

March 4, 2013

Approval by Mail: Mexico: Support for Forest Related Micro, Small, and Medium-sized Enterprises (MSMEs) in Ejidos (IDB)

Dear All

Please find attached comments from the UK, we are pleased to endorse this proposal, and the request to provide loans in local currency

Best wishes

Gaia

UK comments:

Mexico Forest Investment Programme (FIP) project proposal: Support for Forest Related Micro, Small and Medium-sized Enterprises (MSMEs) in Ejidos and Communities (IDB) - ME-M1079 (MIF Grant), ME-T1217 (FIP Grant), ME-L1139 (FIP Loan)

1. This is a **strong proposal, designed to complement the other projects under the FIP and is well aligned with Mexico's national strategy development process for REDD+**. The underlying causes of deforestation and degradation are well articulated. **The proposal meets the FIP investment criteria**; for example, it has the potential for significant demonstration effect and transformational impact, and integrates sustainable development co-benefits well. **We therefore recommend approval of the project.** We also **approve the use of a local currency loan.** We have identified some issues to note and where we seek further clarification:
2. We welcome the **strong demonstration potential of this project**, particularly to show Community Forest Enterprises and the financial sector that investing in sustainable forest management and forest enterprises can be viable and profitable.
3. We also welcome the **focus on knowledge and lesson learning** within the project and the intention to share this across all FIP pilot countries. This is very much in line with recommendations made at the Istanbul sub-committee meeting in November 2012
4. We would like **further information on the methodology used to estimate the GHG emissions figures provided.** An indicative estimate of expected carbon emission savings is provided (104,903 tCO₂e), but it is unclear how this was calculated. This estimate translates into a cost-effectiveness figure of **\$61/tCO₂e** which is low compared to other FIP and ICF forest projects. However, we consider this to be justifiable as the project has a large Technical Assistance (TA) component, is trying something new, and has high demonstration potential. It would be helpful to have a response from the IDB team regarding this figure.
5. The project correctly recognises that degradation rather than deforestation is the major concern, but does not provide further details of how this will be addressed or monitored through the TA provided. We suggest the proposal is amended to include **more explicit measures of forest quality, biodiversity conservation and ecosystem services.** These are discussed in the document but are not adequately captured in the indicators of achievement.

6. A series of preparatory studies included consultations with indigenous communities. It is assumed that there will be considerable benefit to communities more generally through the investment of profits from the Community Forest Enterprises in community development activities. The project does not address issues of benefit sharing mechanisms and mitigating against elite capture. If this is addressed in one of the other projects, the links should be made specifically.