Best Practices Guide for

Developing Voluntary Carbon Market Projects in Yucatán

VCMI Voluntary Carbon Markets Integrity Initiative

CLIMATE FOCUS

UNDP

Gobierno del Estado de Yucatán

The Best Practices Guide for Developing Voluntary Carbon Market Projects in Yucatán is the state-level guidance document for developing high-integrity nature-based solutions (NbS) projects in the voluntary carbon market (VCM) in the state of Yucatán.

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LIST OF ACRONYMS

Acronyms	Definition
AMBIO	Cooperativa AMBIO SC de RL
ARR	Afforestation, reforestation, and revegetation
BEIS	Department for Business, Energy & Industrial Strategy
CAR	Climate Action Reserve
CCB	Climate, Community & Biodiversity Standard from Verra
CCP	Core Carbon Principles
CIFF	Children's Investment Fund Foundation
CLPI	Consentimiento Libre, Previo e Informado
CO_2e	Carbon dioxide equivalent
CORSIA	Carbon Offsetting and Reduction Scheme for International Aviation
EUR	Euro
FPIC	Free, prior, and informed consent
G7	Group of Seven
GCFTF	Governors' Climate and Forests Task Force
GHG	Greenhouse gas
GS	Gold Standard
GS4GG	Gold Standard for the Global Goals
ICVCM	Integrity Council for the Voluntary Carbon Market
INECC	National Institute of Ecology and Climate Change
JIBIOPUUC	Puuc Intercity Biocultural Board
LGDFS	General Law on Sustainable Forest Development
MOOC	Massive Open Online Courses
MRV	Monitoring, reporting, and verification
NDC	Nationally Determined Contributions
NGO	Non-governmental organization
PDD	Project Design Document
PEECC	Yucatán State Climate Action Plan
RAN	National Agrarian Registry
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RIL-C	Reduced-Impact Logging for Climate Change Mitigation
SBTi	Science-Based Targets Initiative
SDG	Sustainable Development Goals
SDS	Ministry of Sustainable Development of the state of Yucatán
SEMARNAT	Ministry of Environment and Natural Resources
UNDP	United Nations Development Programme
USD	United States dollar
VCM	Voluntary Carbon Market
VCMI	Voluntary Carbon Markets Integrity Initiative
VCS	Verified Carbon Standard
VVB	Validation and Verification Body

EXECUTIVE SUMMARY

1. Introduction

The "Best Practices Guide for Developing Voluntary Carbon Market Projects in Yucatán" is the state-level guidance document for developing high-integrity nature-based solutions (NbS) projects in the voluntary carbon market (VCM) in the state of Yucatán. This Guide offers practical guidelines for all phases of the project cycle, from conceptualization and design through to verification and carbon credit issuance. The Guide is aligned with state and national development priorities and includes information about Mexico's relevant legal framework and inclusion of social safeguards.

This Guide is published by the Yucatán state government and highlights the importance of preserving and restoring critical ecosystems, such as tropical forests and mangroves, which play a vital role in climate change mitigation. The Guide seeks to reverse the degradation seen in 64% of Yucatán's forests by promoting projects with a high degree of social and environmental integrity.

The Guide is structured into six chapters, which, while not fully representing a set of sequential steps for project development, allow the audience to consult the various issues that need to be considered throughout and at different stages of the life cycle of a carbon project.

2. VCM international and national contexts

The VCM is a system for voluntarily issuing, purchasing, and selling carbon credits. At the international level, NbS projects have gained prominence within the VCM because they can address various environmental and social challenges in addition to mitigating climate change. In 2023, NbS initiatives represented 40% of the credits generated internationally.

The VCM has faced criticism recently. This criticism centers on the lack of integrity and transparency of some projects, violation of local community's rights, and dubious effectiveness of some projects in truly reducing emissions. Despite this, the VCM is expected to recover and continuously grow, driven by the demand for credits with greater integrity. VCM standards are improving their methodologies and various initiatives and rating agencies are proposing criteria for guaranteeing greater integrity.

The development of carbon projects in Mexico has been gaining relevance since 2021, coinciding with international growth in the VCM. The state of Yucatán in particular seeks to play the role of market facilitator and regulator by aligning VCM projects with its public policies and promoting compliance with social and environmental safeguards. While Mexico currently does not have a legal framework for the carbon market, there are laws and policies that must be considered when developing NbS carbon projects.

3. The carbon project cycle

Various actors interested in developing NbS carbon projects in Yucatán have approached the state to get greater clarity on matters such as the project cycle. The state deems it necessary to clarify these issues and presents the following key phases and concrete steps for developing NbS carbon projects in Yucatán:

- **Phase 1: Project planning and design.** Phase 1 involves the evaluation of a project's economic, environmental, and legal viability. This includes determining if the proposed activity can generate carbon credits by identifying project area features, type of project, actors involved, and land tenure, and choosing an appropriate methodology and standard (which guarantees a high degree of integrity) to register and validate the project. It is essential to involve local communities and *ejidos* from the beginning, ensuring their participation and informed consent.
- **Phase 2: Project development.** Once the planning phase has been completed, the project enters the

development stage. This phase includes project design, validation, registration, monitoring, and carbon credit issuance. In addition, a system should be developed for fairly and transparently distributing the benefits amongst all parties involved.

- **Phase 3: Credits sales and buyer preferences.** The final phase centers on selling the carbon credits generated and establishing market expectations, including buyer preferences and variability of credit prices, based on their quality and other attributes. Selling can commence even before project development; as such, the developers must be prepared to negotiate favorable terms and choose buyers that value the quality of the carbon credits that will be generated.

4. Social and legal considerations for NbS activities with communities and *ejidos* in Yucatán

For the state of Yucatán, it is essential that carbon projects comply with relevant regulations and social safeguards when working with communities and *ejidos*. While there is no legal framework for the VCM, the Agrarian Law and other regulations govern matters such as the internal governance of communities and *ejidos*, land tenure, carbon rights, and compliance with social safeguards. The initial approach to communities should be guided by the following principles:

- Ensure that communities are active partners, not just beneficiaries with a passive role.
- Take advantage of the project to foster *ejido* capacity and governance.
- Ensure that there are no land-related conflicts.
- Initiate collaboration from the beginning and ensure it is continuous.
- Document commitments made and provide evidence of those commitments.
- Create mechanisms for communication and transparency among the parties.
- Foster inclusion by guaranteeing the involvement of women and youth.
- Use Spanish and when necessary, Mayan.

Concrete considerations for developers when planning, designing, and implementing a project:

- The Agrarian Law is the legal framework applicable to work performed with communities and *ejidos*, especially in relation to issues of internal governance within the *ejidos*, such as the purpose, use, and exploitation of lands and the contracts signed with third parties.
- Each *ejido* is unique, with a governance system established in its internal regulations containing the bases for the *ejido*'s organization, including the activities that will be carried out on lands held in common and how the resulting benefits of those activities are to be distributed.
- All decisions in an *ejido* are made by the *Ejido* Assembly, which should guarantee a minimum number of attendees, among other factors, to ensure the validity of the decisions made to develop projects and contract conditions and distribute benefits therefrom.
- While consultation with the *Ejido* Assembly and the Assembly's approval are formal elements demanded by law, they are not sufficient for guaranteeing a process of free, prior, and informed consent (FPIC). Project developers must devise a broader process that includes community members, whether or not they are represented in the Assembly, to ensure FPIC is met.
- Sufficient information must be discussed in *Ejido* Assemblies to enable a community to make informed decisions about a carbon project. At a minimum, discussions should cover three types of information: i) The basics of carbon markets and NbS projects, project features, and project governance; ii) how project benefits will be distributed; and iii) the contents of the sale contracts for the credits that will be generated.

5. Distributing the benefits

It is a priority for the state of Yucatán that carbon projects have a mechanism for distributing benefits that is fair, transparent, and equitable for all parties involved, wherein the distribution does not disproportionately favor one of the parties. The following minimum principles must be satisfied to guarantee these attributes:

- Each agreement is unique and particular to the project in question.
- All actors must have sufficient information regarding project income, costs, and benefits to ensure FPIC.
- The distribution percentages should be clear and transparent to all parties.
- The agreements should be dynamic, with previously agreed periods of regular review and consultation that enable adjustments to be made.
- The agreements should be documented and signed by all actors involved.
- The agreements should be clear with regard to the timeframe of the commitments and in accordance with the determination of carbon credit prices.
- The agreements must clearly detail a grievance mechanism.

To design of the benefit sharing mechanism, project developers, together with the communities and *ejidos*, should follow these three steps:

- **Step 1. Determine the costs and benefits for the actors involved.** Identify and calculate the costs and benefits for each actor over the course of the project. This analysis should include monetary as well as non-monetary benefits and should also consider the risks associated with the project, such as the fluctuation of carbon credit prices or possible negative impacts on the community.
- **Step 2. Design and determine the distribution of the benefits generated by the sale of carbon credits.** Once the costs and benefits have been identified, design a clear and fair framework for distributing the income generated from the sale of carbon credits. Such a framework should guarantee that the benefits are distributed equitably and that the local communities receive a fair portion of the income.
- **Step 3. Distribute the benefits.** The benefits distribution system should be implemented transparently, with clear monitoring and accountability mechanisms. It is essential that the communities actively participate in this process, including decision-making regarding how the benefits are distributed and the management of income.

6. Frameworks for contracts and prices

The investors and buyers negotiating the contracts of carbon projects with local communities and *ejidos* must adopt fair principles and negotiations. As a state, Yucatán has the duty to guarantee that the rights of communities and *ejidos* are upheld, and that the benefits of carbon projects redound primarily to their benefit. To that end, Yucatán offers the following guidance on how to reach fair agreements when signing deals with local communities.

It is incumbent on investors to know the possible national regulations that might be applicable to contract negotiations and terms. To that end they should be aware of:

- Existing regulations that are applicable to the negotiation or content of contracts.
- The role of public entities in contract negotiation.
- Whether or not the existing legislation requires any approvals prior to signing a contract.
- How the buyer can guarantee that the purchase-sale agreement has the backing of the community and *ejido*.
- The type of documents related to land ownership.
- How to verify if the signatory to the purchase-sale agreement has the legal capacity to sign said agreement.

In addition, the state of Yucatán sets out principles for project developers should respect to guarantee that all VCM contracts provide equitable and transparent agreements for the parties. Contracts must have:

- **Clear, understandable, and succinct terminology:** the vocabulary in the agreements should be simple and in Spanish and the Indigenous language.
- **Dynamic agreements**, including clauses for fluctuating prices.

- **Guarantees of minimum price values**, regardless of market prices, that ensure stable values for the communities and *ejidos*.
- **Calculation of benefit sharing** reflected in the total cost for communities and *ejidos*.
- **Limits on the responsibility clauses:** cases of incompliance should be established in a limited manner, without generic language and defining them.
- **Inclusion of advance payments.**
- **Limits on the inclusion of suspensive conditions.**
- **Restricted delimitation of contract termination cases.**
- **Establishment of conservative amounts of carbon credits under contract.**
- **Preference for applicable laws and mechanisms for resolving national conflicts.**
- **Respect for *ejidos*' and communities' rights to use and enjoy forested areas.**

1. INTRODUCTION: HOW AND WHY TO USE THIS GUIDE

What is the purpose of this Guide?

The Best Practices Guide for Developing Voluntary Carbon Market Projects in Yucatán (the Guide) is aimed at guiding and promoting the development of activities focused on nature-based solutions (NbS) through the Voluntary Carbon Market (VCM) in the state of Yucatán, in accordance with Mexico's and Yucatán's development priorities. The Guide presents practical, simple guidance on how to implement the various phases of the project cycle, from design and conceptualization to project development, verification, and issuance of carbon credits. The Guide focuses on three aspects of carbon projects of particular interest to the state of Yucatán:

i) How to develop high-integrity NbS projects;

ii) How to comply with existing regulations for developing carbon projects in the VCM in Mexico; and

iii) Best practices for distributing benefits and structuring fair contracts and agreements to guarantee carbon projects have tangible benefits for local communities.

The Guide provides guidance on how to address these aspects and issues in carbon projects. The Guide does not offer an exhaustive analysis of the matters covered, provide detailed legal analyses of federal and state legislation, or take the place of legal support that might be necessary for negotiating carbon contracts.

For whom is this Guide intended?

The Guide is aimed at national and international businesses, project investors and developers, civil society organizations, landowners, and communities and *ejidos* looking to develop VCM projects and purchase NbS carbon credits inYucatán state. The Guide is designed for actors with knowledge of carbon markets as well as those with no experience in the area, for whom the Guide presents additional sources of information that can guide them in the basic aspects of developing NbS carbon projects.

How to understand the role of communities and *ejidos* in Yucatán and in this Guide?

In Mexico, 70% of the nation's forests and two-thirds of its water resources are located on community and *ejido* lands; in Yucatan, communities and *ejidos* own 60% of the tropical forest. This context highlights the importance of working together with these groups to conserve and restore the region's ecosystems and biodiversity.

Ejidos are a form of social property, also known as communal land ownership, which was established to redistribute land and reduce the concentration of ownership in the hands of large landowners. *Ejidatarios* are members of an *ejido* who have usage rights over the ejidal lands. All aspects related to ownership, tenure, use, and exploitation of the land – including contracts with third parties regarding partnership or exploitation of *ejido* lands – are regulated by the Agrarian Law (see Chapter 4 for more details).

In Yucatán, the population living on *ejido* lands has expanded to form communities[1] where not all residents hold legal ownership of the land. Therefore, this Guide refers to them collectively as "communities and *ejidos*," recognizing that carbon project development must account for *ejido* governance laws and the land tenure of *ejidatarios*, while also ensuring that the project's benefits, roles, and responsibilities are shared across the entire community.

Why is the Yucatán government publishing this Guide?

The state of Yucatán is an area recognized nationally and internationally for its natural ecosystems, especially its tropical forests and mangroves, which are home to significant biodiversity and play a crucial role in climate change mitigation and adaptation. 79% of the state is considered forested area,[2] and the Yucatán Peninsula is home to 60% of Mexico's mangroves.[3] 64% of the state's forested area faces some degree of degradation, mainly driven by anthropogenic activities such as fishing, hunting, illegal logging, changes in soil usage, and unregulated tourism. The State Strategy for Ecosystem Restoration and Conservation seeks to reverse this trend and position Yucatán as a state leader in promoting ecosystem restoration and conservation projects. The VCM is an instrument that can help Yucatán execute its restoration, conservation, and biodiversity goals.

The majority of communities and *ejidos* living on forest lands face poverty and economic development challenges such as the lack of employment, infrastructure, and basic services. Economic hardships are compounded by the region's climate vulnerability, which manifests in extended droughts, increased temperatures with negative effects on human health, hurricanes, and tropical storms, among other risks. Recent criticisms of the VCM at the international level and in Mexico have highlighted cases where local communities' rights have been violated and called into question whether those projects are actually generating a real impact in reducing emissions. This situation casts doubt on the credibility of carbon projects as a tool for climate change mitigation, which may reduce the ability of the VCM to deliver environmental benefits or close the poverty gap. The state of Yucatán aims to ensure that communities and *ejidos* are the primary beneficiaries of VCM activities carried out within its territory.

In addition, Yucatán is publishing this Guide because private sector actors frequently approach state agencies to understand the role of existing national and state regulations (and others in development) that can impact the development of carbon projects.

In response to these needs, the Guide:

- Establishes guidelines and concrete steps for identifying the key elements, requirements, and methodologies for evaluating, designing, and implementing NbS-focused carbon projects.
- Identifies the existing regulations in Mexico concerning environmental and climate policies, land use, collaboration with communities and *ejidos*, and social and environmental safeguards which, while not specific to the VCM, influence the development of carbon projects.
- Promotes principles to guarantee high-integrity projects with long-term benefits that avoid conflicts between the parties or reputational risks and have greater market value.

What is the Guide's sectoral focus?

The Guide particularly focuses on the development of NbS projects that contribute to restoring tropical forests and mangroves in Yucatán. NbS initiatives are activities or actions that seek to protect, sustainably manage, and restore ecosystems, while simultaneously benefiting society and mitigating climate change. NbS aim to support climate change mitigation and adaptation, reduce the risks from catastrophes such as floods and fires, provide food and water security,

[1] Defined in this Guide to any settlement or population in general, without necessarily being indigenous communities. In Mexico, there are also agrarian hubs that can be legally recognized as communities. Once they have been recognized, they also enjoy legal personality and have ownership of the land (Chapter V, Agrarian Law). However, 95% of them have become ejidos and therefore, this document focuses on the regulation of ejidos.

[2] Ministry of Sustainable Development (2023), *Estrategia Estatal de Reducción de Emisiones por Deforestación y Degradación Forestal del Estado de Yucatán* [State-Level Strategy for Reducing Emissions from Deforestation and Forest Degradation in the State of Yucatán]. Government of the state.

[3] National Commission for Recognizing and Using Biodiversity (2022) Range and Distribution of Mangroves. *Biodiversidad Mexicana* [Mexican Biodiversity]. Mangrove Monitoring System of Mexico.

avoid loss of biodiversity, and promote population health and sustainable development.[4]

The government of Yucatán aims to incentivize the development of NbS projects that remove carbon emissions (see Box 1). NbS initiatives aimed at removing emissions center on the capture and storage of carbon dioxide (CO_2) from the atmosphere, which can be achieved, for example, through reforestation and restoration of forests and mangroves.

This Guide does not cover NbS activities with the potential for reducing emissions through avoided deforestation, as this is not deemed to be an eligible activity for the VCM in Mexico for two principal reasons: i) according to the country's legal regulations, deforestation is an illegal activity and therefore, emissions reductions can only be recognized through a governmental program; and ii) the National REDD+ Strategy clearly defines that the distribution of benefits from removal projects is managed by the landowners, while for reduction projects, the distribution should be carried out at the jurisdictional level (see Box 7 in Chapter 3 for greater detail).

