ADAPTATION & MITIGATION

BLENDED

PROJECT NAME	**Demonstrating the Bankability of Community Forest Enterprises In Mexico Through Climate Investment Funds' Forest Investment Program (FIP) (Through projects (i) "Financing low-carbon strategies in forest landscapes" and (ii) "Support for forest-related micro, small and medium enterprises in ejidos and communities")**[1]
COUNTRY/REGION	Mexico
SECTOR	Forestry
PROJECT/INVESTMENT AMOUNT	CIF Contribution: $18 Million USD, with USD 4.02 million in Co-financing (Source: IDB, Government of Mexico)
DEVELOPMENT PARTNER(S)/STAKEHOLDERS	Inter-American Development Bank (IDB)
BENEFICIARY MINISTRY/ INSTITUTION	Government of Mexico (GoM)
INVESTOR(S) AND FUNDERS	Climate Investment Funds (CIF), InterAmerican Development Bank (IDB)
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Bilateral, Multilateral & Development Finance Institutions
PROJECT OVERALL GOAL	The transformation that the GoM sought to achieve, with the support of the FIP investment plan, of which these two projects were a part, 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.
PROJECT OUTCOMES	Through both projects, the work of IDB served to improve perceptions around the viability of providing credit finance to community forest enterprises (CFEs). IDB's financial intermediaries, FND and FINDECA, achieved nearly 100 percent repayment rates on the loans they provided. The success of the financial intermediation model, through its demonstration effects has been partly responsible for 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.
ALIGNMENT WITH COUNTRY IDENTIFIED CLIMATE STRATEGIES, NDCS, ETC. (IF APPLICABLE)	CIF, through its Forest Investment Program (FIP), prepared a strategic investment plan to address the drivers of deforestation and forest degradation in the country with plan activities carried out between 2011 and 2020 by national and international stakeholders.
CONTRIBUTION OF THE PROJECT TO THE UN SDGS	Support to the forestry sector in Mexico makes contributions to: ● SDG1 (No Poverty) ● SDG2 (Zero hunger) ● SDG 5 (Gender Equality) ● SDG 13 (climate action) ● SDG 15 (Life on Land).
SOCIOECONOMIC IMPACT	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 has proven the commercial viability of doing so. Through successful demonstrations of the financial intermediation model, these

[1] This case was provided by the Climate Investment Funds (CIF) as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

	projects contributed to accelerating a shift in thinking around gender mainstreaming and the commercial viability of CFEs, thus creating a window of opportunity for future scaling. 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. Under "Financing low-carbon strategies in forest landscapes", 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 indigenous communities. "Support for forest-related micro, small and medium enterprises in ejidos and communities" project provided 92 loans totaling USD1.8 million to 28 CFEs.
Environmental Impact (on climate mitigation and/or adaptation)	See above for socioeconomic and environmental benefits.
Enabling Environment (Supporting Policies)	Not included
Technical Assistance (If Provided)	The grant allowed for provisions of financial and technical assistance to the loan beneficiaries, which supported the loan processes and the project's feasibility.
Financing model/approach (ex: Blended finance)	The projects focused on creating and piloting innovative financing mechanisms, as well as improving access to finance for ejidos (a land tenure system that is based on collective ownership and governance, with shared areas of land dedicated to productive activities and managed communally by its members), and micro-, small-, and medium-scale enterprises (MSMEs). This was done with concessional loans channeled through local financial intermediaries to support community forest enterprises in the creation of financially and environmentally sustainable businesses in forest landscapes. The grant funding provided by CIF supported the financial viability of the projects by establishing an innovative guarantee mechanism (IDB Guarantee Fund or FOGABID). This financial tool covered first losses for up to 18 percent of the projects financed. FINDECA, through the "Support for forest-related micro, small and medium enterprises in ejidos and communities" project provided 92 loans totaling USD1.8 million to 28 CFEs. 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. Grant funding was also provided to support technical and financial assistance, capacity development, and knowledge exchange.
Rationale for financing model/approach	The FIP financial models were tailored to the particular needs of the forestry sector and catered to the conditions of each CFE. The incentive structure in FOGABID assured repayments from the ejidos and communities receiving the FIP loan. The grant also allowed for provisions of financial and technical assistance to the loan beneficiaries, which supported the loan processes and the project's feasibility. The financial intermediation model was 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.
Financial instrument(s) (loans (commercial/ concessional), equity, guarantee)	Concessional Finance
Diagram of the financing structure	Not included

Executive Summary

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. The Government of Mexico, 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.

