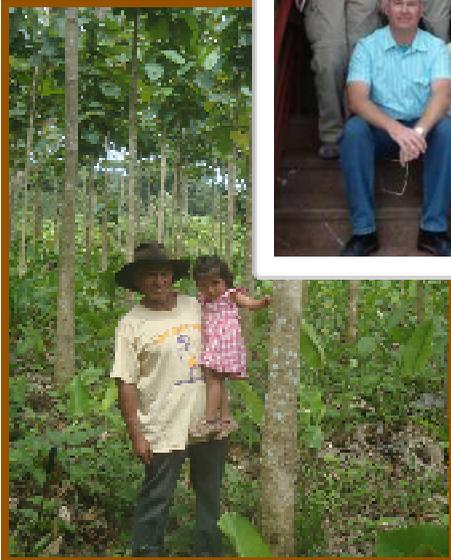


Investing with the Cochabamba Project



The Cochabamba Project Ltd. is an industrial and provident society that was formed to enable socially minded investors to invest in the reforestation of one of the world's most valuable and biodiverse habitats - the Bolivian Amazon Rainforest - whilst also providing poor communities with genuine sustainable alternatives to farming that would otherwise lead to further deforestation and loss of biodiversity.

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Introduction

The Amazon Rainforest is one of the most valuable and important single habitats on our planet making a vital contribution in maintaining the balance of oxygen in our atmosphere and providing unrivalled biodiversity. Over the last few decades however, the western fringes of the Amazon have been the scene of some of the most aggressive deforestation in the world.



1975 - Before deforestation

Driven by desperation, migrants have moved down from the Andes and have now been granted official title to land within the perimeter of the rainforest, enabling them to exploit the valuable timber and establish smallholdings to eke out a living from the land.

After decades of adopting poor agricultural practices and without the capital to invest in a viable alternative, smallholders are still forced to continue their “slash and burn” methods in order to maintain their meagre existence. Without an economically viable alternative, these problems will persist.



2001 - After deforestation

The ArBoli via Project was established in 2007 with the aim of tackling the multiple problems of poor land management, deforestation and poverty, and is the culmination of more than 5 years of research and consultation between local co-operatives, regional and international development

Introduction

agencies and ecological consultants. Funding was provided by the Food and Agriculture Organisation (United Nations).

The Cochabamba Project Ltd (Society) was established in March 2009 as an Industrial and Provident Society for the Benefit of the Community with the specific purpose of creating a vehicle through which public-spirited individuals and organisations could co-operate together to support the ArBoli via project.

This venture is a true partnership with Bolivian farmers, as net revenues from the timber are shared equally between the society and the farmers, with the former providing investment capital and the latter providing land and labour. Arbolivia has been acknowledged for its role not only in mitigating the impact of climate change but also in providing quantifiable benefits both for the communities in which it operates and for biodiversity in the region.



Arbolivia is a true partnership between farmers and investors

Introduction

The Society's investment not only makes a clearly quantifiable contribution to combating climate change through the sequestration of carbon, but it is also contributing to the protection, repair and enhancement of biodiversity in the region. Most importantly, however, it is providing substantial and sustainable economic benefits to hundreds of individual families across the Bolivian tropics.



First thinning of the valuable timber

The society has regular investment offers for both ordinary shares and loan stock, each with a set closing date to ensure that the offer document accurately reflects the current status of the project. It is also open to negotiating private arrangements with interested individual and institutional investors. Investors' funds are used to pay the on-going project costs associated with growing trees until they are ready to be harvested for timber. The society expects to repay investors in the future from these revenues. For those hectares established between

2007 and 2012 these revenues are projected to exceed £10,000,000 within the first 20 years. Whilst substantial timber revenues are predicted from 2014 onwards, new investors should be aware that the society has obligations to existing holders of both shares and loan stock. For this reason the directors do not currently intend to approve any withdrawals for new shareholders at least in the first five years of investment.