BOX 1. PRINCIPAL ACTIVITIES OF CARBON REMOVAL PROJECTS

NbS carbon removal projects generate carbon credits through various practices that are aimed at increasing the amount of carbon stored in plant biomass and in the ground. The following are the principal activities of these projects:

Activities that increase forest and plant cover in terrestrial areas. Plant cover can be increased through various practices, such as restoration, reforestation, and afforestation.

Activities that increase plant biomass in aquatic or coastal areas. Reforestation or restoration of mangroves is the most common NbS activity in these areas; however, NbS projects can also be developed, for example, with seagrasses.

Changes in forest or plantation management practices. These activities can include (and be combined with) practices such as stopping, decreasing, or delaying wood harvests, enriching the understory, restoring degraded areas, and improving plantation productivity.

Choosing the type of activity to implement should be done based on the conditions in the project area, and goals and target benefits of the project, in terms of both carbon capture and outcomes for the landowners, communities, and biodiversity.

How was this Guide prepared?

This Guide was led by the Yucatán state Ministry of Sustainable Development (SDS) and developed through a consultation process with various actors, including federal government agencies such as the Ministry of the Environment and Natural Resources (SEMARNAT) and National Institute of Ecology and Climate Change (INECC), project developers, investors, state agencies such as the Ministries of the Environment of Campeche and Quintana Roo – states in the Mexican Republic with similar challenges and opportunities – and representatives of local communities and carbon standards.

The consultation process included three steps: i) individual interviews with various actors and experts; ii) the presentation of the Guide in an in-person workshop in Mérida, Yucatán to receive feedback and ensure the Guide addresses the questions and needs of the involved actors; and iii) submission of written comments by actors and experts regarding

[4] IUCN (2020) Ensuring Effective Nature-based Solutions. Issues Brief.

matters related to carbon markets, working with local communities, and NbS.

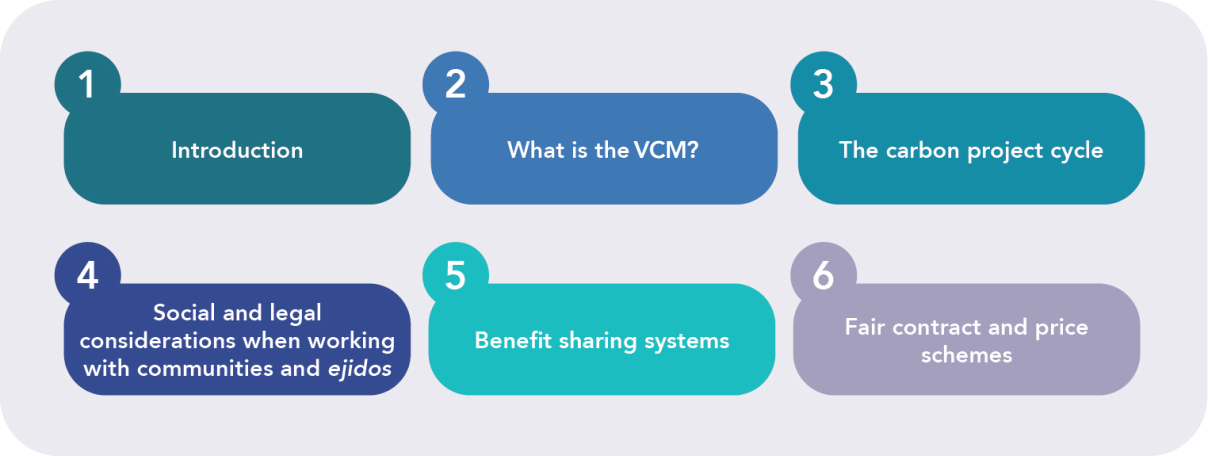
The need to develop this Guide resulted from the Diagnostic Study and Roadmap for Developing a VCM Strategy. The Diagnostic Study identifies the VCM as a potential instrument for financing the restoration of ecosystems in Yucatán, and the private sector's interest in investing in and developing projects in the VCM The Study also recognizes the need to provide legal clarity regarding the development of these types of projects in the state and guarantee compliance with social and environmental safeguards.

The Guide was prepared in collaboration with Climate Focus and the United Nations Development Programme (UNDP), supported by the Voluntary Carbon Markets Integrity Initiative (VCMI), an independent non-profit organization seeking to increase market integrity. The Guide was delivered through VCMI's Access Strategies Program, a work programme seeking to ensure equitable carbon finance for the Global South and equip regions, IPs, and LCs to engage with high-integrity VCMs.

How should this Guide be used?

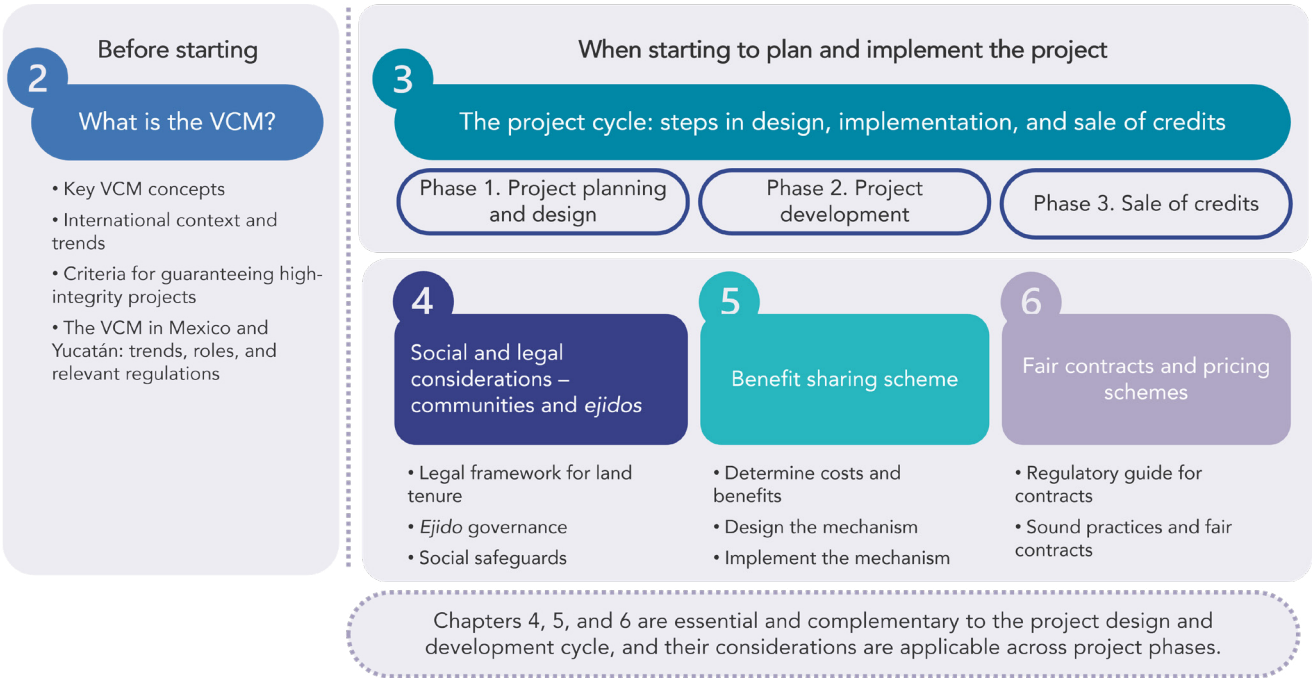
The Guide is divided into six chapters. Chapter 2 defines the VCM, describes current international trends in NbS, and the context in Mexico and Yucatán. Chapter 3 presents concrete steps for planning and developing a NbS carbon project. Chapters 4, 5, and 6 provide greater detail on the key elements of this Guide: how to work with communities and *ejidos* while guaranteeing compliance with relevant regulations and social safeguards (Chapter 4); principles for guaranteeing a system for equitably distributing benefits to communities and *ejidos* (Chapter 5); and elements that should be considered when developing fair carbon contracts (Chapter 6).

Figure 1. Structure of the Guide



The Guide is not a comprehensive set of sequential steps for developing projects but rather guidance on various issues that project developers and other actors should consider throughout the lifecycle of a carbon project. The Guide provides a flexible framework that enables the identification of best practices based on the specific needs and contexts of each project. Figure 2 outlines the information covered in each chapter.

Figure 2. How should the Guide be used?



2. NATIONAL AND INTERNATIONAL CONTEXT OF THE VCM

2.1 What is the VCM?

The VCM is a system in which individuals, companies, and organizations voluntarily participate in generating, purchasing, and selling carbon credits in order to fulfill their climate commitments. The VCM is distinct from compliance carbon markets, which entail limits imposed by legislation on emissions. Each carbon credit represents the equivalent of a metric ton of carbon dioxide equivalent (CO_2e) that has been reduced or removed from the atmosphere by climate change mitigation projects or programs. Carbon credits are verified by standards such as Climate Action Reserve (CAR), Verified Carbon Standard (VCS), Gold Standard (GS), and Plan Vivo. Carbon credits are generated under the premise that these activities would not be financially profitable without the financial income derived from the sale of the credits, and that the activities are not required by existing legislation in the country. This is known as financial and legal additionality, respectively. The most common climate change mitigation activities include NbS, energy, waste management, and industrial activities.

Table 1 summarizes the various actors participate in the VCM, each with their own goals and motivations.

Table 1. Actors in VCM supply and demand

BUYERS (DEMAND)	INTERMEDIARIES	SELLERS (SUPPLY)	OTHER ACTORS
Who? Individuals, companies, and organizations wishing to buy carbon credits	**Who?** Brokers, traders, project developers, and investors	**Who?** Private landowners, local communities, *ejidos*, and other actors managing land use	**Who?** Non-governmental organizations and governments
Objectives: Achieve voluntary climate change goals; distinguish themselves from the competition by implementing environmental practices that reduce their carbon footprints	**Objectives:** Mediate between buyers and sellers of credits; invest in projects and credits to resell in the future; finance and contribute capital to reduce investment risk and obtain financial benefits	**Objectives:** Obtain financial benefits for implementing community development actions such as infrastructure, services, and education; access international financing for executing local and national policies	**Objectives:** Ensure that benefits generated by projects benefit the public, as defined by their legal mission or mandate

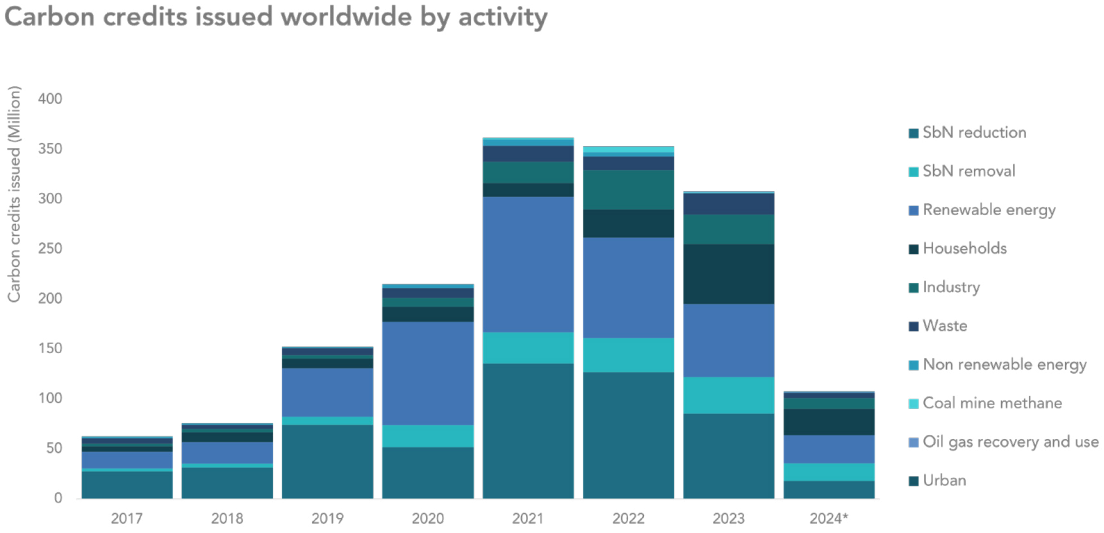
What is the international context for NbS in the VCM?

Since the VCM began, NbS credits have played an important role. Interest in and issuance and volume of these credits have increased in recent years due to the fact that they help confront various social and environmental challenges in addition to climate change mitigation, for example:

- Reducing biodiversity loss
- Improving air and water quality and reducing the impacts of urban heat
- Mitigating and adapting to natural disasters, such as controlling flooding and preventing expensive damage to public and private infrastructure
- Generating employment and improving the quality of life in local communities[5]

In 2023, NbS activities generated nearly 40% of all carbon credits worldwide. NbS activities include projects related to Reducing Emissions from Deforestation and Forest Degradation (REDD+). REDD+ carbon credits are the majority of NbS credits generated, although volumes of credits from emission removal projects such as afforestation/reforestation and the restoration of wetlands have significantly increased in recent years.[6] In 2023, the issuance of removal credits increased by 7% in comparison with 2022, for the first time representing 10% of all credits generated (see Figure 3)

Figure 3. Carbon credit issuance by activity type, 2017- 2024



Source: Climate Focus (2024) Voluntary Carbon Market Dashboard

Due to the fact that carbon removal credits have additional climate benefits, as compared with emission reduction credits (see Box 2, below), they fetch higher prices. Carbon removal credits sell for an average of EUR of 13/tCO_2 versus the average EUR 5/ tCO_2 from other VCM activities focused on emission reductions.[7] The average price of NbS carbon removal credits increased by 32% in 2023, illustrating buyer's willingness to pay for these credits.[8] However, VCM prices are not standardized and vary significantly between projects. Other factors that influence the prices are the years in which the project was implemented and integrity (quality) of the credits. According to the results of a survey performed by Ecosystem Marketplace, buyers in 2023 were willing to pay a premium of 53% for "recent" credits (that is, less than five years old) and 37% more for projects that

[5] IUCN. (2022). Nature-Based Recovery Can Create Jobs, Deliver Growth, and Provide Value for Nature.

[6] Ecosystem Marketplace. (2024). State of the Voluntary Carbon Market.

[7] S&P Global (2024), S&P Global Commodity Insights, 2024.

[8] Ecosystem Marketplace. (2024). State of the Voluntary Carbon Market.

demonstrated additional environmental and social benefits.[9]

BOX 2. GREATER DEMAND FOR NBS WITH CARBON-CAPTURE POTENTIAL

The greater demand for removal credits is due to the role they play in achieving net-zero emissions goals; that is, securing an equilibrium in greenhouse gas (GHG) emissions at the worldwide level between the emissions generated and removed from the atmosphere. Various initiatives, such as the Oxford Principles for Net Zero Aligned Carbon Offsetting and Science-Based Targets Initiative (SBTi), recommend prioritizing activities with the potential to remove CO_2 versus those centered on reducing emissions, for two principal reasons:

- Removal or carbon-capture type projects directly reduce atmospheric CO_2: To limit global warming to 1.5°C and fulfill the Paris Agreement goals, it is not enough to only reduce existing and future emissions. The world must also eliminate excess CO_2 that has accumulated historically, and removal projects can do this.
- Removal or carbon-capture type projects eliminate residual emissions from sectors in which it is extremely difficult or costly to fully eliminate them.

What is the future outlook of the VCM?

Following the explosion of interest in the VCM at the end of the last decade – and in spite of the decreased investment during the last two years – a trend of recovery and growth is expected in future years based on the issuance of higher-integrity carbon credits.

In 2023, the volume and value of the VCM contracted for the second consecutive year since its highest point in 2021.[10] The cause of this regression was doubtless due to the increased scrutiny and criticism of the lack of integrity, quality, and transparency of some VCM activities, which generated uncertainty amongst credit investors and buyers. The criticism included doubts about whether VCM activities—especially REDD+ activities—are generating real emission reductions, accusations of greenwashing in climate declarations made by the companies that use these credits to reach their climate goals,[11] violations of the rights of Indigenous peoples and local communities, and concerns about the lack of equitable benefit sharing of the sales of carbon credits amongst participating parties.

Market specialists expect that going forward the increasing volume in higher-integrity credits will continue, accompanied by higher prices, and that the VCM will grow with demand driven by the following key factors:

Improved integrity and quality of carbon credits;

Companies' growing voluntary climate commitments;[12]

New market regulations regarding compliance or carbon pricing instruments, such as carbon taxes or the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); and

Increasing pressure exerted by investors, consumers, and civil society organizations asking companies to adopt greener practices.

[9] World Bank (2024) State and Trends of Carbon Pricing. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-2127-1. License: Creative Commons Attribution CC BY 3.0 IGO.

[10] Ecosystem Marketplace. (2024). State of the Voluntary Carbon Market.

[11] World Bank (2024) State and Trends of Carbon Pricing. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-2127-1. License: Creative Commons Attribution CC BY 3.0 IGO

[12] Including their marketing strategies and reputation to demonstrate their commitment to the environment.

What is the market doing to guarantee high-integrity carbon projects?

Conscious of the VCM's challenges and risks, carbon standards (e.g., the organizations that set rules for the VCM) are updating and improving their methodologies to increase the integrity of carbon credits. Changes include adopting more rigorous tools to calculate and verify emissions reductions or removals, strengthening the evaluation of additionality, and integrating social and environmental safeguards, among others. Chapter 3 presents recommendations on how to evaluate the quality of the credits generated by the standards and their methodologies that are applicable in Mexico.