CIF, through its Forest Investment Program (FIP), prepared a strategic investment plan to address the drivers of deforestation and forest degradation in the country with plan activities carried out between 2011 and 2020 by national and international stakeholders. Of the two major change pathways identified, one involved working in alliance with technical intermediaries and supporting value chain development 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) and was advanced through the two projects implemented by IDB. These focused on creating and piloting innovative financing mechanisms, as well as improving access to finance for ejidos (a land tenure system that is based on collective ownership and governance, with shared areas of land dedicated to productive activities and managed communally by its members), and micro-, small-, and medium-scale enterprises (MSMEs). This was done with concessional loans channeled through local financial intermediaries to support community forest enterprises in the creation of financially and environmentally sustainable businesses in forest landscapes.

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.

The FIP financial models were tailored to the particular needs of the forestry sector and catered to the conditions of each CFE. Through both 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. 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. 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.

The success of FIP's financial intermediation model that delivered specific credit products, has been partly responsible for 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. 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 to their needs.

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 has proven the commercial viability of doing so. Through successful demonstrations of the financial intermediation model, FIP projects in Mexico accelerated a shift in thinking around gender mainstreaming and the commercial viability of CFEs, thus creating a window of opportunity for future scaling. 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.

Analysis

What made this project successful?	A reduction of 5% in GHG emissions from baseline in deforestation and degradation was estimated at the project's early action areas, suggesting a greater effect by the project's end. These results suggest that the project achieved its intended environmental goals of reduced emissions, reduced deforestation, and loss of biodiversity. In terms of the promotion of sustainable rural development and poverty levels reduction, the sole indicator that suggests a high degree of success was the almost perfect repayment rates of the loans provided by the financial intermediaries who on-lent funds from the CIF. Given the communal nature of ejido land ownership, they tend to be excluded from commercial credit facilities, suggesting that the program represented their entry into formal financial services. As such, by giving rural communities access to credit they were able to repay in full, the program seems to have provided valuable access to short and medium-term financing for project investment, suggesting positive success in poverty reduction and rural sustainable development. However, the broader FIP in Mexico, at project completion, had approximately 265,000 direct project beneficiaries and four million hectares of forest under sustainable management, representing a two-fold increase compared to project baseline. However, given the FIP project operated in territories where various other initiatives targeted forest protection and climate change at their core, attribution is a challenge.
To what extent is this model scalable?	FINDECA, through the "Support for forest-related micro, small and medium enterprises in ejidos and communities" project provided 92 loans totaling USD1.8 million to 28 CFEs. By leveraging the aggregation capacity of CFEs, the project was able to reach a sizeable

	amount of people with relatively few transactions. The collective ownership structures of ejidos and CFEs became an asset insofar they allowed a communal risk-sharing mechanisms, increasing repayment probability, as well scalability. The scalability of this project was context-dependent but considering such collective ownership structures are commonplace in smallholder farmer and indigenous community settings, a similar model may be applicable in similar contexts.
What are the necessary conditions to make it replicable in other countries/regions?	There are three main factors that made this project a success. The first is the inclusion of environmental and social prioritization schemes during the project's design and implementation phase, particularly including local financial and community actors, aligning their priorities and theories of change. The second was the financial structure of the program using concessional finance paired with capacity building support to de-risk underlying investments and make initial credits viable. The final component was the timeliness of the project allowed it to leverage additional financing from national and international sectors, also showing alignment with national and international policy priorities. Ten years passed since the project's inception up until its completion, suggesting that while these factors were fundamental, the underlying availability of patient capital and sustained institutional buy-in, were also key in delivering the outcome. Similar conditions would be necessary in other contexts to make this model replicable.
Constraints/Drawbacks of Financing Model	The project faced several constraints that could inhibit a similar model to be replicated elsewhere. On the one hand, the multi-stakeholder process to build the investment plan and later operationalize the project represented a costly and time-consuming endeavour. As suggested in previous publications dealing with agri-sector concessional investment, the existence of patient (long term) capital must be paired with consistent multi-stakeholder coordination. This requires buy-in from most or all involved parties, a constraint that might make this model challenging in other contexts. Limited government and community technical capacities also constrained the project's size and impact measurement. Finally, the availability of concessional capital may be constrained in the future as demand may exceed supply given the increasing amount of blended finance structures.
Lessons Learnt	The FIP project in Mexico brings together a financing scheme that achieved environmental, social and economic goals over a ten-year project lifespan with relative success. To achieve this, the project was designed and implemented as a collaborative effort between financial supporters, the local government authorities, NGOs, academia, and most importantly, community organizations which then became project beneficiaries. The utilization of concessional on-lending paired with technical assistance, as well as beneficiary aggregation through CFEs, and context-specific loans and productive strategies paired with conservation mechanisms made this project viable and successful. Fundamental to this success was the availability of patient capital, buy-in from the involved stakeholders, government support, as well as alignment with national and international financing agendas that allowed further financing to be leveraged.