As a not-for-profit society, a significant proportion of our funds are used for social rather than commercial objectives. In addition, whilst we are fully focused on achieving profitability as soon as practicable, any eventual surplus after paying interest to members will be used to benefit

Introduction

the local communities in Bolivia. Your investment will help us not only to continue supporting our current partner families and maintaining our current forestry parcels, it will also allow us to embark on further planting with those farmers who have already proved their commitment and skills as well as bringing new families into the ArBolivia fold.

Investing in The Cochabamba Project Ltd should be seen primarily as a social rather than a financial investment. The society may only pay a low rate of interest on shares and, in certain circumstances, may not pay interest at all. However, the Society intends to be able to pay interest on shares, which itself will accrue each year at the same interest rate applicable to ordinary shares and to pay this when shares are eventually withdrawn. A history of the society's past interest rate declaration is available on the website or by contacting the company secretary.

Since the society's main objective is to provide benefits for communities in Bolivia rather than financial returns for investors, it is unlikely that future interest rates will increase even after it moves into profit. However the society's risks will always be higher than those of conventional investment institutions in the UK. It is therefore likely that the society will continue to offer a higher rate than such institutions, at least whilst we need to attract and retain capital.



Your investment is primarily to provide benefits for communities in Bolivia

The Society

The Cochabamba Project Ltd is an Industrial and Provident Society for the Benefit of the Community and was formed on 9th March 2009. It is governed by its rules which are available on the society's website at www.cochabamba.coop. The stated purpose of the society is to benefit the rural communities of the departments of Cochabamba, Santa Cruz, Beni and La Paz in Bolivia. The directors intend to achieve this by investing the society's funds for the foreseeable future in the ArBolivia project.



Members of the society visiting Bolivia

The society was formed to provide a mechanism for socially minded individuals and organisations to co-operate together to facilitate a commercial forestry operation incorporating exemplary social and



A group of investors visiting a plantation

environmental standards.

Membership of the society is afforded to holders of ordinary shares. These shares can be withdrawn in accordance with the society's rules but cannot be sold or transferred and there is no prospect of them ever being worth more than their nominal value.

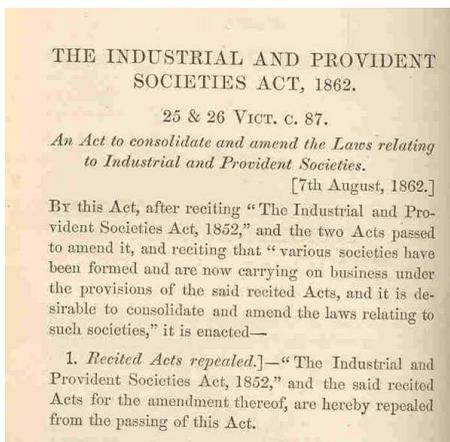
The current directors of the society are David Vincent, John Fleetwood and Daniel Brewer, who between them, have considerable experience and expertise in advising on sustainable forestry and other investments with a high social impact.

One of the unique characteristics of forestry is the length of time between

The Society

the initial capital investment and the receipt of eventual revenues, resulting in the need to carry forward substantial losses until they are overtaken by subsequent revenues. The industrial and provident society model was adopted as a means of overcoming this barrier to investment due to its ability to award interest to individual investors in each financial year from year one, without reference to the actual accounting profit or loss achieved in any particular year. In this way the society is able to reward all investors fairly from the very first year.

The society is registered with the Financial Conduct Authority (no 30642R) as an Industrial Provident Society For The Benefit of The Community. As such, it is a mutual society, formed for the benefit of the community - in this case the rural communities of the Bolivian tropics. We believe it is the first IPS to be established for the purpose of conducting a community forestry enterprise and also the first to identify a target community beyond the UK.



*Industrial & Provident societies
date back to 1862*

Shareholders are also members of the society and are entitled to one vote no matter how many shares they hold. Shares cannot be sold or transferred to another person or organization, but they can be withdrawn for their face value or less. This means that the aims and values of the society cannot be compromised. It also means that the value of members' shares is not subject to market volatility.

