

PROJECT SUMMARY
EJIDO VERDE: TRANSFORMING DEGRADED COMMUNITY LANDS INTO
SUSTAINABLE JOBS, INCOMES AND CARBON SINKS
(ME-L1302, ME-L1303 & ME-T1437)

This is the first project to be supported by the “Low Emissions and Climate Resilient Agriculture Risk Sharing Facility”, co-funded by the Green Climate Fund (GCF) and implemented by IDB Lab (RG-O1656).

In Michoacán, Mexico, the agricultural sector accounts for 13% of the state’s GDP and employs 34% of the total local population as farmers and pine resin tappers. As a pine producing territory with 5.8 million hectares (has.) of forests, roughly 67,000 has. of forests and rainforests are lost every year due to land use change, giving way to reliance on short cycle agricultural crops, less environmentally sustainable practices and profitable crops (mainly avocado). Dependence on agricultural production and its relatively low productivity, exacerbated in some cases by the effects of climate change, has translated into low incomes for workers and unstable and informal jobs. This situation, combined with increasing levels of insecurity in Michoacán, has resulted in high levels of emigration, leaving large parcels of land unproductive or underutilized.

The planting of native species of pine for resin production is a regenerative strategy to address locally relevant productivity, income generation, migration and climate change concerns. The harvest of pine resin creates long-term value for the trees, reducing incentives to clear the pine for its timber. Pine plantations sequester carbon dioxide, improve soil quality and provide watershed benefits. Additionally, the establishment and maintenance of pine plantations creates income and employment opportunities in local *ejidos* and indigenous communities, and increases the value of their land, all of which also contribute to reduce migration. Those communities have been collecting the resin produced by native pine trees for hundreds of years through a process called “tapping”, which is harmless to the tree. This pine resin is the main input into the Mexican pine chemical industry, which is a key player in the global pine chemical value chain.

The early-stage company and proposed borrower, Ejido Verde S.A.P.I. de C.V. (“EV”), was created by the sister companies Pinosa, S. de R.L. de C.V. (“Pinosa”) and Resinas Sintéticas, S.A. de C.V. (“Resinas”), leading pine-chemical companies in Michoacán, that have been purchasing local pine resin for generations. Ejido Verde’s aim is to create a high-quality, consistent, tapped oleoresin supply for guaranteed buyers Pinosa and Resinas by directly partnering with rural and indigenous resin tapping communities to plant new pine forests, which will create a long-term supply of pine resin to meet the increasing demand for pine resin by the Mexican pine chemical industry. EV provides pine seedlings and technical assistance to *ejidos* to help plant and maintain seedlings on their unproductive lands. The landowners (*‘resineros’*) determine the plantation areas based on their needs and technical advice from EV, with whom they also establish a legal contractual relationship and a long-term purchase agreement. Local labor from community members (*‘jornaleros’*) is contracted for planting and maintenance unless the landowner wishes to perform the labor for a salary. Through this innovative model (further explained in the sections below) EV works with local *ejidos* and indigenous communities to create green jobs that protect and restore the local ecosystems, improve livelihoods and support climate change mitigation and adaptation investments.

The proposed IDB Lab and Green Climate Fund (GCF) loan will address the financial gap that EV is facing to expand commercial pine plantations on ejido and indigenous community lands. Investment in pine plantations will not only sustain and increase the supply of pine resin as a needed input for the Mexican pine chemical industry, but it will sequester significant levels of CO₂, create local ecosystem services to support efforts to mitigate climate change and bolster local resilience, provide steady incomes through the production of pine resin, and generate long-term assets and green job opportunities for local farmers, tappers and ejidos.

The Technical Cooperation resources will be used to support innovative climate smart agricultural practices and technologies that will strengthen the ability of EV and the families from ejidos and indigenous communities of Michoacán to mitigate climate change risks, adapt to climate change effects and increase productivity in the forestry value chain.

Pursuant to Resolution DE-30/18 approved by the Board of Executive Directors of the IDB on July 10th, 2018, the Donors Committee of the IDB Lab are authorized to approve reimbursable operations funded with GCF resources under the Line of Activity Project for a Low-Emission Climate-Resilient Agriculture Risk Sharing Facility for Micro, Small and Medium Enterprises with the Green Climate Fund (Document GN-2925), including loans, guarantees, equity and other financial instruments permitted by the GCF, when such resources of the GCF administered by the Bank are used to finance, in whole or in part, IDB Lab operations.

Non-reimbursable technical cooperation grants funded with GCF resources under the Line of Activity Project for a Low-Emission Climate-Resilient Agriculture Risk Sharing Facility for Micro, Small and Medium Enterprises with the Green Climate Fund (Document GN-2925), would be approved by the President or under his delegation to Bank Management within approved delegation limitations. (See the delegation to Bank Management under GN-2752-4, "Proposal to Modify the Procedures for Approval of Nonreimbursable Operations" August 4, 2014, approved by Resolution DE-103-14. The IDB Board of Executive Directors would approve any non-reimbursable grant operations for projects exceeding the \$3,000,000 limit of such delegation of authority.)

This is the first project to be supported by the "Low Emissions and Climate Resilient Agriculture Risk Sharing Facility", co-funded by the Green Climate Fund (GCF) and implemented by IDB Lab (RG-O1656), which is a 15-year program with US\$20 million in co-funding from GCF.