Furthermore, various organizations and actors are designing guidelines, criteria, and incentives for incentivizing mitigation projects of greater quality and integrity as well as for restoring confidence in the market. The following are the most important initiatives:

Organizations and initiatives working on the supply

- **Initiatives dedicated to evaluating the integrity of the standards and methodologies.** The Integrity Council for the Voluntary Carbon Market (ICVCM) is the platform with the greatest international credibility for evaluating VCM transparency, ethics, and integrity. The ICVCM provides the following tools:
  - Core Carbon Principles (CCPs): The CCPs are 10 fundamental science-based principles for identifying high-quality carbon credits that produce real, verifiable climate impacts (see Box 3).
  - CCP regulations: The ICVCM has developed a framework for evaluating how the carbon credit-generating programs or standards and their various methodologies comply with the CCPs.[13]
  - CCP label: The ICVCM issues a label for carbon credits generated under standards and methodologies that comply with the CCPs. Carbon credits with the CCP label are already being sold at a higher price in the VCM.
- **Rating agencies that evaluate the risks and integrity of carbon credit-generating projects.** These agencies primarily focus on evaluating credits that have already been generated and are utilized by buyers concerned with integrity and reputational risks. Some of these agencies are private and users must pay to review their ratings. Some examples are:
  - Calyx Global evaluates the integrity of carbon credits, their impact on Sustainable Development Goals (SDGs), and environmental and social risks.
  - Carbon Credit Quality Initiative (CCQI) provides a free, easy-to-use tool to rate carbon credits based on seven quality-related objectives.
  - BeZero uses a tool to evaluate the risks of implementing a project when the credits have not been generated and after they have been generated.
  - Sylvera evaluates the probability that the carbon credits generated comply with a promise to reduce or remove emissions.
- **Initiatives implemented by governments.** Various governments and jurisdictions are approving and publishing regulations and guidelines for guaranteeing high-integrity projects. Examples of national and inter-governmental initiatives that aim to improve integrity and guarantee they comply with social and environmental safeguards in their respective jurisdictions, are:
  - United States principles for the VCM. The United States government published a series of principles for guaranteeing the integrity and efficacy of carbon credits and fostering confidence in the VCM
  - G7 Principles of High-Integrity Carbon Markets support carbon markets as a tool for complying with Nationally Determined Contributions (NDCs), as long as they have real results.

[13] As of this writing, CAR, Gold Standard, VCS, the American Carbon Registry (ACR), and the Architecture for REDD+ Transaction TREES (ART) are eligible as programs that comply with the CCPs. Nine of these programs' methodologies have been approved. Other programs and methodologies are in the process of being evaluated. For more up-to-date information, please visit Status of Evaluation of CCP Regulations.

Organizations/initiatives working on the demand side

- **Initiatives seeking integrity on the part of the buyers.** The Voluntary Carbon Markets Integrity Initiative (VCMI) is the standard-setter for the demand-side of voluntary carbon markets. Its Claims Code of Practice provides science-based guidance for companies to make voluntary use of carbon credits as part of net-zero transitions and make credible claims about this use. The Code requires companies to purchase and retire credits approved by ICVCM's Core Carbon Principles (CCPs) or, when a methodology has not yet been evaluated, that are eligible for CORSIA, or disclose how due diligence processes aligns with all 10 CCPs.

What is a 'high-integrity carbon credit'?

While no internationally agreed-upon methodology exists for evaluating carbon credit integrity, the government of Yucatán supports the 10 CCPs proposed by the ICVCM as criteria for evaluating quality in the VCM (see Box 3). With regard to governance and environmental and social safeguards, it is essential that a project developer determine if the standards are aligned with the policies and regulations of the country in question (see Chapter 4 for guidelines for complying with the regulations in Mexico and Yucatán).

Spider monkey in the Yucatan jungle

BOX 3. THE 10 PRINCIPLES FOR IDENTIFYING HIGH-INTEGRITY CARBON CREDITS

1. **Effective governance:** The standard has effective governance that guarantees transparency, responsibility, continuous improvements, and credit quality.
2. **Monitoring:** The standard uses a registry to identify, record, and uniquely track mitigation activities and carbon credits issued.
3. **Transparency:** The standard provides complete and transparent information on accredited projects. The information will be publicly available in an electronic format.
4. **Independent validation and verification by third parties:** The standard has program-level requirements for strong validation and verification by third parties.
5. **Additionality:** The reductions or removals of GHGs are additional; that is, they would not have been produced in the absence of incentives created by the income from carbon credits.
6. **Permanence:** The reductions or removals of GHGs should be permanent, or if there is a risk of reversal, there should be measures in place for confronting those risks and offsetting the reversal.
7. **Robust quantification of emissions reduction and removal:** The reductions or removals of GHG emissions are quantified using a conservative baseline. In the case of NbS, guarantees should also be given that the reductions or removals in one area or sector do not increase them in another area or sector (for example, by displacing extractive activities).
8. **No double counting:** A reduction or removal of GHGs shall not be counted twice; that is, they shall only be counted toward one mitigation objective or goal.
9. **Sustainable development benefits and safeguards:** The standard will have clear compliance guides, tools, and processes for guaranteeing that the projects comply with best practices with regard to social and environmental safeguards.
10. **Contribution to a net-zero transition:** The project will avoid establishing carbon-intensive GHG emissions levels, technologies, or practices that are incompatible with the goal of achieving net-zero emissions by mid-century.

For more information about the CCPs, visit ICVCM: The Core Carbon Principles.

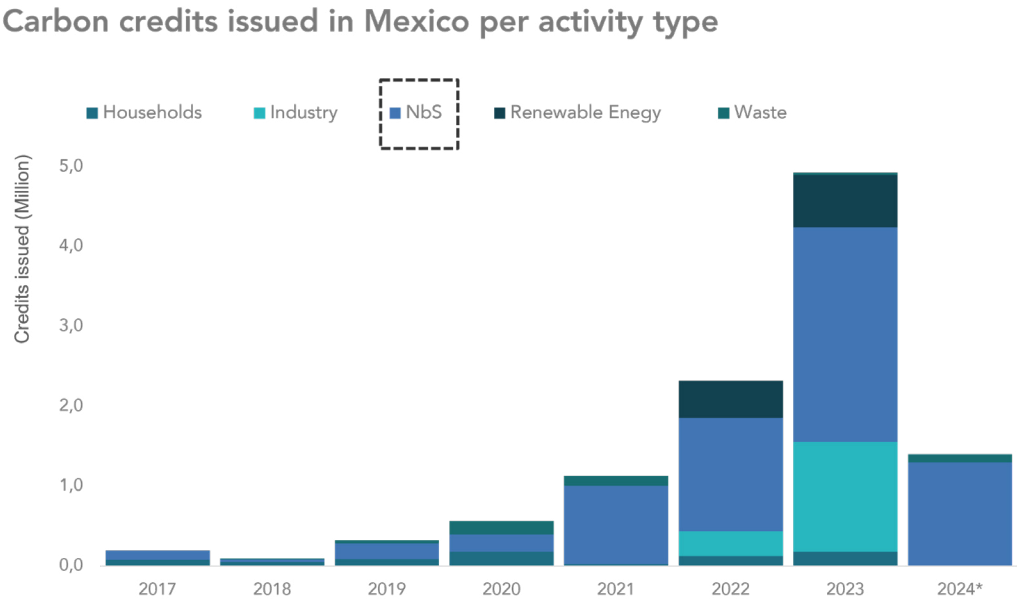
2.2 The VCM in Mexico

In Mexico, carbon project development began to take off in 2021, coinciding with the peak of the VCM internationally and potential to implement VCM projects in the country, especially NbS projects. The credits generated by NbS activities in Mexico increased by 40% between 2021 and 2022 and almost doubled between 2022 and 2023 (see Figure 4).

According to a modeling analysis developed by Climate Focus that identifies the potential of various NbS activities internationally, Mexico is the country with the fifth-greatest potential for afforestation/reforestation of forests (approximately 9.6 million tons of CO_2e, $MtCO_2e$, per year) and fourth in mangrove reforestation (approximately 4.92 $MtCO_2e$ per year) in the world.[14]

[14] Climate Focus (2022) Unlocking Nature-Based Solutions Through Carbon Markets: Global Analysis of Available Supply Potential. Technical report.

Figure 4. Carbon credit issuance in Mexico



Source: Climate Focus (2024) Voluntary Carbon Market Dashboard

Does Mexico have a legal framework for carbon markets?

Mexico does not yet have a specific legal framework for the VCM or carbon markets in general. Nonetheless, SEMARNAT and INECC are working on a regulatory framework for elements of carbon markets in the General Law on Climate Change (LGCC) and General Law on Sustainable Forestry (LGDFS).[15]

There are also existing regulations that should be considered when implementing NbS projects, both in Mexico and Yucatán. Box 4 includes a list of the most important regulations which, while not specific to the VCM, define the rules for respecting the rights of communities and *ejidos*, managing the right to and use of the land and carbon, and compliance with social safeguards.

[15] The legal framework is expected to be published in 2025. The government of Yucatán will update the Guide once these regulations have been published.

BOX 4. LIST OF RELEVANT NATIONAL REGULATIONS AND POLICIES FOR DEVELOPING NBS PROJECTS

- Political Constitution of the United Mexican States.
- Agrarian Law: The law that includes the regulations and requirements that should be followed when collaborating with *ejidos*. It is essential to guarantee compliance with all of the articles when developing a carbon project (see Chapter 4 for more details).
- General Law on Sustainable Forest Development: The law that establishes the legal framework for conserving, protecting, restoring, and sustainably utilizing the country's forest resources, including social and environmental safeguards and the matter of land and carbon tenure.
- General Law on Climate Change: The law that enables and promotes the implementation of market mechanisms for reducing, removing, and trading emissions.
- General Law on National Assets: The law that regulates the system for owning, using, administering, and exploiting the nation's assets, including provisions for their concession.
- National REDD+ Strategy 2017 – 2030: Comprehensive plan that includes guidelines for carbon markets for promoting REDD+ practices.
- National REDD+ Safeguards Strategy: Establishes the principles, conditions, and social and environmental criteria for guiding the design and implementation of forestry sector policies.
- Regulation 173 on Registering Carbon Forestry Projects: Establishes the minimum specifications and requirements for registering carbon forestry projects and certifying the increases in the carbon stocks generated by those projects.

List of regulations and policies that have yet to be published that could have an impact on Mexico's VCM:

- **Regulations for carbon markets in Mexico:** SEMARNAT and INECC are developing regulations for implementing carbon markets in the country.
- **Offset credit protocol to be used in the Emissions Trading System (SCE):** The SCE in Mexico proposes the option of offsetting a certain part of the compliance through carbon credits; however, it has not yet published the guidelines on eligible projects and standards.
- **National Strategy for Article 6 of the Paris Agreement** that decides Mexico's position and if corresponding adjustments will be offered.
- **Yucatán Forestry Law** that puts forward the VCM as an instrument for financing the recuperation of its natural ecosystems.

What is the relationship between the VCM and the Paris Agreement, especially Article 6?

The VCM has evolved along with international climate agreements. Many of the principles established in the Paris Agreement – such as the integrity of the carbon credits generated, issued, and used based on robust rules of additionality, conservative baselines, and mechanisms for avoiding double counting – are shared by VCM participants.

Why do VCM buyers seek corresponding adjustments?

Even though the Article 6 rules do not apply to VCM transactions, some VCM buyers view it as important to obtain the authorization of the country where VCM carbon credits will be generated with the goal of receiving corresponding adjustments (see Box 5) and avoiding double counting or double claims on reductions or removals of GHG emissions. Additionally, buyers wishing to fulfill certain climate commitments must buy authorized credits. For example, airlines that buy carbon credits to fulfill their obligations under CORSIA or businesses in Singapore

that want to offset part of the payment of the national carbon tax using carbon credits, must guarantee that those credits are authorized by the country of origin and thus have corresponding adjustments.

The prices of credits that obtain a corresponding adjustment are already higher than the prices of credits without corresponding adjustments in the VCM, even when the credits come from the same type of project. VCM investors see carbon credits with corresponding adjustments as superior because they will be accepted in a future market under Article 6 and in various jurisdictions, thereby reducing the risk to investors.

BOX 5. WHAT ARE CORRESPONDING ADJUSTMENTS UNDER THE PARIS AGREEMENT?

Corresponding adjustments are a mechanism under Article 6 of the Paris Agreement for guaranteeing that when a country that authorizes and transfers a mitigation-related result to another country– emissions reductions or removals – that mitigation results will not be counted by the country that agreed to transfer them. The directives of Article 6 of the Paris Agreement do not demand that VCM carbon credits be authorized, and therefore do not require corresponding adjustments. However, governments can choose to authorize VCM carbon credits so they may be utilized in Article 6 transactions.

For more information regarding Article 6, corresponding adjustments, and their relationship to the VCM, see Chapter 3 of The Voluntary Carbon Market Explained.

Is the application of corresponding adjustments required for transactions in the VCM?

The debate about whether carbon credits generated and traded in the VCM should have corresponding adjustments is ongoing. As stated above, the Paris Agreement does not require that corresponding adjustments be applied in transactions of voluntary carbon credits. It is left in the hands of VCM standards, as well as the countries where the credits are generated, to determine if the carbon credits generated by voluntary projects should or should not be counted with corresponding adjustments.

To date, there is no requirement by VCM standards that credits generated under their methodologies obtain corresponding adjustments. However, some standards, such as Verra and Gold Standard, have issued guidelines to orient voluntary projects that plan to obtain corresponding adjustments or generate labels that show carbon credits that have already been authorized for corresponding adjustments by countries.

Does Mexico offer corresponding adjustments?

The authorization to obtain corresponding adjustments is issued by the Parties to the Paris Agreement and transpires in accordance with the policies and legislation adopted by each country. As of the completion of this document, Mexico does not have a country strategy for participating in Article 6, nor related legislation, and has not specified the types of projects for which it could issue corresponding adjustments. Nonetheless, Mexico could grant corresponding adjustments to VCM projects under future legislation.

Which Mexican authorities would issue the corresponding adjustments?

The authority to grant authorizations for corresponding adjustments lies with the authorities of the signatory countries to the Paris Agreement and as such, in Mexico it will reside in federal authorities. Subnational authorities do not participate in issuing the authorization for corresponding adjustments.

2.3 The VCM in Yucatán

What is the VCM context in the state of Yucatán and what is its existing potential?

Yucatán's diverse ecosystems - predominantly mangrove wetlands and tropical forests that are home to immense biological diversity– offer significant potential to develop ecosystem conservation and restoration projects.

As of the date this Guide was published, 0.2% (13,400 credits) of the NbS credits issued in Mexico are from the San Crisanto Foundation's mangrove restoration projects in Yucatán. All of those credits were issued by mangrove restoration projects. There are also four Yucatán-based projects in the validation stage (three sustainable forest management projects certified by CAR and one mangrove restoration project by VCS).[16] These are the projects currently listed in standards' registries; however, according to interviews performed as part of developing this Guide, there is great interest in developing projects in the region. Several projects are in the process of consulting with the communities and *ejidos* to evaluate the potential of a project.

What is the role of the Yucatán government in the VCM?

The state of Yucatán seeks to promote, facilitate, and align the VCM with its environmental, social and economic strategies described in Box 6. The government of Yucatán is in the process of updating its Sustainable Forest Law, which defines the VCM as a financing instrument and the creation of a database that permits the enumeration of carbon projects developed in the state. As a facilitator and regulator, the government commits to:

- Publish relevant information and guides for developing VCM projects;
- Provide training to communities and *ejidos*, and municipal institutions on conservation and the VCM;
- Identify areas with the greatest potential for ecosystem restoration;
- Promote and guarantee compliance with environmental and social safeguards in the implementation of carbon projects;
- Work jointly with federal government agencies and the private sector to resolve legal challenges in project development;
- Provide technical and administrative assistance to relevant actors in the VCM, such as legal clarification related to drafting contracts, land tenure, and approaching communities and *ejidos*; and
- Create a database to keep a record of the existing restoration and conservation projects in the state and their contribution to the state's climate goals and Mexico's NDC.

[16] Climate Focus (2024) Voluntary Carbon Market Dashboard

BOX 6. CONTRIBUTION OF THE VCM TO YUCATÁN'S PUBLIC POLICIES

The state of Yucatán recognizes that the private sector is crucial to achieving its environmental and social goals. Within this context, the government has concluded that private investment in the VCM can contribute to the following plans and policies:

- **The State Strategy for Ecosystem Recuperation and Conservation**, which seeks to position Yucatán as a state leader in promoting ecosystem recuperation and conservation projects.
- **The State of Yucatán Climate Action Plan (PEECC)**, wherein the government has committed to reducing its emissions by 50% by 2030, as compared with the business-as-usual scenario, and achieve net-zero emissions by 2050. Out of 15 priority actions identified to reach these goals, the VCM can contribute two actions:
  - **Promote sustainable forest development,** including forestry production development through plantations of native forest species and fostering sustainable management at the community level.
  - **Promote reforestation and sustainable use of natural resources** and community participation.
- **The Sustainable Development Goals (SDGs)** and Mexico's NDC. The state seeks to organize a registry to know how and when projects that generate VCM carbon credits contribute to the NDC. In Mexico's case, NbS are central to NDC achievement.

Further Reading

- BIOFIN (2024) Fortalecimiento de Capacidades sobre Mercados de Carbono y Proyectos de Reducción de Emisiones.
- Calyx Global (2024) What makes a high-quality carbon credit? Insights.
- Climate Focus (2022) El ABC del Mercado Voluntario de Carbono
- Climate Focus (n.d.) Voluntary Carbon Market Dashboard.
- Ecosystem Marketplace. (2024). State of the Voluntary Carbon Market.
- ICVCM (n.d.) The Core Carbon Principles
- ICVCM (n.d.) Assessment Status of programs and methodologies
- VCMI (2023) Claims Code of Practice. Building integrity in voluntary carbon markets.
- VCMI (2022) VCM Access Strategy Toolkit. Considerations for host countries when engaging in high-integrity voluntary carbon markets.
- VCMI (2021) Leading global company Natura Cosmetics becomes first emerging market business to achieve a Carbon Integrity Platinum Claim. Press Release.
- World Bank (2023) State and Trend of Carbon Pricing: International Carbon Markets. Washington, DC: World Bank.
- World Bank (2024) State and Trends of Carbon Pricing. Washington, DC: World Bank.