With any Industrial Provident Society there is also a risk that members may not get back the amount they invested. Further information on how we manage our financial risks is provided below.

The Arbolivia Project

The Society's funds are used to support the Arbolivia Project, which is pioneering a new model of community based land management including cash crops, conservation and also an element of commercial forestry, which is intended to act as a catalyst for investment, as distinct from reliance on aid.



Monitoring a plantation

In addition to the initial and ongoing technical support provided by ArBoli via's team of field technicians, not only on forestry issues but all aspects of land management, 50% of all timber revenues is paid to the farmers. This package of practical and financial support gives farmers sufficient economic incentive to reforest part of their land and also removes their need to continue the regular clearance of more prime tropical rainforest. This technical assistance means that farmers can not only derive a better income from their land as a whole but can also manage it in a more ecologically sustainable manner.

Intercropping is encouraged so that farmers can cultivate both food crops and timber on the same plot of land. Instead of planting one non-indigenous species in a concentrated area, 19 different tree species have been used to date (with varying degrees of success) on widely dispersed small plots of land, forming a vast and varied patchwork. The resulting biodiversity gains together with the focus on putting farmers' interests at the heart of the project, make Arbolivia a very special forestry project that stands out from other 'sustainable' forestry schemes.

In order to manage operations for the ArBoli via project the society holds a 75% stake in Sidi rec Boli via, a commercial society registered in Boli via. The

The Arbolivia Project

remaining 25% of Sidi rec Bolivia's membership capital is divided between the senior management team, all of whom have been involved with the development of ArBolivia since its initial conception. This gives the society optimum control but also provides a substantial incentive for the management team to remain commercial focused for the wider benefit of all stakeholders.

Although the society retains a charge over all the timber revenues from ArBolivia (i.e. the 50% not paid to the farmers themselves) it is also supporting Sidi rec Bolivia to develop a range of commercial activities that enhance its own security and add value to the ArBolivia project as a whole. For example, the society is receiving substantial grant support from the Netherlands Enterprise Agency to develop its timber harvesting, processing and marketing services. This is based on the use of portable sawmills that will enable Sidi rec Bolivia to achieve a better price for our farmers' timber by reducing the waste associated with larger mills and also cutting out a significant link in the supply chain. The project is also notable for its partnerships between NGOs, international governments, farmers' groups, forestry experts, investors and academics.



One of the portable sawmills

Managing over 850 widely dispersed farmers (as at 31/12/12) in what can be quite a difficult environment with poor communications, poses something of a challenge and requires a sizeable team of technicians and managers to ensure that quality standards are met. It is also important to maintain good relations with farmers, many of whom have little or no

The Arbolivia Project

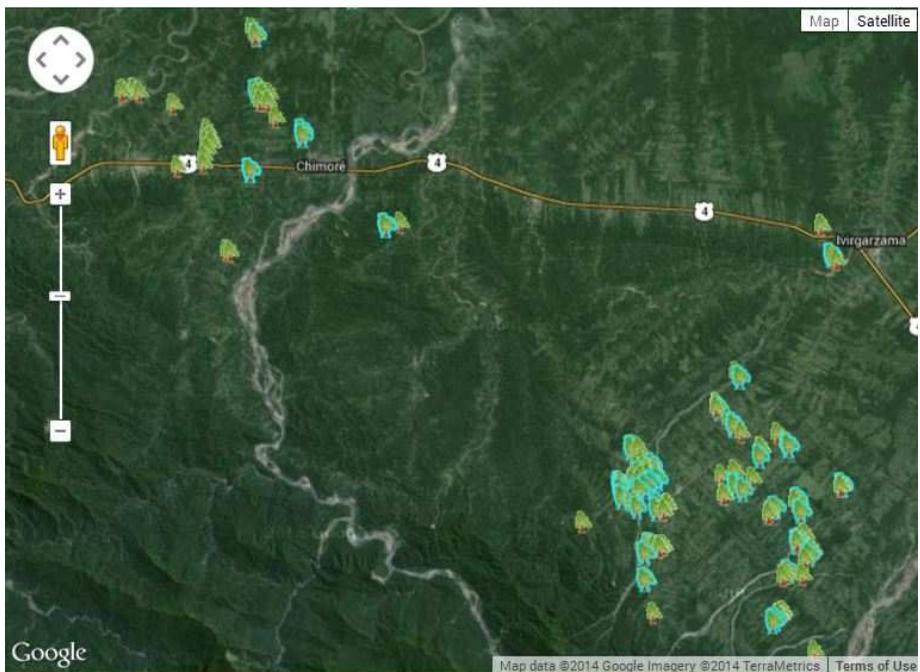
education. This necessitates much higher costs than would normally be associated with a project of this size and inevitably success is not always guaranteed. However the resulting social and environmental benefits also mean that it is able to compensate for these additional costs by attracting funding from the sale of carbon credits and environmental services without which the project certainly would not have been possible.



