

March 11, 2013

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

Dear Andrea,

on behalf of the team, please find enclosed the responses to the comments provided by UK on the FIP Mexico Project "Support for Forest Related Micro, Small and Medium-sized Enterprises (MSMEs) in Ejidos and Communities".

I enclose also a background study and excel sheet that will help clarify the comment related to GHG methodology.

Kind regards

Gloria Visconti
IDB

Responses to UK comments on

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)

The Project team composed by CONAFOR, Financiera Rural, Fondo Mexicano para la Conservación de la Naturaleza and IDB/Fomin, is very pleased about the positive feedback from UK.

We have invested a lot of time and resources in designing the first FIP private sector project to be presented to the FIP Sub Committee and such a positive feedback rewards completely our efforts.

On specific requests for clarification:

- 1 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.*

The calculation of the expected carbon emission saving is based on the same methodology used for Project 3 of the FIP Investment Plan, also presented by the IDB. We enclose the report that was used for the calculations (please see page 71).

We also annex the excel table that clarifies specifically how we calculated the expected carbon emission savings, based on a 5 year projection of potential projects in different sectors (silvo pastoral, forest plantations, agro forestry systems management) and the number of hectares involved.

Since these are only initial estimations, they can change as specific projects are selected and implemented. Ultimate carbon results will be based on the National MRV system that the Mexican Government is developing with the support of the Norwegian Government.

It is correct, the limited cost-effectiveness figure is justifiable by the TA large component and also by the fact that this project seeks to create a replicable business model for future expansion.

- 2 *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.*

The logic frame of the project specifically mentions some indicators referring to forest quality. For instance, as a result at the end of the project we estimate 90,750 hectares under management. While there are not specific indicators on biodiversity or ecosystem services in the logic frame (for brevity, simplicity, and due to the 5-year timetable of the project), these can be calculated on a proxy basis from calculations based on the hectares preserved and the characteristics of the preserved land.

The issue of monitoring and evaluation of the different projects under the Investment Plan, and the Plan itself, will be addressed by the team of actors involved, during a joint mission, possibly in April. We will consider, during the meeting, how to possibly calculate other Ecosystem service and Biodiversity impacts overall as a result of the implementation of the Investment Plan and according with the National MRV system under development.

- 3 *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

We have amended the Donors memorandum document to include the following paragraph that explains specifically this point:

Because CFEs are, by definition, community enterprises, the benefits that accrue to the more generally shared among the community owners/employees of the enterprise, or with the community at large through investment in local programs or infrastructure. The project will measure benefit sharing by including indicators on the average gross income increase of CFE's, the increase of income of the employee/owners of CFES, and benefits that correspond to the members of the community through CFE investment in local projects.