3. THE CARBON PROJECT CYCLE

The following steps illustrate how to develop a high-integrity NbS project within the VCM in Yucatán. It is beyond the scope of this Guide to offer specific guidelines for each of the steps, due to the impossibility of covering all of the different types of projects that can be proposed. The Guide instead offers general guidelines as well as more concrete support in understanding the regulations that concern communities and *ejidos* as well as compliance with social safeguards (Chapter 4), benefit sharing agreements (Chapter 5), and structuring fair contracts (Chapter 6). Those are topics about which project developers and investors tend to have the most questions.

3.1 Steps for developing a carbon project (in Yucatán)

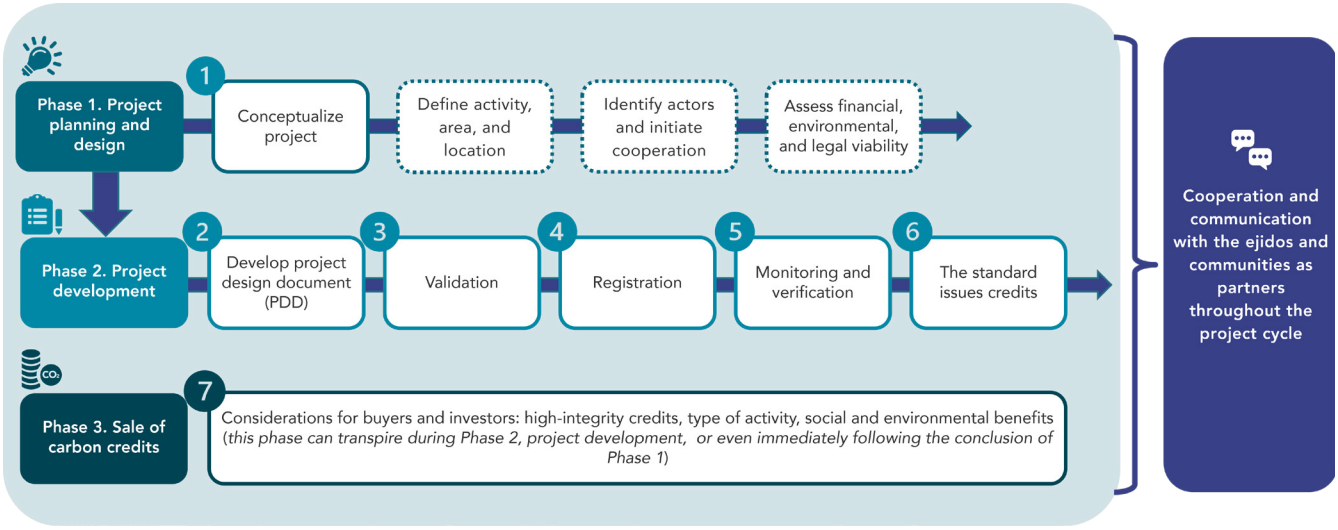
- **PHASE 1: Project planning and design.** The principal objective of this phase is to evaluate the economic, social, and legal viability of the project and design the project's activities. It's suggested that technical experts rather than project developers perform this analysis to avoid conflicts of interest. It is advisable, once the feasibility study has been performed in this phase, to begin designing the system for distributing the benefits jointly with the *ejido*.

In this phase, it is essential that project developers already be in contact and discussion with the *ejidatarios* (collective landowners) and community, as the communities and *ejidos* must have the results of the viability study in order to make a free and informed decision on whether or not to participate in the project activities.

- **PHASE 2: Project development.** The goal of Phase 2 is to execute the project activities, perform monitoring and verification, and begin generating carbon credits. During this phase, it will be crucial to continue the consultation processes with the communities and *ejidos* and concretely define the benefit sharing system, if this was not already done in Phase 1.
- **PHASE 3: Sale of carbon credits.** Phase 3 entails the trade and sale of the carbon credits issued. Although it appears as Phase 3, the sale of carbon credits does not necessarily follow the implementation of the mitigation activity and issuance of carbon credits. Sales may happen during Phase 2 or even immediately following the conclusion of Phase 1.

Figure 5 illustrates the three phases and their principal components.

Figure 5 Project planning and development phases



PHASE 1: Project planning and design

Step 1: Conceptualizing the project

The first steps in designing a removal-focused NbS project are to ensure that the activity has the potential to generate carbon credits; identify the project's principal characteristics, methodology, and the standard under which the project can be registered; and develop an analysis of its economic, environmental, and legal viability.

How to determine whether an activity can generate carbon credits?

The most common essential eligibility criteria for removal-focused NbS projects include:

- That the activity is related to increasing carbon in vegetation or soil, whether in terrestrial, coastal, or aquatic areas.
- Historic ground cover at the time the project begins. In general, the expectation is that the project area has not been recently deforested (e.g., not within five to 10 years, although the time can be greater depending on the program).
- The applicability of existing methodologies.

Activity types

The project developer must define the types of activities to be performed in the project area. In the context of this Guide, only NbS removal activities are considered. One of the principal reasons for selecting NbS removal activities rather than avoided emissions activities is that the Mexican legal system does not permit the issuance of carbon credits for activities that avoid emissions from deforestation and forest degradation at the project level. Box 7 provides a broader explanation of this context in the Mexican legal system.

BOX 7. CAN AVOIDED EMISSIONS NBS PROJECTS GENERATE CARBON CREDITS IN THE VCM IN MEXICO?

The Mexican legal system and national policies currently do not permit the issuance of carbon credits from activities that avoid emissions from deforestation and forest degradation.[17] Carbon credits from avoiding deforestation or degradation cannot be recognized because the country's legal system does not grant the right to landowners and holders of forested land to emit GHGs from deforestation or degradation. In other words, activities focused on avoiding deforestation or degradation would not be considered an environmental service because deforestation and degradation are prohibited to begin with.

By contrast, LGDFS permits payments for activities that result in emissions reductions when such payments conform to agreements made by the federal government through SEMARNAT.[18] In this case, the authorization to receive payments by the government would be based on the consideration that the emissions reductions would be the result of the execution of public policies.

Area and location of project

The project developer must define the following elements:

- Region where the project will be developed: In the event of a clustered project, the region or regions and characteristics of the project area should be specified (e.g., biome, ecosystem, soil usage).
- Approximate area of the project, including if it will be a single area or group of areas.
- Classification of project area: determine if the area is affected by any type of legal reserve or consideration that limits activities that can be executed therein.

Current scenario of the project area

In addition, it is important to describe non-forestry land use in the areas where the project will be developed (e.g., cattle ranching, agriculture, mining, etc.). The current scenario demonstrates project benefits in terms of carbon capture by showing that the activities that would be carried out in these areas in the absence of the project are associated with lower volumes of carbon capture than the activities proposed in the project. The current scenario also provides an understanding of the risks of project implementation.

How should the methodology and carbon standard be identified?

It is critical to identify the standard and methodology that will be used to register, validate, verify, and generate carbon credits. Each standard, methodology, and protocol has defined eligibility conditions that projects must reviewed to identify the most appropriate standard and methodology. The standard and methodology also determine the project's processes for registration, calculation, and measurement. It is suggested that projects follow these four steps when choosing the standard and methodology:

1. **Identify the existing standards and methodologies that are applicable to Yucatán.** For example, 70% of the carbon credits in Mexico resulting from NbS activities have been certified by CAR, because it developed a methodology jointly with Mexican public institutions and national experts that considers the Mexican environmental, legal, and social context. Of the remaining credits from NbS activities in Mexico, 20% have been certified by VCS and 9% by Plan Vivo.[19] Table 2 in Annex 1 presents the applicable standards and methodologies for NbS activities in Yucatán
2. **Identify if there have been any updates or changes made to the methodologies.** VCM methodologies are constantly developing and improving. As such, it is essential to verify, if any

[17] NMX-AA-173-SCFI-2015 for registering carbon forestry projects and certifying the increase in carbon stocks, Art. 4.1.2 "The activities that reduce or avoid GHG emissions based on avoided deforestation or forest degradation are not eligible under the present regulation."

[18] Art. 138 BIS of LGFDS.

[19] Climate Focus (n.d.) VCM Global Dashboard.

changes have been made to a methodology prior to beginning a project.[20]

3. **Review integrity criteria.** As noted in Chapter 2, the ICVCM evaluates the integrity of the standards as well as methodologies when issuing the CCP label. While there are still no NbS methodologies deemed eligible by the ICVCM, project developers can perform periodic reviews of the CCPs to ascertain if there are any updates. They can also review the evaluations of the raters or the use of additional labeling. For example, Verra has launched the ABACUS label to promote high-quality NbS removal projects.
4. **Consider a standard that includes the verification of environmental and social benefits or contributions made to the SDGs.** Some examples are:
   * Verra's Sustainable Development Verified Impact Standard (SD VISta) certifies projects' environmental and social benefits, such as gender equity and biodiversity. As of January 2023, all projects under VCS must demonstrate that they contribute to achieving three SDGs.
   * Verra's Climate, Community, and Biodiversity (CCB) Standard is label for NbS activities that seeks to guarantee positive impacts on community development and biodiversity.
   * The Gold Standard for the Global Goals (GS4GG) seeks to guarantee that projects contribute to achieving SDGs. Starting in 2024, GS4GG obliges projects to employ its SDG reporting tool and guarantee contributions to at least three SDGs, including SDG 13, Climate Action.
   * Plan Vivo promotes that all projects contribute to at least six SDGs, including SDG 1, Poverty Reduction, and SDG 8, Decent Work and Economic Growth.

How can a project developer determine if a project is legal and financially viable?

Prior to drafting the project design document (PDD) required by the carbon standard (described in Phase 2), project developers should perform prefeasibility and feasibility studies. Prefeasibility studies analyze project design options to determine the one that is most advisable. This includes assessing, for example, the type of project, activities, and most suitable standard, methodology, or protocol for the project. The prefeasibility study also analyzes technical, regulatory, environmental, economic, and financial aspects. The following are the most important elements that should be considered in a prefeasibility study:

- The geophysical, climatic, and environmental conditions of the project area and how they can facilitate or complicate the implementation of different types of activities;
- Critical regulatory issues regarding project design and execution;
- The potential volumes of carbon that can be removed, including identifying possible risks of leakage and non-permanence;
- Project costs, including analysis of the financial, social, and environmental feasibility of the project;

The feasibility study focuses on and deepens the analysis of an individual project once the type of activity and project location are well defined. This is a more complete study that includes information similar to the PDD that is presented to the carbon standard, though the feasibility study employs preliminary general project data.

Legal situation of the area where the project is located

Who has land tenure in the project area?

In Mexico, land ownership can be public, private, and communal (i.e., held by *ejidos*). LGDFS indicates[21] that forest resources on national territory belong to *ejidos*, communities, Indigenous peoples and communities, as well as to individuals or legal entities that own lands where those resources are located.

[20] While the standards generally have a grace period for implementing new methodologies by projects under development, one should consider that if the goal of the changes is to solve significant integrity-related problems, using an out-of-date methodology can have repercussions on credit integrity and price.

[21] Art.5 of the General Law on Sustainable Forestry.

In Yucatán state, approximately 60% of the tropical forests are owned by *ejidos*. This means that it is crucial to work with them when developing carbon projects. In this case, the project developer must fulfill the requirements established in the Agrarian Law, a law that regulates the ownership, tenure, and use of *ejido* lands. Chapter 4 presents the steps that must be taken to comply with the legal framework when developing a carbon project on lands owned by *ejidos*.

The majority of the mangroves in Yucatán are on lands owned by the federal government. In the case of federal land or resource tenure, project developers must discuss and review options with the federal government on those pieces of land (see Box 8).

BOX 8. CONSIDERATIONS WHEN DEVELOPING MANGROVE RESTORATION ACTIVITIES IN YUCATÁN

The majority of lands with the potential for mangrove restoration in Yucatán are regulated under the federal maritime-terrestrial zone.

The federal maritime-terrestrial zone is the 20-meter-wide strip of land adjacent to beaches, lakes, lagoons, estuaries, and marine water deposits. It belongs to the federal government. For each body of water type case, regulations[22] establish specific criteria for determining said strip of land. The plots of land within this strip can be the object of concessions, permits, and authorizations, with an eye to developing economic activities, including activities to protect, restore, and conserve the environment. SEMARNAT is the authority charged with issuing the types of permits established for the conservation and use of the maritime-terrestrial zone.

The demarcation of mangrove zones is complicated by their natural dynamics and conditions. This can lead to social or legal disputes over land tenure; for example, complaints by communities, *ejidos* or private actors. To mitigate the risks of land ownership disputes, project developers should verify official maps and physically visit project areas before preceding with development.

In the event that ownership is unknown or there are doubts about it, or in the event that a project area is within a Natural Protected Area (ANP) of the State, project developers should seek guidance from the Yucatán state government's SDS regarding the process to follow. SDS can accompany the developer in its consultations with SEMARNAT in the event the area is under federal jurisdiction. If the area is located within a federal ANP, it's recommended that a project developer contact the National Commission of Natural Protected Areas (CONANP).

Mangrove restoration is a priority at both the state and federal levels, and various public institutions at both levels of government collaborate with academic institutions and the private sector to reduce the challenges to developing projects to restore and conserve these areas.

Who holds the legal rights to carbon removals in Mexico?

The entity that owns the land holds carbon rights in cases of removal activities executed in forests. This is based on two related legal frameworks: (1) LGDFS attributes ownership of forest resources based on land ownership, and, (2) the carbon absorbed by a mitigation activity and incorporated into biomass is considered a product of the forested land. Therefore, the ownership of the carbon removed corresponds to the owner of the piece of land.

[22] Chamber of Deputies (2004) General Law on National Assets, Art. 119.

Are there legal processes required prior to developing a carbon project in Mexico or in Yucatán?

There are currently no specific federal- or state-level processes required for developing a carbon project. Nonetheless, it's recommended that project developers inform the Yucatán state SDS as well as local entities where the project will be located to guarantee that the project is in keeping with the state's sustainable development objectives. Furthermore, the government of Yucatán plans to develop a state registry of mitigation activities and as such, communication on the part of project developers will enable the state of Yucatán to have information before launching the registry.

Identification of actors with rights to the project area

A fundamental task in any NbS project is to identify the actors that will be involved in project development, as well as their roles and responsibilities.

How should a developer identify key actors when designing and implementing a project within the context of *ejido* land ownership?

Jointly with the *ejidos*, project developers should identify the following roles:

Owners of the plots of land where the project will be implemented who also have the right to vote in *Ejido* Assemblies (*ejidatarios*). Project developers should identify the number of *ejidatarios* who will participate in the project and what their roles will be.

Community members who do not have the right to vote in *Ejido* Assemblies, but play an essential role in their operations, as is the case with women, neighboring residents, and youth. In Yucatán, the majority of the *ejidatarios* or landowners are men. Project developers should consider how to incentivize women and youth to take on roles and create mechanisms for guaranteeing their inclusion in the project (see Boxes 9 and 11 in Chapter 4).

A project coordinator who would be a representative of the *ejido*: he/she could be a member of the *ejido* commission ('*comisariado ejidal*') or another actor whose responsibilities are confirmed by the *Ejido* Assembly. The coordinator would be in charge of collaborating with the project developer and carbon standard and ensure compliance with *ejido* tasks related to the project, as well as keeping the *ejido* community informed during project design and implementation. The project coordinator would also periodically inform the monitoring committee (described below). It is that the coordinator can remain in that role over the long term to guarantee project continuity. This factor is relevant in the event an *ejido* assigns the coordinator role to its commission, as commissions tend to have three-year terms.

Monitoring committee: Its recommended that the project developer establishes a monitoring committee in addition to the above roles. A bilateral project committee should be comprised of representatives of the *ejido* and project developer or investors. The committee will follow and monitor the entire process of project design and execution from an early stage.

This mapping of roles also helps to identify primary issues related to benefit sharing, responsibilities assigned to the *ejido*, and project risks. Project developers must consider that decisions regarding governance and *ejido* representatives' roles in project design and implementation must be approved by the *Ejido* Assembly (see Chapter 4). Chapters 3, 4 and 5 present sound practices for ensuring that the communities and *ejidos* are treated not as passive actors but rather as project partners, which yields social, economic, and environmental benefits.

How can a project developer ensure there are no land-related conflicts in the project area?

Land-related conflicts are common in Yucatán. Carbon standards tend to be strict when verifying whether there are tenure conflicts in the area where a project is to be implemented. In order to ensure this type of conflict does not exist, it is advisable to ask the *ejido* to request the Office of the Attorney General for Agrarian Affairs ('*Procuraduría Agraria*') to issue a declaration confirming the absence of land-related conflicts.

PHASE 2: Project development

Step 2. Project design

Project design document (PDD)

Once the decision has been made to develop a project, the next step is to draft the PPD in accordance with the chosen standard's guidelines, methodology, or protocol. Below are elements that standards typically require project developers include in their PDD:

- Project summary, including context, general goals, location, size, and expected results;
- General description of the project site, including location, geophysical and ecological elements, land-use pressures on the area's forests, and the socioeconomic situation in the project area;
- Project planning, including the progress made to date, anticipated start date, and accreditation period;
- Project's principal objectives and activities, including those that are underway and planned as well as a description of the primary stakeholders (e.g., communities, landowners, migrants, external project partners);
- Project risks, including internal, external, and natural, and a plan to mitigate those risks;
- SDGs and environmental and social benefits of the project; for example, for communities and biodiversity;
- Description of the baseline scenario (in the absence of the project) and project additionality – the aim is to demonstrate that, in the absence of carbon credits, removal activities would not occur;
- Estimate of the carbon credits that will be issued throughout the project lifecycle. These estimates are made based on the quantity of carbon that will be removed by the project activities. To that end, the carbon sinks that will be included in calculating the removal must be clearly defined (e.g., aerial biomass, underground biomass, carbon in the soil) and an estimate must be made of the rate at which the carbon will accumulate in each sink. The PDD should also discount carbon credits based on the probability of leakage (activity displacement) and non-permanence risks;
- Monitoring plan over the project lifecycle.