The Arbolivia Project team

Climate Smart Agriculture

The commercial forestry enterprise undertaken by the ArBoli via project is very different from more conventional forestry plantations, even those that are termed 'sustainable'. The forested land is not owned by the project manager, but instead, each forestry parcel is owned by an individual smallholder. As at 31st October 2012 the forested areas consisted of over 2,000 separate tree lots spread across 4 separate federal states - an area the size of the whole of England. This geographic distribution and isolation of individual parcels means that any incidence of fire, disease or insect attack is confined and will have little or no impact on other forestry parcels, providing highly effective natural risk management.



Plantations type:



Commercial forestry plantations



Agroforestry plantation



Silvopastoral system



Pasture improvement



Protective forest plantation

The tree plots are very widely dispersed

Climate Smart Agriculture

Farmers now choose from 12 native tree species. (At the start teak was also made available due to the lack of high quality native seed.) This range of indigenous tree species on widely dispersed plots contrasts starkly with the norm of monoculture plantations where “identikit” trees stretch monotonously to the horizon.

By aggregating supplies for timber merchants in Bolivia can secure much higher prices than individual smallholders are able to achieve by themselves. Current estimates indicate a premium of at least 300% and as much as 800% for more mature timber sold for export. Smallholders therefore have huge incentives to look after their forestry parcels. There are also a range of additional safeguards to ensure that smallholders fulfill their contractual obligations.

Some of the species take only 10 years to mature but the most valuable timber species may take up to 40 years – far longer than any commercial forestry enterprise can entertain, so the ability to generate carbon credits and other environmental services whilst the trees are growing is extremely

valuable (as well as revenue from thinnings). Each smallholder will receive 50% of the net timber revenues from the trees he/she plants and maintains as well as receiving regular payments and technical support in managing the whole of their land.



Just one of the 12 native tree species

This diversity is not only good for the environment but it means that smallholders are able to select species to match the exact conditions of their land, ensuring that survival rates and yields are optimised.

Food and cover crops are planted between trees to provide additional revenues, maintain fertility and reduce the amount of labour required for maintenance.

The high levels of technical expertise and management demanded by this model serve to reduce significantly the risk of disease or poor growth. The cost of this additional skilled manpower is compensated by accreditation for carbon credits, which should only be awarded (although many argue that this is not always the case) to projects which would not otherwise be commercially viable and also provide additional social benefits (improved livelihoods) and environmental benefits (improved soils and biodiversity).



Food crops are grown between the trees

Social Impact

The ArbOLiVia Project is remarkable for its high social and environmental impacts, many of which have been independently verified under the Plan Vivo certification process. These include the following:

Increased incomes for poor farmers - Profits are shared between local farmers and investors. The livelihood of local subsistence farmers is central to the vision and operation of the project. By participating in the project's smallholders can expect to treble their earnings on their forested land over the 40 year project term. Smallholders are also benefiting from both financial and practical assistance to increase efficiency and the yields on their remaining land through agro-forestry (e.g. cocoa and citrus fruits) and through collective bargaining and fair trade principles.



