

June 7, 2013

Comments from United States on Approval by mail: Lao PDR - Smallholder Forestry Program (FIP)

Dear Andrea,

The United States appreciates the opportunity to review the Lao Smallholder Forestry Program and agrees that the project potentially advances an interesting method of reducing ghg emissions/enhancing removals and supporting smallholder livelihoods. We are also encouraged to see a private-sector program coming forward in the FIP.

However, we require additional information to make a judgment on whether the program/project is likely to succeed in its objectives. We therefore request a delay in the decision on the project until we have received and reviewed answers to the following:

1. The project document should articulate a clear theory of change, describing the problem, the proposed changes, barriers to implementation, advancing arguments for the viability and sustainability of the proposed changes, and explaining how these changes will reduce ghg emissions/enhance ghg removals. Much of this information is already in the project document, but it would be helpful to have a clear exposition of what the activities are, and how they will lead to emissions reductions/enhanced removals and support co-benefits.
2. We would like to understand better what the OGS model is expected to look like. What species/crops are being promoted and under what management model (industrial monoculture plantation, mixed agroforestry, etc.?) Where is it likely to be located? Are these areas near significant natural forests? What process and what criteria will be used to select the partner company? What can you tell us about the potential partners?
3. We would appreciate more information to demonstrate that the OGS scheme will be financially viable and that it will leave smallholders better off. More information on the expected relationship between the smallholders implementing the OGS and the company, how financing to implement OGC will be provided, where it will come from, and on what terms, would be welcome. Will inputs initially come from the company up front, with repayment expected once the outgrowers sell products, or from other sources? Will outside financing for these activities be sought, and from whom? How likely is it that this financing will be available at rates that make the project viable? What are the expected purchase terms between the company and outgrowers? It would be helpful to see some calculations with different financing/purchasing term assumptions (using informed estimates of likely conditions) that demonstrate that the OGS scheme would be viable. Also, what does the IFC see as the potential pitfalls of this type of project (we understand some OGS schemes have resulted in less than positive outcomes for communities and the environment) and how will they be avoided in this case?

4. We note that the project document asserts that the OGS scheme should result in reduced pressure on natural forests. We would like more analysis on this point, in particular on the question of whether good returns in the OGS could potentially increase pressure to clear additional land. Are there natural forests in the vicinity of the OGS scheme areas? How will potential deforestation/degradation of natural forests in these areas be monitored and handled?

5. We would appreciate more information on how the potential emissions reductions/enhanced removals were calculated. What activities do these reductions/enhanced removals come from? What assumptions were used in their calculation?

6. We would appreciate more information on what activities the \$3 million will be spent on. The document contains descriptions of the activities, but it would be good to understand how much will be spent on each activity, and the breakdown between the pilot phase and the scale-up phase.

Thank you very much for your assistance.

Katie Berg
US Department of the Treasury