Step 3: Validation

The goal of the validation process is to determine if a project complies with all the rules and requirements of the standard or methodology under which the project will be registered. This is a required step prior to registering the project.

The validation process is carried out by a validation and verification body (VVB). VVBs are independent organizations approved by VCM standards to serve as external auditors with expertise in the type of project and standard being audited. VVBs study the PDD and other relevant documents (e.g., removal estimates, report on consultations held with stakeholders, legal documents, baseline study), may visit the project site, and submit a report to the standard. Hiring a VVB is the responsibility of the project developer. It is the responsibility of the project developer and project coordinator to accompany the VVB during visits to the project area, facilitating access to key project staff and other stakeholders (e.g., communities). The VVB may propose rounds of questions as the project is developed and may even pose them to *ejido*

community members during this process to resolve pending matters.

The result of the validation is a report that presents independent conclusions regarding the eligibility of the project to be certified by the selected standard. Using this report, the project must incorporate any relevant changes.

Depending on the standard (i.e., ACR, CAR, Plan Vivo, Verra) , some projects will undergo a consultation process open to the public. In this process, the public can comment on any project in the process of being validated. The results of the consultations must be considered and can be incorporated into the PDD at the discretion of the project developers.

Step 4: Registration

Following completion of validation, the project developer can present the project for registration with the chosen carbon standard. The documents that should be submitted for the registration process include a final validation report and updated PDD. Other documents may also be required. The standard will review the documents presented and specify if the project must be reviewed and modified.

The project registration is published in the standard's registry after the project developer has successfully resolved the standard's comments and paid a registration fee. The registration date does not have to coincide with the project implementation start date; carbon standards apply different rules with regard to the time the activities are implemented and the start date of the accreditation period. In certain circumstances, retroactive accreditation can be granted (i.e., accreditation of removals made prior to the project registration date).

Step 5: Monitoring and verification

Project developers are responsible for monitoring project performance according to the monitoring plan set forth in the PDD. During these processes, they should send the registration entity (usually the carbon standard) monitoring data on carbon stocks, which should be gathered according to the standard's guidelines. For afforestation, reforestation, and revegetation (ARR) projects, these data tend to include estimates of aerial and soil biomass, whether directly measured in the field, through remote data sensing (aerial or satellite), or a combination of both.

The duration of the monitoring period is determined by the standard or methodology. Carbon monitoring is typically performed annually, while verification should occur every five to six years. The monitoring period depends on effort required to monitor carbon storage in the field of as well as the conditions for generating carbon credits agreed to with buyers.

The results of monitoring are presented in a Monitoring Report containing information about the climate benefits (i.e., carbon removals) and other sustainable development benefits during the monitoring period.

The Monitoring Report is then presented for auditing or verification. Much like validation, verification is performed by the VVBs. VVBs typically require an in-person visit to the project site to audit the results presented in the Monitoring Report. The project developer and project coordinator are expected to accompany the VVB on that visit and clarify any questions that emerge during the process.

The VVB issues a Verification Report that evaluates whether the monitoring activities have been performed in accordance with the regulations of the standard and methodology applied. This Verification Report, together with the final Monitoring Report and accompanying documentation, is presented by the VVB to the standard through its registration system. The standard will review the documents submitted by the VVB, and, following the successful conclusion of the verification process, grant an approval of the project's request to issue carbon credits.

Step 6: Standard generates carbon credits

Following the above steps, the standard issues carbon credits based on the quantity of emissions removed by the project. Each credit is listed in the registry under the status of credits generated and is assigned a unique code to guarantee transparency and to avoid double counting. The exact structure of this code varies between registries, but generally the code contains specific, detailed information regarding the credit and associated project, including identifiers of the registry, project, year, and project type.

PHASE 3: Issuance of credits and sales

Step 7: Buyers' preferences and prices

The sale of carbon credits can transpire at different moments over the course of the phases described above, or once the standard with which the project was registered has issued the carbon credits.

Buyers are essential actors in carbon project financing and development. There are normally two types of buyers: i) companies, industries, or organizations that purchase carbon credits to offset their emissions and ii) for-profit intermediaries, such as financial institutions or specialized businesses, that buy credits to resell to third parties.

Negotiating equitable prices with the buyers requires knowing market trends, including current prices and buyers' preferences. This includes, for example, knowing which attributes buyers most value, such as project location, additional environmental and social benefits, or the standard under which the credit was guaranteed.

As was mentioned in Chapter 2, there is a growing emphasis on buying higher-priced high-integrity credits. According to Ecosystem Marketplace,[23] buyers are willing to pay much more for a NbS emission removal credit than a reduction credit and consider the additional benefits to be a crucial criterion for guaranteeing high-integrity. In a survey by Boston Consulting Group, companies indicated that of the various attributes of carbon credit quality, the ability to demonstrate impact on the climate was the most important, with project type, additional social and environmental benefits, and location of the project being the next-most important quality-related attributes after climate impact. Boston Consulting Group also found that buyers are willing to pay more for NbS projects with emission-removal potential.[24]

While VCM prices are not standardized and vary widely between projects, the following sources of information can be consulted:

- Price indices such as S&P Global's Platts Carbon Credit Assessments or Live Carbon Prices Today.
- Organizations conducting surveys, such as Ecosystem Market Place, publish the average price of credits each year by type of activity, location, and standard.

Further Reading

- Boston University (2018) Forest Carbon Credits: a Guidebook to Selling Your Credits on the Carbon Market.
- EDF, WWF, and Öko-Institute e.V. (2020) What makes a high-quality carbon credit?
- FMO (2024) Estimating Carbon in Forestry Investments: A Guide to available tools for climate-focused investors. March 2024
- Gold Standard. (2022). Stakeholder consultation and engagement requirements.
- Plan Vivo. (s. f.). PV Climate - Project Requirements.
- SEI and GHG Management Institute (n.d.) Carbon Offset Guide.
- Verra. (2017). Climate, Community & Biodiversity Standards.
- Verra. (2023). VCS Standard. Recuperado.

[23] Ecosystem Marketplace. (2024). State of the Voluntary Carbon Market.

[24] Ponce de Leon, P.; Nielse, J.; Porsborg-Smith, A.; Pineda, J.; Owolabi, B.; Gordon, M. (2023) In the Voluntary Carbon Market, Buyers Will Pay for Quality. The Boston Consulting Group and Environmental Defense Fund.

4. SOCIAL AND LEGAL CONSIDERATIONS FOR NBS ACTIVITIES WITH COMMUNITIES AND *EJIDOS* IN YUCATÁN

It is of the utmost importance to the Yucatán government to guarantee communities' rights by involving them in decision-making and ensuring the equitable distribution of project benefits, with an eye to developing high-integrity carbon projects.

This chapter is centered on the critical elements to consider when developing projects with communities and *ejidos*.

4.1 Legal framework for working with communities and *ejidos*

Does Mexico have a specific legal framework for developing NbS projects in *ejido* and community areas in the VCM?

No, for the moment no regulatory framework exists that regulates the VCM in Mexico. Nonetheless, as has been mentioned, the federal government is developing regulations for carbon markets that will include legal and social issues related to working with communities and *ejidos*.

What legislation must be considered when mitigation activities take place in *ejidos* or community areas?

The Agrarian Law is the legal framework governing work with *ejidos*, such as the purpose, use, and exploitation of lands and contracts with third parties. It is also crucial to comply with the legal framework of social safeguards at the state and federal levels (see Box 10).

How does internal governance work in communities and *ejidos*?

Ejidos[25] are population centers with legal personality, their own assets, and are owners of *ejido* lands, which can be for collective use or divided into individual plots. All aspects related to ownership, tenure, use, and exploitation of the land – including contracts with third parties regarding partnership or exploitation of *ejido* lands – are regulated by the Agrarian Law.

Nonetheless, each *ejido* is unique, with an internal governance system set forth in its internal regulations that must be recorded in the National Agrarian Registry (RAN).[26] These regulations underpin an *ejido's* organization, including the types of activities that will be carried out on the collective-use lands and how the resulting benefits of those activities will be distributed.

In practice, however, many *ejidos* do not always have up-to-date internal regulations, or sometimes the regulations are not recorded in the RAN. That

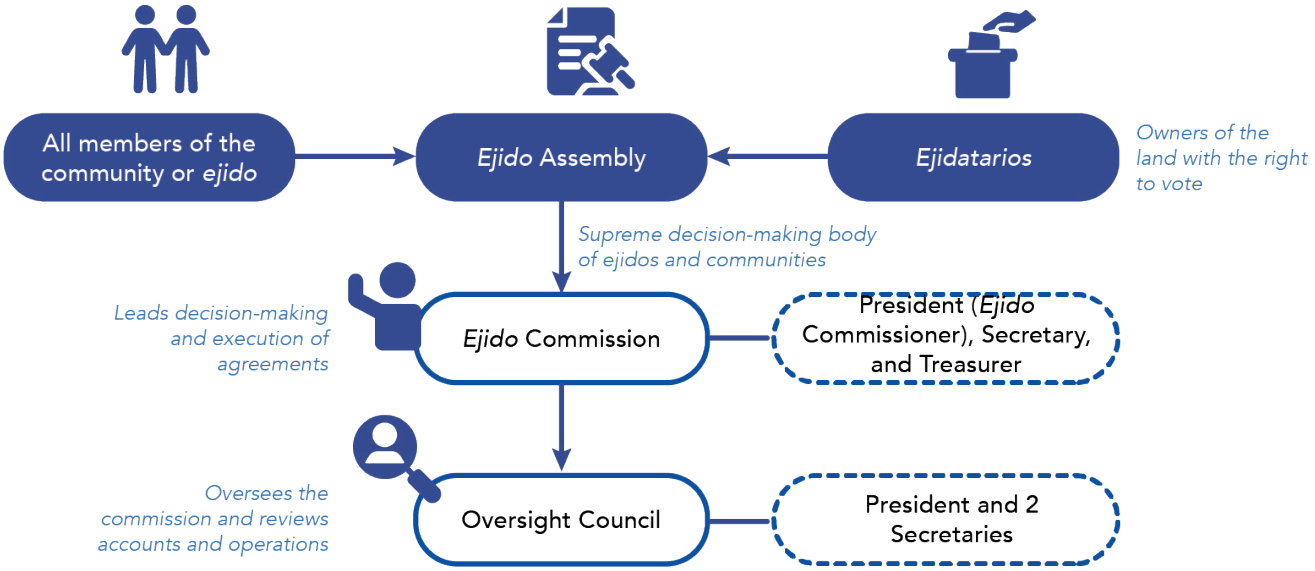
[25] There are also agrarian hubs that can be legally recognized as communities. Once they have been recognized, they also enjoy legal personality and have ownership to the land (Chapter V, Agrarian Law). Keeping in mind that a significant number of them have become *ejidos*, this document focuses on the regulation of *ejidos*.

[26] RAN is a part of the Ministry of Agrarian, Territorial, and Urban Development and is responsible for controlling *ejido* and community land tenure and providing legal certainty to social ownership through registering legal documents, protecting documents, and providing technical assistance.

does not represent an obstacle to developing a carbon project. In fact, project developers can take advantage of the opportunity to support the *ejido* in updating its internal regulations and recording them with the RAN, thereby strengthening the *ejido's* internal governance capacity.

The *Ejido* Assembly (Assembly) is the supreme decision-making body for communities and *ejidos*. The Assembly is comprised of all *ejidatarios*, and their decisions are essential for administering or operating the *ejido* or community. Likewise, each *ejido* has a '*comisariado*' (commission, headed by an *ejido* president or commissioner, a secretary, and a treasurer) that leads the decision-making and is responsible for executing the decisions made during the Assembly, as well as a '*consejo de vigilancia*' (Oversight Council, led by a president and two secretaries), which is in charge of ensuring that the *comisariado* carries out its responsibilities and reviews the accounts and operations managed within the *ejido*. Other community members include the population that lives in *ejido* lands but does not necessarily hold legal rights over land. (see Figure 6).

Figure 6. Ejido governance structure



What rights do *ejidatarios* have to their land?

Ejidatarios have the rights to use and enjoy their own plots, as well as rights they may have to *ejido* lands that are collectively owned. *Ejidos*, vis-à-vis *ejido* lands, as well as *ejidatarios*, vis-à-vis their own plots, have broad powers to use their lands and execute agreements with third parties on the sustainable exploitation of *ejido* resources.[27] The Agrarian Law establishes that the contracts signed with third parties that involve the use of *ejido* lands will have a maximum duration of 30 years that can be extended. This might be relevant when determining the duration of a carbon project and contracts signed by *ejidos*.

Assembly approval is required for *ejidos* to sign contracts and agreements that allow third parties to use and enjoy collective-use lands, as well as for distribution of earnings resulting from *ejido* activities.[28]

[27] Art. 45 of the Agrarian Law.

[28] Art. 23 of the Agrarian Law.

What are the most important elements for a carbon project to develop to ensure compliance with the Agrarian Law?

The most important element of beginning a collaboration with *ejidos* and communities is that decisions regarding participation in the project, including the approval of contracts to sell carbon credits, must be approved by the Assembly. The Assembly may be convened by the *Ejido* Commission or Oversight Council, or by request of at least 20 *ejidatarios* or 20% of all *ejidatarios*.[29] The following are the key elements for guaranteeing the validity of an Assembly (and therefore its decisions, such as whether or not to participate in a project, the conditions, signing of contracts, and distribution of benefits):

- **Issue a convening announcement to attend the Assembly and ensure a minimum attendance:** To ensure the Assembly is valid, ideally there should be at least three-quarters of the *ejidatarios* in attendance; in the event said quorum is not possible, at least 50% plus one of the *ejidatarios* must be present. In the event the majority attendance does not transpire, a second convening announcement must be issued, whose Assembly shall be valid with whatever number of *ejidatarios* are in attendance.[30]
- **Compliance with the formalities of the convening announcement:** The convening announcement should be issued one month prior to the date the Assembly is to be held in the form of cards affixed to visible places in the *ejido* stating the matters to be discussed and venue and date of the meeting.
- **Meeting venue:** The Assembly should be held in the *ejido* or in the place where it is normally held.
- **Direct attendance of *ejidatarios*:** *Ejidatarios* must attend in person and cannot designate representatives by means of a power of attorney to attend in their stead.
- **Have present the representative of the Office of the Attorney General for Agrarian Affairs as well as a certifying public officer:** In the event that an *ejido* is far away and it is difficult to have a certifying public officer present, the document could be certified by a notary public.[31]
- **The decisions agreed to in the Assembly shall be considered approved by a majority of the votes:** Notwithstanding, it is advisable that participation in a carbon project is corroborated by the majority of *ejidatarios*.
- **Formal meeting minutes** containing the decisions should be drafted and signed by the members of the *Ejido* Commission and Oversight Committee in attendance as well as the *ejidatarios* who wish to do so. The minutes must also be witnessed by a certifying public officer or notary public, signed by a representative of the Office of the Attorney General for Agrarian Affairs, and recorded in the RAN.

4.2 Concrete actions for guaranteeing compliance with social safeguards

Compliance with social safeguards is crucial for projects to be high-integrity and sustainable over time. Box 9 presents principles for initiating collaborations with communities and *ejidos* and strengthening social safeguards.

[29] Art. 24 of the Agrarian Law.

[30] Although the Agrarian Law does not include in its Article 23 and those that follow the matter of participation in in carbon projects as one of the issues that require an enhanced quorum for the attendance of *ejidatarios* or voting quorums (issues in Sections VII to XIV of Article 23), this Guide views it as appropriate to ensure an enhanced quorum for both Assemblies about and voting on carbon projects.

[31] The presence of a representative from the Office of the Attorney General for Agrarian Affairs and a certifying public officer is obligatory if the carbon project in question is to be implemented on collective-use lands.

BOX 9. PRINCIPLES FOR INITIATING COLLABORATIONS WITH EJIDOS AND STRENGTHENING SOCIAL SAFEGUARDS WITHIN THE COMMUNITY

- √ Start from the basis that the communities, *ejidos*, and landowners are active project members, and not solely beneficiaries with a passive role.
- √ Collaborate with *ejidos* and take advantage of project development to foster internal governance capacity within *ejidos*. While a well-organized *ejido* with a robust internal governance scheme will help to guarantee collaboration and a successful project, *ejidos* that are internally less organized should not be excluded. In fact, carbon projects can support the drafting of internal regulations, contribute to updating them, or help record them in the RAN.
- √ Involve *ejido* members from an early phase and ensure their continuous participation.
- √ Document the *ejido's* commitment in the various project phases. The entire process should be documented in minutes from Assemblies.
- √ Create mechanisms through which the project developer, *ejidatarios*, and other community members can communicate to guarantee that all members are informed about the project.
- √ Guarantee the transparency of the information and decisions made by the partners and members of the community or *ejido*.
- √ Foster gender inclusion by guaranteeing the participation of women and youth in project design, approval, and development.
- √ Use the Spanish language in Assemblies and contracts and, when necessary, Mayan.

Is the Assembly's approval of a carbon project sufficient to guarantee full, free, and informed consultations?

