

June 7, 2013

**Comments from United Kingdom on Approval by Mail: Lao PDR: Small Forestry Program (IFC)**

Dear Andrea

We have given careful consideration to the proposal received for the Lao PDR - Smallholder Forestry Program (FIP). It is a very interesting concept but we have a number of questions and concerns around which we would like to receive more information from IFC before considering approval.

We are uncomfortable with the business model as currently presented since it asks us to approve an initiative with no clear theory of change and a number of important assumptions for which there is insufficient analysis. A more detailed project description is needed along with analysis of potential risks and how they might be mitigated. Whilst we appreciate that there may be issues of commercial confidentiality, and that it is normal practice for IFC to only enter into detailed design work with a client once approval is achieved, more detail should be provided on potential approaches, likely scenarios and risks. We are confident that much of this analysis has been carried out.

The proposal does not provide any breakdown of costs which is something we usually expect from project proposals.

More specifically:

Is there any reason why the company that is likely to be the client in this project cannot be named?

Are we correct in assuming that the due diligence process will only commence on approval of the project?

We would like to see more detail on how the out grower scheme will work in practice. What options have been or will be considered? Since there is no microfinance or credit component associated with the project proposal, we assume that inputs, advice etc will be provided by the company. There are a number of potential socio economic risks associated with this approach which should be analysed. Whilst the proposal refers to safeguards and performance standards, we think it is important to spell these out. In particular it would be helpful to understand how different models have worked elsewhere in the region.

We would like to see more analysis around the assumption that the small holder plantations will take pressure off remaining areas of natural forest. Are there examples of this being the

case to draw upon from the region? Are there risks of perverse incentives to clear more land should the scheme prove attractive to farmers?

On a specifically technical point, are the plantations that are being considered going to result in extensive areas of monoculture? What are the implications for biodiversity and for livelihoods reliant on other forest products that are currently available from “degraded areas”.

The proposal refers to supporting agroforestry systems; is a *Taungya* like system being contemplated?

We look forward to receiving clarification on these points from IFC and would welcome a discussion around what level of detail can be reasonably expected within a project proposal whilst respecting client and commercial confidentiality

Best wishes

Gaia Allison  
UK Department for International Development