August 23, 2012

Comments from the United States on the Approval by Mail: Mexico: Financing Low Carbon Strategies in Forest Landscapes (IDB)

Dear Patricia,

We very much appreciate the documentation provided by the Government of Mexico and the IDB with respect to the Financing Low Carbon Strategies in Forest Landscapes project. The project concept is in our view consistent with Mexico's endorsed investment plan and addresses issues important to the plan's strategy of promoting sustainable land use practices in productive mosaics. Further to our request for an extension on the deadline for decision, we would however like to request additional information concerning some of the design details of the project. (While we've asked for an additional three weeks to consider this project, we expect to be able to relay our decision sooner, assuming a timely response to our questions.)

1. From the documentation, it appears this is a stand-alone project. Is there any co-financing for this project from the IDB? If the FIP financing is stand-alone, please explain how FIP financing will leverage additional resources, in line with FIP investment criteria.
2. The amount of concessionality provided would appear to be very high. We would appreciate any information to help us understand the thinking around the calculation of the grant element required to make this investment viable, keeping in mind FIP requirements with respect to tailoring grant elements to the additional cost of the investment to make the investment viable, and catalyzing self-sustaining, economically viable models …without the need for continuing subsidies. If a very high degree of concessionality is in fact required, does this undercut the argument that the project is demonstrating a replicable and sustainable approach that will eventually be viable without FIP financing?
3. The TAF structure appears to be central to the development of viable and financeable proposals. Will TAF expertise and support be required after the project ends in order to ensure the sustainability of the approach demonstrated by this project? If so, is there a plan for who will provide these services after the project ends?
4. We would appreciate a better understanding of the use of grant funds to create a pool to collateralize FR lending. Is the use of grant funds as collateral for these loans a viable, replicable strategy in the long-term?
5. If we understand correctly, it appears that FR may make new loans with reflows from loans previously disbursed under the project. Will IDB's supervision extend to the making of these new loans? If not, will new loans made by FR be consistent with FIP criteria, and what mechanisms are in place to ensure that?
6. We would appreciate a cost/ton estimate, even though we acknowledge that such estimates may be imprecise.

Thank you,
Katie Berg
US Treasury