While consultations with the Assembly and its approval to participate in a carbon project are the formal elements required by law to ensure a carbon project has the backing of an *ejido*, these processes are not sufficient for guaranteeing a robust process of free, prior, and informed consent (FPIC) within the community. Project developers should focus on a broader consultation process that includes all members of the community or *ejido*, whether or not they are represented in the Assembly. It's recommended that a project developer extends the consultation and communication process to all members of an *ejido* community, and in particular groups such as women, non-member *ejido* residents (called *avecindados*'), and youth who tend to not be represented in the Assemblies because they are not *ejidatarios*.

What should be discussed and agreed to in Assemblies to guarantee that carbon projects are aligned with social safeguards?

While Mexico has established a clear interpretation of safeguards (see Box 10), it is not always obvious which procedures should be taken by carbon projects to comply with national and state safeguards. Effective participation of *ejidos* in the consultation processes for carbon projects is essential. To that end, the following is important:

- **Hold ongoing consultations with the communities and *ejidos* throughout the project cycle.** The consultations should occur:
  - * during the project planning phase to guarantee that the agreements, needs, and expectations of *ejido* and community members are established from the outset and
  - * throughout project development to ensure communities are informed of changes, processes, and timeframes.

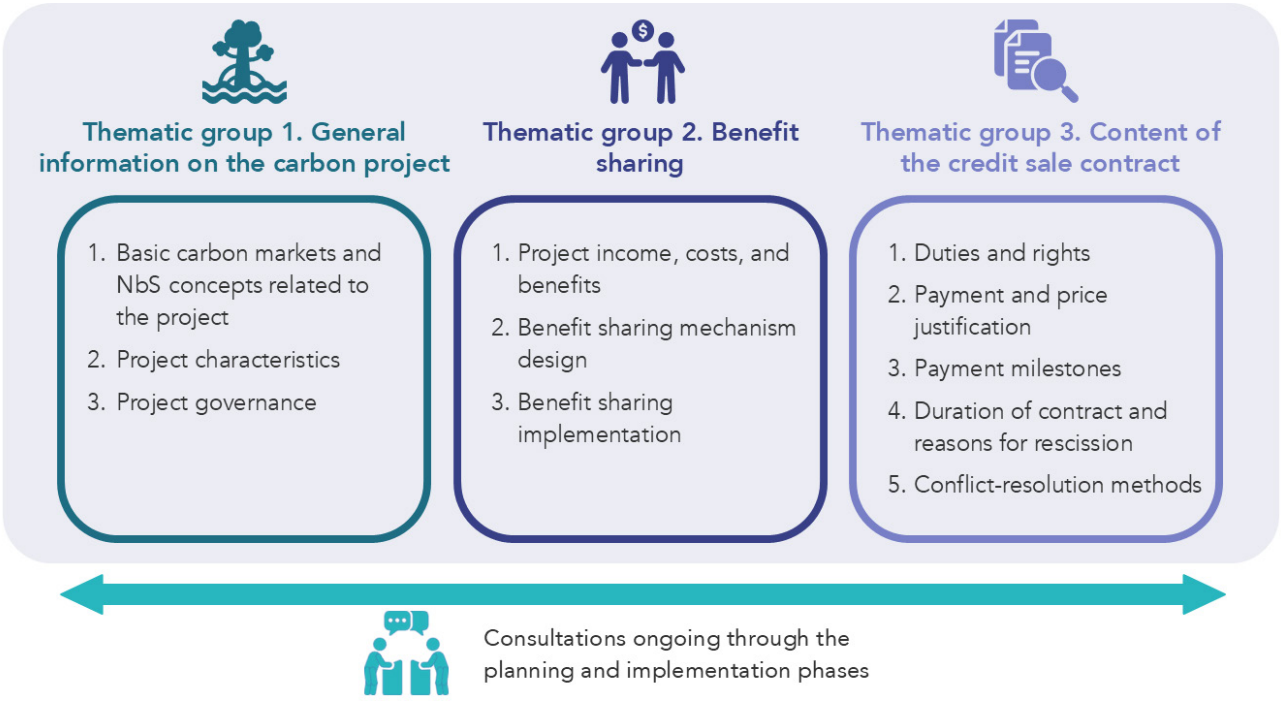
BOX 10. REGULATORY FRAMEWORK FOR SOCIAL SAFEGUARDS AT THE FEDERAL AND STATE LEVELS IN NBS ACTIVITIES

Mexico has social safeguards for NbS activities performed as part of public programs and private projects. These safeguards are set forth in:

- the General Law on Sustainable Forest Development (Article 8);
- the National Safeguards System, which was designed to report on how safeguards are observed and respected in programs for reducing emissions from deforestation and degradation (REDD+ programs);
- the Sustainable Forest Development Bill for Yucatán (Article 9); and
- the State Safeguards Program of the State REDD+ Strategy.

- **Include in the meetings all aspects that are relevant to *ejido* and community members:** All necessary and relevant matters should be discussed in Assemblies to enable the communities to make informed decisions. To guarantee that communities and *ejidos* have clarity on agreements, responsibilities they would have to assume, and project benefits, a project developer or investor must guarantee that Assemblies discuss and agree on the issues depicted in Figure 7 and described in more detail below.

Figure 7. Issues to discuss and reach agreement on in Assemblies



The following themes should be discussed during Assemblies:

Thematic Group 1: General information about the carbon project

- **Key aspects of climate change, carbon markets, NbS projects, and the role of carbon projects** in mitigating climate change. Communities and *ejidos* should have a strong understanding of these basic concepts. If *ejidos* and communities do not have prior knowledge about these matters, project developers and investors must provide capacity-building and basic training. Guidance for presenting these issues can be found in the following guides and documents:
  * Strengthening Capacity In Carbon Markets and Emissions Reduction Projects: This is a free online course created by the Yucatán government with support from UNDP, BIOFIN, and MexiCO2 that covers the operations of carbon markets and implementation of projects in the forestry sector, including the employment of best practices and climate justice. The course includes a basic module on climate change concepts.
  * Decision Tool for Indigenous Peoples and Local Communities on the Voluntary Carbon Market: This guide, created by Climate Focus, informs and guides Indigenous peoples and local communities in navigating the complexities of and decision-making in the VCM by addressing common questions, highlighting key decision points and available options, and addressing legal, financial, and cultural concerns. At the time of writing, this Tool is only available in Spanish.

- **Characteristics of the carbon project in which the *ejido* will participate.** The Assembly should discuss the activities that will be included in the carbon project; responsibilities for project execution that will be assumed by the *ejido* and by the project developer or investor; implementation risks; project duration (for example, time required for planning, implementation, and recovery of investment/ benefits); and all other information related to Step 1 of this Guide regarding project planning and conceptualization and Step 2 on project status during its implementation. Continuous communication throughout the project cycle can be managed by the project coordinator to guarantee that all *ejidatarios* are kept informed.

- **Carbon project governance.** The project governance plan should have, at a minimum, the following agreements:
  * Who will be the project coordinator; the length of his/her term; his/her responsibilities; and communication channels. For example, the CAR standard requires the project coordinator to be a member of the *ejido*, to ensure direct communication with everyone involved.
  * A timeline showing when Assemblies will be held to make decisions about the project's various phases, including the roles of the various members of the community and *ejido* in project development.
  * Mechanisms for ensuring internal transparency and accountability – in accordance with the internal regulations, if the *ejido* has them – to generate trust amongst the members of the *ejido* community and all interested parties and buttress the project's reputation.
  * Mechanisms for promoting gender equity, such as including women in decision-making regarding the carbon project when they are not significantly represented in the Assemblies (see Box 11).
  * Protocols for managing requests, complaints, and conflicts. Project developers, communities, and *ejidos* should jointly evaluate the conflict-resolution protocols of the chosen VCM standard. Sound practices in a conflict-management protocol include:
    i. Explanation of the protocol during the Assemblies;
    ii. Clarity regarding legal instruments for protecting communities' rights;
    iii. A decided physical location for presenting conflicts or complaints;
    iv. Established procedures for supervising and following the application of conflict-resolution measures;
    v. Clarity regarding possible results and solutions following the resolution of a conflict;
    vi. Transparent monitoring processes.

BOX 11. HOW CAN A PROJECT DEVELOPER GUARANTEE THE PRESENCE OF MORE WOMEN IN THE CONSULTATIONS AND DECISION-MAKING WHEN DEVELOPING A CARBON PROJECT?

Few women own land as ejidatarias in Mexico. According to information from RAN,[32] only 12% of women in Yucatán own their land and 2.2% are in charge of an *ejido* or communal body. Only *ejidatarios* are permitted to vote in *ejido* Assemblies. This means that few women participate in *ejidos*' approval of carbon projects and benefit sharing systems.

While there are no robust methodologies for measuring how carbon projects integrate gender equity, the following steps represent sound practices for designing a strategy:

- Create a baseline for understanding the context, social norms, and women's dynamics within the community. Also identify women's needs and how they can fit within the project design. Based on this analysis, passive strategies can be implemented (aimed at indirectly supporting women's role) or active ones (aimed at transforming gender roles within the community), according to what is culturally permissible
- It is important to create a narrative that highlights the benefits of including women in decision-making, without seeking to impose specific roles.
- The following are some concrete actions that can be taken:
    * Identify how project development would benefit domestic work;
    * Organize meetings or create spaces for women's groups to communicate project information, ask questions, and make suggestions;
    * Identify existing activities in the community or *ejido* led by women that the project could highlight, or activities that women have already deemed to be of interest to them;
    * Earmark a specific percentage of benefits to be shared with initiatives led solely by women.
- Consider using standards involving a gender-focused mechanism or special labels from the standards that verify gender inclusion, such as:
    * The VCS standard with a label from the "W+" standard: the W+ label marks carbon projects that offer women's empowerment benefits, which are verified with social, economic, and gender inclusion metrics.
    * Gold Standard (GS) and its gender policy: GS identifies two levels of certification for guaranteeing gender equity: i) Gender-Sensitive Certification, including safeguards for preventing or mitigating adverse impacts on women, men, girls, and boys; and ii) Gender-Responsive Certification that is optional and applicable to projects with a gender-based focus aligned with SDG 5, Gender Equality and Women's Empowerment, and other SDGs relevant to aspects of gender.
    * Other standards, such as Verra's SD VISta, measure and verify the impact of SDGs—particularly SDG 5.

[32] *Instituto Nacional de Mujer* [National Institute for Women's Affairs] (INMUJERES) 2020. Desigualdad en cifras [Inequality in figures].

Thematic Group 2: Benefit sharing

The benefit sharing mechanism is essential to ensure that carbon project benefits are equitably distributed among all parties. The Assembly should debate the issues related to benefit sharing using clear and simple language, providing transparent information, and detailing the expected benefits and costs, including how much the *ejido* will receive, the conditions under which payments will be received, project risks that might influence those payments, and the profit margins of other actors, such as the project developer, investors, and intermediaries.

During the first phases of discussion with the *ejido*, when detailed data are not available on carbon credit issuance and project costs, it is important to avoid creating false expectations in communities and *ejidos* regarding earnings from the sale of carbon credits. Earnings should be described as a complement to an *ejido's* financial activities, and not presented as their sole source of income.

Chapter 5 provides guidance designing and implementing benefit sharing mechanisms.

Thematic Group 3: Legal considerations, contract models, and prices

The carbon contract that will be signed by the *ejido* must be discussed in the Assembly, with a focus on the following elements:

- obligations and rights of all parties to the contract, including the consequences of lack of compliance, not only for the *ejidatarios*, but also for the project developer and carbon credit buyer;
- payment offered by the buyer and rationale explaining why the prices offered are attractive in comparison with existing market prices;
- milestones and payment conditions;
- contract duration and reasons for its termination; and
- methods for resolving conflicts with the developer or investor.

Table 3 in Annex 1 presents additional information that should be guaranteed by the project developer and *ejido* to confirm ownership to lands and fulfill other requirements.

Chapter 6 lays out sound practices in contractual terms and prices for guaranteeing fair agreements between project developers, investors, and *ejidos*.

Further Reading

- Cámara de Diputados (1992) Ley Agraria
- Cannon, J. (2024). The future of forest carbon credits and voluntary markets.
- Climate Focus (2024) La Guía de Toma de Decisiones sobre el Mercado Voluntario de Carbono para los Pueblos Indígenas y las Comunidades Locales.
- Morett-Sanchez (2017) Panorama de los *ejidos* y comunidades agrarias en México
- PNUD, BIOFIN y MexiCO2 (2024) Fortalecimiento de Capacidades sobre Mercados de Carbono y Proyectos de Reducción de Emisiones.
- Sustaincert. (s. f.). Complaints and Appeals.
- Verra. (s. f.). Verra grievance redress policy.
- Wissner, N., Dr. Schneider, L., & Oeko-Institut e.V. (2022). An overview of approaches - Ensuring safeguards and assessing sustainable development impacts in the voluntary carbon market.

5. BENEFIT SHARING

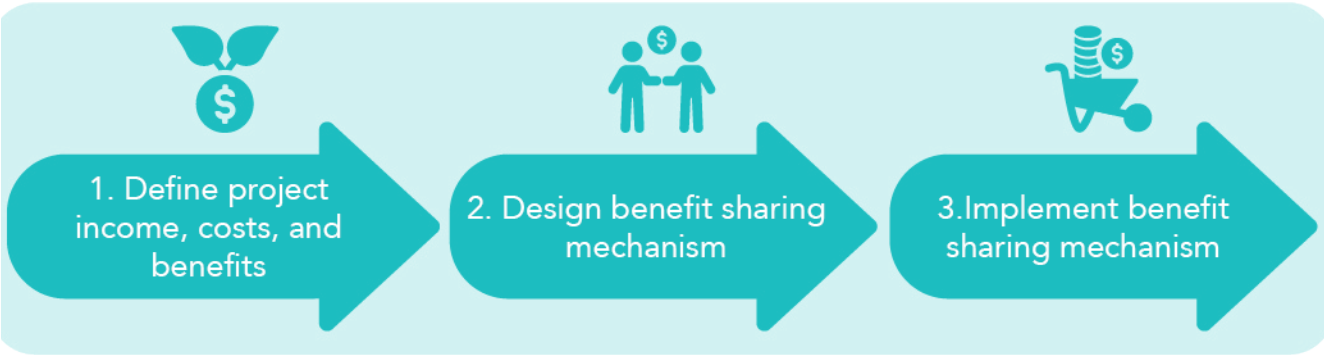
A fair system for sharing benefits from NbS projects transparently, equitably, and clearly defines how project benefits will be distributed between *ejidos* and project developers, as well as within *ejido* communities themselves.

Oftentimes, communities are not familiar with the economic dynamics of NbS activities, the payments received for carbon credits generated, or mechanisms for sharing carbon project benefits. A lack of transparency and communication about benefit sharing reduces the negotiating power of communities and *ejidos*, and can create divisions, distrust, and conflicts between the actors involved. Failure to establish fair benefit sharing can even lead to the early termination of projects.

5.1 Steps for developing a benefit sharing mechanism

This section presents considerations and three steps for project developers to design and apply equitable benefit sharing mechanisms that ensure positive social and economic impacts in communities and *ejidos* (see Figure 8).

Figure 8. Steps for designing a benefit sharing mechanism



Box 12 presents principles to guide the design and implementation of an equitable benefit sharing agreement.

BOX 12. WHICH PRINCIPLES SHOULD GUIDE THE DESIGN AND DEVELOPMENT OF A BENEFIT SHARING AGREEMENT

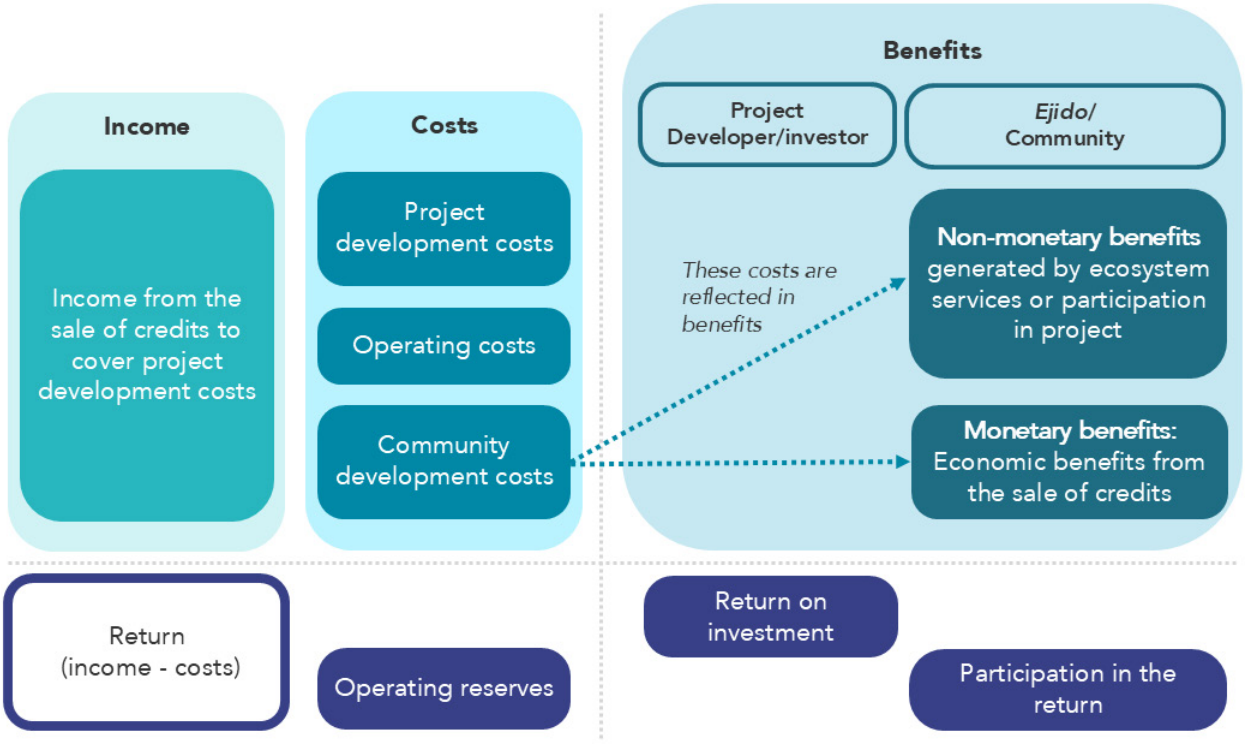
- √ The design of the benefit sharing agreement should include the community and *ejido* from the outset. This should be done through inclusive participation and consultations that include *ejidatarios* as well as other members of the community.
- √ The agreement must reflect the project's context, needs, and cost-benefit ratio. Each agreement is unique and particular to the project. Agreements cannot be cut and pasted from one project to another.
- √ The distribution of benefits should consider all financial and in-kind contributions made by each actor; that is, not only the monetary investment made to develop the project, but also the contributions made by the *ejido*, such as the transfer of knowledge and local practices, time dedicated by community members to developing and implementing the project, and the opportunity cost of participating in it.
- √ The project developer must ensure that communities have sufficient information about anticipated project costs and income, as well as the levels of risk each project actor will need to assume. These points should be discussed and agreed to during the Assembly following the feasibility analysis during the project design phase, so that detailed project information will already be available.
- √ The agreement should determine the percent of benefits for and responsibilities of the actors involved, including the buyers, project developer, project coordinator, consultants, and community or *ejido*.
- √ The project developer should manage the community's expectations by clearly explaining the risks that can affect the anticipated flow of benefits, such as the risks associated with project implementation, increases in costs due to inflation, and price fluctuations in the VCM.
- √ The agreement should be dynamic, with regular periods of review and consultation that have been previously agreed to enable adjustments and guarantee that the community continues to give consent.
- √ The agreement should be documented and signed by all actors involved.
- √ The agreement should be clear at the timeline of commitments during the project development and in accordance with the agreed carbon credit prices.
- √ The agreement should clearly explain its grievance mechanism.
- √ The *ejido* should have an internal document detailing how benefits will be shared amongst members of the community. This agreement should be reached in accordance with the principles established in the *ejido's* internal regulations, if they contain considerations regarding the distribution of benefits resulting from use of common assets.

