and capacity building for low carbon activities in forest landscapes”. It is a priority to coordinate with the local partners of the TAF.
3. With Project 1 and 2 being implemented already, it is now required to determine a baseline for the impact evaluation. This will be done after the MRV system deployment.