Step 1: Determine costs and income

As a first step, the project developer and *ejidatarios* must determine project costs, income, and how the estimated benefits will be shared among the actors involved. This information should be shared in the Assemblies transparently, clearly, and in a way that is understandable by the communities and *ejidos* (following compliance with social safeguards). These financial data should be documented in the benefit sharing agreement and be periodically updated. It is important that the ratio of benefit sharing between the project developer and *ejido* that is initially established be maintained, regardless of later updates that may be made to that distribution.

Figure 9 presents a general example of the types of project costs and income and how they are linked to the benefits obtained by the various actors. Regardless of project income, monetary benefits must be guaranteed for community development and should be agreed to prior to the sale of credits.

Figure 9. Income, costs, and benefits of carbon projects



The income generated by the project should first cover the costs of project development, operations, and community development. Building in the costs of community development guarantees that a portion of the project income will automatically be earmarked for communities and *ejidos*, prior to arranging any other benefit sharing. Once interested parties have defined the concrete project activities and costs associated with their execution, the project will be able to determine the:

- income necessary to cover the costs of the complete project cycle;
- monetary and non-monetary benefits that will be obtained by *ejidos* as a direct result of project execution; and
- anticipated net financial benefit – return on investment – that is, the income from the sale of carbon credits minus the costs incurred and quantity of operational reserves that can be equitably distributed between the developer or investor and communities or *ejidos*.

What costs should be considered when designing a benefit sharing agreement?

Project developers should take into account the following cost categories:

- **Project development costs.** These are costs for the activities necessary to develop a carbon project, including feasibility studies; PDD creation; validation; monitoring; verification; and credit issuance. Project development costs also include capacity building for communities and *ejidos*.
- **Project operational costs.** These are costs related to the operation and execution of the project (e.g., salaries, reforestation costs, general expenditures). It is essential that *ejido* or community members who participate in project activity implementation receive fair salaries that guarantee at least minimum wage. Operational costs should include the opportunity costs incurred by communities as a result of their participation in the project (for example, income the community ceases to receive by no longer performing potentially lucrative economic activities that are incompatible with executing project activities).
- **Community development costs.** These are costs directly related to priority community development

activities and improving livelihoods (for example, the costs of building schools, improving health facilities, training and capacity building, and developing small businesses). Including community development costs guarantees that, at a minimum, the community will receive development benefits prior to the distribution of any financial returns from the sale of carbon credits.

What project benefits should be considered in the agreement?

To ensure a project benefits a community, project activities should be aligned with the community's priorities and avoid affecting sustainable production activities that were ongoing prior to the project. As part of the project design, the project developer and *ejido* should agree on the community's social and economic priorities, and how the project can contribute to achieving them.

There are two types of benefits that should be guaranteed when implementing a carbon project:

- **Non-monetary benefits** are derived from successful project operation and fall into two categories:
  - benefits generated by the project's ecosystem services, such as improved air quality or biodiversity, or alternative income generated (such as honey production in mangrove restoration areas); and
  - benefits that remunerate the communities or *ejidos* for their participation in the project, such as employment, development of technical or administrative capacity (according to the community's role in the project), or improvements in the *ejido's* internal governance.
- **Monetary benefits result** from the trade and sale of carbon credits generated by the project. The benefit sharing agreement determines how this income is distributed once the costs have been deducted. A project that is fair to communities and *ejidos* should always yield monetary benefits.

Step 2: Design and determine how to share benefits generated by the sale of carbon credits

Most carbon standards do not provide specific guidelines on benefit sharing, nor do they establish an amount of income from carbon credits that should be earmarked for communities. However, they do offer some specific requirements. Table 4 in Annex 1 presents the vision and rules for each carbon standard regarding benefit sharing. The only standard with explicit requirements is Plan Vivo, which requires that at least 60% of the income from the sale of credits must directly benefit communities or *ejidos*.[33] The remaining 40% of the income must be used by the project coordinator to cover operational costs.

Due to the differences in structure and cost between projects, no single solution exists for determining the appropriate proportion of benefits that communities should receive as compared with the project developer and investors. Nonetheless, some design considerations for better allocating benefits in projects include:

- **Substantial benefit sharing for the *ejido* or community.** The *ejido* and investor or project developer should discuss and agree on how the benefits from the sale of credits will be distributed. The agreement could fix a percentage for each actor, such that if the yield from the investment increases because the income is higher than what was anticipated, both parties benefit. The agreement could also include a minimum threshold – that is, a guaranteed amount of benefits for the *ejido* or community. In terms of the percentage of benefits the *ejido* should retain, and given it is impossible for this Guide to provide a concrete amount because that would depend on the type of project in question, it is advisable for the *ejido* to be a principal beneficiary. It would not be advisable to agree to an excessive disparity in the percentages of benefits given to the project developer versus the *ejido* or community.
- **Benefit sharing based on project milestones.** Project developers can consider linking some payments to the execution of key project activities that the communities should perform (for example, plant a certain number of hectares, execute community monitoring tasks, etc.). Completion of the agreed activities would represent payment landmarks and this could project incentivizes for

[33] Plan Vivo (N/A) Requisitos del proyecto, versión 5.1 [Project Requirements. Version 5.1].

communities to make effective progress in project execution. It is advisable that the requirements of those payment landmarks be clear to the, with specific dates associated with each.

- **Allocation of a portion of the benefits as reserves.** It is ideal for project developers and *ejidos* and communities to agree on a percentage of the benefits as operating reserves, in the event of unforeseen circumstances in project development costs or income fluctuations. The actors should also agree on the conditions for utilizing the reserves (for example, under what conditions would the reserves be activated to cover operating costs; or how and when should the reserves be distributed in the event they grow significantly).

Box 13 presents a summary of the benefit sharing agreement from Scolel'te, one of the oldest reforestation projects in Mexico.

Biocultural del Puuc Reserve

BOX 13. SCOLEL'TE PROJECT'S BENEFIT SHARING

Agreement type: contract for payment of environmental services.

Parties: Farmers and AMBIO cooperative.

Beneficiaries: Farmers who own the lands where the project is taking place and comply with the objectives of the project's work plan. The following will be considered for purposes of compliance: (i) technical criteria and (ii) carbon-removal goals.

Technical compliance criteria: The number of trees planted, area of intervention, distance between trees, and tree height.

Carbon removal goals: Carbon removal goals are based on the agroforestry system selected and work plan agreed to with the farmer]. 100 percent of the removal goals must be fulfilled within a period of 10 years. Notwithstanding, compliance is not linear, and the program establishes specific goals for different years. For example, the project must demonstrate compliance with 70% of the goals during the first five years of the project.

The most recent payment system establishes the following removal goals for the entire project:

Project Year	Removal Goal
1 to 4	15% (each year)
5	10%
7	20%
10	10%

Types of benefits:

1. *Monetary benefits:* income from the sale of carbon assets.
2. *Non-monetary benefits:* training, participation in projects related to Scolel'te, improvements in production activities, and knowledge strengthening about local resources.

Distribution of monetary benefits: 60% for the farmers and 40% for AMBIO; with 40% of the income, AMBIO must cover operational costs and project investments. The goal is for 60% of the income to remain freely available to the farmers.

Payment system: The beneficiaries receive seven payments distributed over the program's 10 years. The payments coincide with the years in which the compliance goals are measured (see table above).

Risk buffer: 10% of the carbon credits generated are retained; meaning that at least 10% of the credits generated cannot be sold.

Conditions for distributing direct benefits: A minimum of annual sales and reinvestment by AMBIO through other financing sources.

Distribution focus: Equitable distribution among the community. The distribution can be made directly to the farmer or into a fund established by *ejido* members.

Noncompliance: When a producer does not fulfill 90% of his or her annual goals, payment is retained from him or her until he or she has fulfilled them. In the event of reasons related to *force majeure* (such as pests), the producer is aided and the general period for compliance for the entire project is extended.

Step 3: Distribute the benefits

What benefit sharing mechanisms can be implemented in the *ejido* so as to guarantee sound practices?

Distribution modalities and instruments

Monetary benefits can be distributed to individual *ejidatarios*, or to communities and *ejidos* as group entities. This could also vary based on the areas the project covers (i.e., collective ejido areas or *ejidatarios*' private areas). To that end, it's recommended that the project developer obtain written authorization at the outset from each beneficiary (individual or group) indicating the distribution modality as well as a bank account to which the fund should be disbursed. It's also recommended that payments to beneficiaries be made exclusively to bank accounts in their names. In the event beneficiaries do not have bank accounts, it is important to inform them about various options available and accompany them in opening an account if they wish to do so. To guarantee transparency about the distribution of benefits, the *ejido* should provide annual reports regarding internal benefit sharing.

The project developer should be able to verify the payments made to the beneficiaries. Project developers can consider establishing trusts or other financial instruments that facilitate management and ensure transparency in the use of the funds.[34] The trusts can, for example, contribute to ensuring the disbursements are made exclusively based on criteria chosen by the communities (e.g., community investment plans) and facilitate verification by third parties.

When dealing with non-monetary benefits, such as capacity-building programs, it is recommended that the project developer producing documentary and/or audiovisual evidence to maintain an appropriate record of the activities and facilitate verification processes.

Continuous communication through the Monitoring Committee

The Monitoring Committee as a unit should address the matters related to benefits that emerge over the life of the project. To that end, it is preferable that project developer or investor periodically inform the *ejido* or community about the negotiations with buyers, – in the event the investor or project developer is not the final buyer – fluctuations in the price of carbon credits, financial state of the project, and risks that might impact the benefits. The *ejido* or community should report on how benefit sharing is being carried out by the community, problems that emerge regarding benefit sharing, and the social and economic impacts of the project on community members.

Voluntary external oversight mechanisms

To enhance transparency in the community's use of monetary benefits, the project developer might consider contracting NGOs or independent third-party actors specialized in NbS carbon projects to audit the benefit sharing mechanism.

Strengthening community governance processes and mechanisms

Benefit sharing plans require strong governance processes and structures within the community to guarantee participation, promote informed decision-making, and generate legitimacy in both the decision-making processes as well as the actual content of the decisions made. The following processes and mechanisms can strengthen governance of benefit sharing plans:[35]

- A clear timeline for when benefits will be shared as well as meetings about the benefit sharing mechanism to facilitate continuous communication (this could, for example, be led by the project coordinator and, when there is one, jointly with the Oversight Committee).
- Systems for managing feedback, requests, and complaints that guarantee transparency and traceability in the use of funds.
- Protocols for managing conflict.
- Alignment of the benefit sharing plan with the community's investment and development plan, if one exists, or approval of a new investment and development plan.

[34] Fair and Equitable REDD+ Agreements. Una guía para la Amazonía y el Pacífico, 2024 [A Guide for Amazonia and the Pacific, 2024].

[35] Some of these mechanisms are also promoted in the Guide to Fair and Equitable REDD+ Agreements. *Una guía para la Amazonía y el Pacífico*, 2024. [A Guide for Amazonia and the Pacific, 2024].

Further Reading

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6. CONTRACT AND PRICE SCHEMES

Carbon contract negotiation is a key moment to guarantee balance between investors or buyers and *ejidos*.

This chapter presents guidelines for understanding the legal context in Mexico in terms of contracts, and recommendations for developing fair contracts between investors and *ejidos*

6.1 Regulatory guide for developing carbon contracts

Investors need to know national regulations that might apply to the negotiation and contract terms, and also be aware of the knowledge limitations and financial restrictions that can lead communities and *ejidos* to become involved in inequitable contractual relationships. Figure 10 provides a list of elements to review prior to developing a carbon contract.

Figure 10. Elements to review prior to contract development

- Are there any regulations that are applicable to the process of negotiating carbon contracts or their content?
- Do the state of Yucatán or federal public entities participate in negotiating carbon contracts with communities?
- Does Mexican legislation require any approval or report issued by public entitites prior to local communities signing carbon contracts?
- How can project developers guarantee that purchase-sale agreements for carbon credits have the backing of the communities or ejidos?
- What type of document related to land ownership should project developers request from ejidos prior to signing purchase-sale agreements for carbon credits?
- How can the buyer that the signatory to the purchase-sale agreement has the legal capacity to sign such an agreement?

Are there any regulations that are applicable to the process of negotiating carbon contracts or to their content?

There are no concrete rules at the federal or state levels regarding the negotiation process between project investors or developers and *ejidos* and communities. Nor are there regulations in Mexico that require particular content in carbon contracts. However, carbon contract negotiation and content should always respect the safeguard principles enshrined in Article 8, "Rights and Safeguards" of the General Law on Sustainable Forestry Development.

Although at this time the buyers of voluntary carbon credits have complete freedom to enter negotiations with communities and *ejidos*, Mexico is working to adopt legislation at the federal level related to mitigation projects or VCM activities that could, should it be adopted, require guidelines for the procedures or content of carbon agreements between non-governmental entities (see Box 4, regarding the regulations of the General Sustainable Forestry Law).

Do the state of Yucatán or federal public entities participate in negotiating carbon contracts with communities?

No, neither federal nor state entities in Yucatán are obligated to participate in negotiating carbon contracts. However, SDS in Yucatán provides legal assistance aimed at communities and *ejidos* at their request. The legal assistance provided by the state of Yucatán is limited to facilitating communities' understanding of the terms of carbon contracts and legal matters related to the development of carbon projects. This legal assistance does not assume participation in the negotiations between communities or *ejidos* and investors, and in no case does it entail participation in negotiations between both parties.

BOX 14. THE ROLE OF THE OFFICE OF THE ATTORNEY GENERAL FOR AGRARIAN AFFAIRS AND PUUC MUNICIPAL COUNCIL VIS-A-VIS COMMUNITIES AND *EJIDOS* IN THE SIGNING OF CONTRACTS AND AGREEMENTS

The principal job of the Office of the Attorney General for Agrarian Affairs is to help *ejidos* and communities to consolidate their land rights.

The Office of the Attorney General for Agrarian Affairs has an Agreements and Contracts Service that provides support to *ejidos* and communities in the contracts they sign with third parties, with an eye to ensuring those contracts respect the law, are equitable, and guarantee the rights of *ejidos* and communities. The Office of the Attorney General for Agrarian Affairs does not substitute for nor limit *ejidos*' contractual capacity but, rather, supports them in the contracting process. Although at this time there is no experience within the Office of the Attorney General for Agrarian Affairs providing support to *ejidos* in the negotiation of carbon contracts, *ejidos* could request such from this institution.

The Puuc Intercity Biocultural Board – which brings together several municipalities in Yucatán that signed agreements favoring environmental conservation and sustainable rural development – likewise provides basic support to *ejidos* that plan to participate in carbon projects.

Does Mexican legislation require any approval or mandatory ruling issued by public entities prior to communities signing contracts?

No, Mexican legislation does not require at the state or federal level prior mandatory rulings from public entities for communities to sign carbon contracts with investors.

How can the buyer guarantee that the purchase-sale agreement for carbon credits has the backing of the community or *ejido*?

In addition to guaranteeing an effective prior consultation as described in Thematic Group 2, it is advisable that buyers obtain minutes from an *ejido* or community Assembly that record approval of the contract. It is important that the minutes contain a brief summary of the discussions of the most relevant points of the contract (e.g., price and payment periods, obligations and responsibilities of the *ejido* and community, liability in the event of non-compliance, contract duration), showing that the Assembly discussed the agreement in depth.

What type of document related to land ownership should the investor request from the *ejido* prior to drawing up a purchase-sale contract for carbon credits?

The project developer should request the RAN registration of ownership from the community or *ejido* where the project will be registered, or the minutes issued by the *ejido* Assembly that provide proof of ownership to said area.

How can the buyer verify that the signatory to the purchase-sale agreement has the legal capacity to sign such an agreement?

When the *ejido* is the entity directly participating as the seller in the carbon credits purchase-sale agreement, the *ejido* or community representative should have the Assembly minutes that identify him/her as the legal representative of the community, accompanied by a list of activities he/she that is legally able to perform. It is advisable that the minutes of the *ejido* or community Assembly in which approval was given for signing the agreement mention the name of the representative authorized to sign it. The signatory of the contract with the *ejido* representing the purchaser of the carbon credits will present documentation from the investing company denoting him/her as the legal representative or agent who can sign the contract.

Does the project need to be registered with RAN?

In accordance with Mexican legislation, no obligation exists for the *ejido* to register the carbon contract with RAN.

6.2 Guide to sound practices in developing carbon contracts

What is considered a fair agreement with communities?

Carbon contracts tend to be complex documents. They are frequently presented by the buyers in English and require knowledge of specific terminology and the VCM to undertake negotiations. These factors hinder communities and *ejidos*' from clear understanding of the terms in the signed agreements and create an imbalance of knowledge and negotiating skills with the buyers. Yucatán wishes to guarantee that all VCM contracts that are signed in the state are equitable and transparent for the parties. To that end, carbon credit buyers should respect the below principles to develop effective, equitable contracts.

- **Use clear, comprehensible, and succinct terminology:** The language used in the agreements should be simple, in both Spanish and the native language. To the extent possible considering the complexity of carbon market nomenclature, it is best to avoid terminology that is not comprehensible by communities and *ejidos*. Furthermore, it is advisable to limit the length of these contracts by focusing on key clauses. Avoiding contracts with dozens of pages and many acronyms will facilitate the signatory *ejidos*' and communities' understanding. While the state of Yucatán does not plan to replace the contractual models that buyers use, it does intend to draft a contract model that is useful for communities/*ejidos* and adapted to Yucatán's local context.
- **Construct a dynamic agreement:** A fair carbon contract is one that includes clauses stating that in the event market prices rise above certain thresholds, the income received by the beneficiaries will be revised upwards. An alternative is to include clauses in the contract for multi-year revisions to reflect changes in market trends or inflation.
- **Guarantee minimum price values:** Mexico does not have legislation establishing guides or indices of prices that must be observed by the contracting parties to carbon projects. However, carbon contracts should include clauses with minimum values that guarantee stable benefits to communities and *ejidos* regardless of market prices. It is not enough to include price clauses based solely on market fluctuations or indexed prices, given that communities and *ejidos* do not seek to speculate in the market.
- **Include total costs for *ejidos* and communities:** The contractual clauses on benefit sharing for communities and *ejidos* should indicate that all project costs incurred by *ejidos* and communities have been considered when calculating benefit sharing; that includes all opportunity costs (arising from the project's loss of income) and execution costs (costs incurred by ejidos and communities when managing and participating in the project).
- **Limit responsibility clauses:** The cases of noncompliance should be established in a limited manner, using no generic language and defining

them exactly. Cases of noncompliance should be based on the best efforts of the *ejidos* and communities and never on matters over which local communities and *ejidos* have no control or that have not come about due to their negligence or fault. When establishing the consequences of noncompliance, abusive clauses that entail financial costs that are unsustainable for *ejidos* and communities should be avoided. The limit to pecuniary liability in the event of noncompliance should be identified in the contract.

- **Include advance payments:** In contrast to other sellers in the carbon market, *ejidos* and communities are comprised of financially vulnerable individuals who depend on minimum amounts of money to implement carbon project activities. It is therefore advisable for buyers to guarantee the disbursement of funds before projects generate carbon credits. These amounts should not be subject to complying with suspensive conditions and should be maintained over time to guarantee that communities and *ejidos* receive benefits from the mitigation activities from the outset of project implementation. These advance payments to communities enable the carbon project to progress, and there should not be requirements that communities return the payments in the event the contract is rescinded.
- **Limit the inclusion of suspensive conditions:** While it is common to include suspensive conditions in carbon contracts, often the list is long and include conditions over which communities and *ejidos* have no control. Given that the entrance into force of a contract depends on compliance with suspensive conditions, it is advisable not to include them or to limit their use to the greatest degree possible. Suspensive conditions such as the signing of a secondary contract for the sale of carbon credits to a second buyer should not appear in carbon contracts with communities.
- **Restrict cases of contract rescission:** The reasons for rescinding a contract should be set out in a restricted and understandable manner for communities and *ejidos* and should not include facts or circumstances that are outside of communities' control. Permitting the rescission of a contract by the buyer in the event of changes in the market or because the carbon certificates that are the target of the contract cannot obtain corresponding adjustments in the future under Mexican legislation creates a contractual imbalance and should be avoided.
- **Establish conservative amounts of carbon credits in the contract:** While the goal of the carbon contract is to establish the amounts of carbon credits that must be generated and transferred by the communities and *ejidos*, it is advisable for the contracts to specify conservative amounts of carbon credits that benefit the sellers. *Ejidos* and communities should not be penalized in the event that carbon credits are not generated and delivered annually. Nor is it appropriate to require communities and *ejidos* to produce replacement carbon credits in the event there are insufficient carbon credits generated. The contract should be based on reasonable effort expected to generate emissions reductions or removals and not on a logic of fixed quantities that can entail extreme responsibilities for *ejidos*.
- **Default to applicable national law and conflict resolution mechanisms:** Carbon contracts should inexorably state that Mexican law governs the contract, given the impossibility of communities and *ejidos* knowing the implications of applying foreign laws to the contracts in question. It is also advisable that the contract prioritize amicable conflict resolution procedures and only turn to litigation as a last resort, which should be under the auspices of national judicial bodies. While arbitration is a valid solution and extensively used in Mexico, it is not advisable to turn to arbitration processes in the case of carbon contracts with communities and *ejidos*, given the expenses entailed by such processes, which in most cases are impossible for *ejidos* or communities to pay.
- **Respect the rights of *ejidos* and communities to use and enjoy forested areas:** It is inappropriate for buyers to guarantee the issuance of more carbon credits by forbidding or restricting communities and *ejidos*' use of forests for their daily and traditional purposes, or to make them unilaterally responsible for limiting the entrance of third parties into their territories.

GLOSSARY

Adaptation: Social and economic adjustments aimed at minimizing the harm and taking advantage of the opportunities arising from the effects of climate change.[36]

Afforestation, reforestation, and revegetation (ARR): A set of forest management measures aimed at improving carbon capture, improving soil health, and promoting ecosystem resilience by creating new forested areas and restoring plant cover with trees, bushes, and pastures.[37]

Article 6 of the Paris Agreement: Mechanisms that enable countries to voluntarily cooperate amongst themselves to achieve the emissions reduction goals established in their National Determined Contributions (NDCs), including market mechanisms for trading reductions and removals of greenhouse gas emissions (GHG).[38]

Carbon credit: Tradeable unit representing one ton of GHG reductions or removals. Carbon credits in the VCM are generated through mitigation activities that are certified by carbon standards.

Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA): CORSIA is a global market measure designed to unify the reduction of emissions from international aviation and minimize market distortions. CORSIA complements other measures to use carbon credits to offset CO_2 emissions that cannot be reduced through technological or operational improvements or the use of sustainable fuels.[39]

Carbon project: Climate change mitigation activities aimed at reducing or removing GHG emissions. Once these activities and their impacts are verified, they generate carbon credits.

Carbon rights: The rights of local communities, *ejidos*, and individuals to the reductions or removals of forest-related emissions. Carbon rights are primarily understood as the right to benefit from emissions reductions or participate in a benefit-distribution system.

Core Carbon Principles (CCPs): Ten science-based principles developed by the Integrity Council for the Voluntary Carbon Market (ICVCM) to identify high-integrity carbon credits that generate real and verifiable climate impacts.[40]

Corresponding adjustment: Accounting adjustments made to reflect the use of ITMOs toward an NDC under Article 6 of the Paris Agreement or other international system such as CORSIA.

Free, Prior, and Informed Consent (FPIC): FPIC is a right granted to Indigenous peoples and recognized by the United Nations Declaration of the Rights of Indigenous Peoples (UNDRIP). This right permits Indigenous peoples to give, reject, or withdraw their consent at any time regarding projects that affect their territories, as well as to participate in project design and evaluation.[41]

Mitigation: Climate change mitigation refers to any action taken by governments, businesses, or persons to reduce or prevent GHG emissions, or to improve carbon sinks that eliminate them from the atmosphere.[42]

National Determined Contributions (NDC): Climate commitments assumed under the Paris Agreement and communicated to the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC).

Nature-based solutions (NbS): Actions taken to protect, sustainably manage, and restore ecosystems and their benefits for human beings and nature. NbS have been identified as one of the most important and profitable tools for mitigating climate change

[36] United Nations Framework Convention on Climate Change. (n.d.). Introduction to Adaptation.

[37] ClimateSeed. (n.d.). ARR Projects: Afforestation, Reforestation, and Revegetation.

[38] World Bank. (2022, May 17). What You Need to Know About Article 6 of the Paris Agreement.

[39] International Civil Aviation Organization. (n.d.). CORSIA.

[40] MSCI. (n.d.). The First Core Carbon Principles.

[41] Food and Agriculture Organization of the United Nations. (n.d.). Free, Prior, and Informed Consent (FPIC).

[42] United Nations Development Programme. (n.d.). What Is Climate Change Mitigation and Why Is It Urgent?

and could offer approximately one-quarter of the mitigation needed to maintain global warming below 1.5°C, while providing important social, economic, and ecological benefits.[43]

Reducing Emissions from Deforestation and Forest Degradation (REDD) and/or carbon capture through reforestation ("+") (REDD+): REDD+ is a framework of incentives within the United Nations Framework Convention on Climate Change (UNFCCC) aimed at encouraging developing countries to reduce their forest emissions and increase the carbon capture in their forests.[44]

Safeguards: Measures for preventing and mitigating harms to people and the environment and to increase the benefits to them within the context of REDD+ activities.

Voluntary carbon market (VCM): Market in which individuals and organizations voluntarily issue, purchase, and sell carbon credits that are not generated or acquired with the intention of being used in a regulated carbon market.[45]

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[43] VCM Primer. (2023). Home page.

[44] VCM Primer. (2023). Home page.

[45] VCM Primer. (2023). Home page.

ANNEX

Table 2. Standards and methodologies applicable to NbS projects in Yucatán

STANDARD	METHODOLOGY	TYPES OF ACTIVITIES	STATE
ACR	Afforestation and Reforestation of Degraded Lands[46]	Afforestation and reforestation on lands expected to remain degraded or that will continue being degraded in the absence of a project	Active
CAR	Forest Protocol for Mexico[47]	Activities that sequester CO_2e from the atmosphere by increasing carbon reserves in trees over time	Active, in the process of being updated
GS	Afforestation/Reforestation (A/R) GHGs Emission Reduction & Sequestration[48]	Applies to planting trees on lands that do not comply with the definition of a forest	Active
Plan Vivo	Agriculture and Forestry Carbon Benefit Assessment Methodology V1.0	Methodology for community forestry projects; applies to interventions in forests, croplands, or pastures; applicable to projects in wetlands and mangroves	Active
VCS	VM0003 Methodology for Improved Forest Management Through Extension of Rotation Age[49]	mproved Forest Management (IFM) project activities that entail an extension of the rotation age	Active, in the process of being updated
VCS	VM0005 Methodology for Conversion of Low-Productive Forest to High-Productive Forest[50]	IFM projects in natural moist tropical evergreen forests (average annual rainfall greater than 2,500 mm) that rehabilitate forests that were previously logged by cutting climbing plants and vines, clearing, enrichment, or a combination of these activities	Active, in the process of being updated
VCS	VM0010 Methodology for Improved Forest Management: Conversion from Logged to Protected Forest[51]	IFM aimed at protecting forests that would be logged in the absence of the project.	Active, in the process of being updated
VCS	VM0033 Methodology for Tidal Wetland and Seagrass Restoration[52]	Projects to restore coastal wetlands	Active, in the process of being updated

[46] American Carbon Registry (2017). Afforestation & Reforestation of Degraded Land, Version 1.2

[47] Climate Action Reserve (2022). Protocolo Forestal para México, Versión 3.0 [Forest Protocol for Mexico, Version 3.0].

[48] Gold Standard for the Global Goals (2024). Methodology for Afforestation/Reforestation (A/R) GHGs Emission Reduction & Sequestration, Version 2.1.

[49] Verified Carbon Standard (2023). VM0003 Methodology for Improved Forest Management Through Extension of Rotation Age, Version 1.3.

[50] Verified Carbon Standard (2013). VM0005 Methodology for Conversion of Low-Productive Forest to High-Productive Forest, Version 1.2.

[51] Verified Carbon Standard (2016). VM0010 Methodology for Improved Forest Management: Conversion from Logged to Protected Forest, Version 1.3.

[52] Verified Carbon Standard (2023). VM0033 Methodology for Tidal Wetland and Seagrass Restoration, Version 2.1.

VCS	VM0035 Methodology for Improved Forest Management through Reduced Impact Logging[53]	Projects that implement reduced-impact logging for climate change (RIL-C) practices to decrease GHG emissions in one or more of the three categories of sources of GHG emissions: logging, dragging, and transporting wood	Active
VCS	VM0045 Methodology for Improved Forest Management Using Dynamic Matched Baselines from National Forest Inventories[54]	Applies to a broad range of IFM practices aimed at avoiding emissions or increasing carbon capture in forested areas	Active
VCS	VM0047 Afforestation, Reforestation and Revegetation[55]	Applies to activities that increase plant cover in terrestrial areas	Active

Table 3. List of legal documents that a project developer and ejido should agree to

LIST OF DOCUMENTS TO PROVE OWNERSHIP TO THE LAND AND OTHER ELEMENTS
* The following documents are mentioned in Regulation NMX-AA-173-SCFI-2015[56] as due proof of the right to ownership of land.[57] * Basic file containing the presidential resolution or endowment that gave rise to the community or *ejido*, documents of possession and boundary lines, and final blueprint (when the project includes *ejido* areas or common community areas); * Act documenting the demarcation, use, and allocation of *ejido* lands (ADDATE), when dealing with a common area and an *ejido* or community that has been certified by the Certification Program of *Ejido* Rights and Allocation of Titles for Plots (PROCEDE); * '*Certificado de derechos de parcelario*' [proof of an *ejidatario's* right to use a parcel of land] or document issued by the *Ejido* Commission or regarding common assets recognizing the parcel as belonging to that person (when dealing with areas of individual ownership of *ejidatarios* or *comuneros* [joint owners]); * In all cases, could also be valid for the purposes of ownership a sentence or resolution issued by a jurisdictional authority, as long as that sentence is firm, feasible, and registered in the RAN. * A document that guarantees the lack of conflicts over tenure to the project area.
• Internal agreement adopted by the *ejido* formalizing the distribution of obligations amongst its members, activities to be performed, timeline for compliance, and benefit sharing
• Requirements for accessing the permits, licenses, and authorizations required for project development.

[53] Verified Carbon Standard (2016). VM0035 Methodology for Improved Forest Management through Reduced Impact Logging, Version 1.0.

[54] Verified Carbon Standard (2024). VM0045 Methodology for Improved Forest Management Using Dynamic Matched Baselines from National Forest Inventories, Version 1.1.

[55] Verified Carbon Standard (2023). VM0047 - Afforestation, Reforestation, and Revegetation, Version 1.0.

[56] Regulation NMX-AA-173 regarding the conditions for registering carbon forest projects and certifying the increase in carbon stocks.

[57] Communal ownership requires properties to be registered in the RAN; private property must be registered in the Public Registry of Property.

Table 4. Requirements of various standards with regard to benefit sharing

ESTÁNDAR	REQUISITOS/GUÍA PARA EL REPARTO DE BENEFICIOS
Verra (VCS)	Requires developing a process for managing conflicts that may arise with local actors by addressing benefit sharing. The project coordinator should take appropriate measures to communicate and consult with local actors regarding project risks, costs, and benefits.[58]
Verra SD Vista	Preliminary impact evaluation that includes fair and equitable benefit sharing within a context that respects the precautionary.[59] Description of the consultation process, including the way in which information was shared regarding costs, risks, and benefits.[60]
Verra CCB Standards	Optional: a description of the design and implementation of a benefit sharing mechanism that demonstrates that there has been active and effective participation in defining the governance and benefit sharing processes.[61]
Gold Standard	The PDD is asked to show whether project ensures that the communities receive equitable benefit sharing in return for the use of their traditional knowledge and practices.[62] To obtain GS4GG certification, the project developer must ensure fair benefit sharing with the communities for the use of the natural resources on their territories as well as their traditional knowledge or practices in the project.[63]
CAR	Within the framework of social safeguards, Assemblies must be held at least once yearly, which include the benefit sharing agreements.[64]
Plan Vivo	The mechanism is developed in collaboration with the producers or owners of the land. The mechanism should specify how and when the benefits will be distributed, as well as the modality to be used (for example, bank transfer, in-kind payments, or training) and the risks of not achieving the objectives. 60% of the income from the sale of certificates--following the payment of any fee, tax, or duty--should directly benefit the owners of the land.[65]

[58] Verra (2023) VCS, Standard, V4.4.

[59] Sustainable Development Verified Impact Standard, V1.0 (Verra 2019a).

[60] Verra. Template project design document, V1.0.

[61] Verra Climate, Community, and Biodiversity Standard and CBB Project description template.

[62] Gold Standard 2023. Template. Key project information & project design document (PDD) version 1.5.

[63] Gold Standard (2023) Core documents. Safeguarding principles and requirements.

[64] *Protocolo Forestal para México* [Forest Protocol for Mexico], version 3.0.

[65] Plan Vivo standard – project requirements, version 5.0.

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