Farmers are supplied with equipment and training for pruning

Improved Agricultural Management –

ArbOLiVia works with smallholders to improve agricultural management practices, thereby reducing deforestation and improving smallholder incomes.

Technical & Marketing Support -

Smallholders receive one-to-one practical advice and support on all aspects of farm management, including land use, crop and stock selection as well as marketing support.

Labour saving - ArbOLiVia provides access to both hand tools and power tools as well as providing cover crops and other farming methods which reduce the physical effort required in the harsh conditions of the Amazon.

Employment – in addition to the staff employed directly ArbOLiVia contributes to additional employment in local communities, for example seasonal work in its nurseries and the maintenance of its vehicles.

Education and Capacity Building - Many additional social benefits are provided through a programme of education and capacity building, which makes use of existing social structures such as community committees, farmers co-operatives and other NGOs working in the area. For example, training on fire risks and control is an important additional weapon against “slash and burn” farming methods.



A training meeting for one of the farmer co-operatives

Microcredit - ArBolivia is working with the Dutch NGO, Cordaid and the Bolivian development organisation, Idepro. A pilot scheme involving 100 families was set up in March 2013 to provide loans to farmers who meet ArBolivia’s maintenance standards, using the value of their growing trees as collateral.

Support of local communities - In the longer term, the directors believe that significant surpluses of revenue may accrue over and above the amounts needed to retain capital for investors. Any such surplus after meeting its liabilities will be used by The Cochabamba Project Ltd to benefit the local communities in the areas in which the project operates.

Equality—ArBolivia plays an important role in promoting equality, particularly between genders and ethnic groups. A large proportion of our smallholders are female and women are well represented on the forestry committees.

Environmental Benefits

Avoided deforestation – the project addresses the root causes of deforestation by providing a real economic alternative to further deforestation and by improving agricultural practices.

Enhanced biodiversity – By using a wide range of indigenous species of trees, intercropping and working with over 850 farmers on widely distributed plots, as well as creating wildlife corridors, biodiversity is substantially enhanced.

Nature conservation - A conservation project has been initiated to plant 400,000 trees in designated conservation areas. The objective is to counter the loss of biodiversity by repairing dedicated areas and corridors in order to provide a network of secure habitats and thoroughfares. Much of the conservation work is focused on controlling erosion from increased local flooding during the wet season (which is itself a direct consequence of deforestation).

Intercropping - Many of the trees are inter-planted with other crops to improve fertility, reduce labour, provide structural support, competition for growth and increased yields per hectare.

Locally sourced seed - The project only buys locally sourced seed. ArBoli via certifies the best seed trees, which then provide a source of income for the owner and a financial incentive to preserve the tree for the future.



The nursery at San Carlos

Carbon capture – ArBoli via’s contribution to the sequestration of carbon has been verified through a number of international standards. It was one of the first three forestry projects in the world to receive approval as a

Environmental Benefits

“Clean Development Mechanism” under the terms of the Kyoto protocol, although Bolivia has since withdrawn from this programme. It has since been certified under both the Plan Vivo and is the final stages of verification under the CarbonFix standards. This means that the carbon absorption of the project has been independently verified to a very high order.

Many of these benefits have been independently verified and it is possible, through ArBolivia’s comprehensive online database and Google Earth, to connect with individual farmers on the project’s website (www.arbolivia.org) by viewing the individual parcels, details of the farmers and also tree species associated with individual plots.



Plan Vivo

Carbon management and rural livelihoods

This is to certify that the **ArBolivia** project, located in Bolivia, and coordinated by SICIREC Bolivia, has been registered as a Plan Vivo project.

Registration date: 31st May 2011 | Project ID: PV_2011_006

Signed on behalf of
the Plan Vivo Foundation:

Alexa Morrison,
Governance Manager

The Plan Vivo Foundation registers and reviews projects against the Plan Vivo Standard. Continued Plan Vivo registration is conditional upon the annual submission and acceptance of project reports by the Plan Vivo Foundation, and continued third-party verification as required in the Plan Vivo Standard.

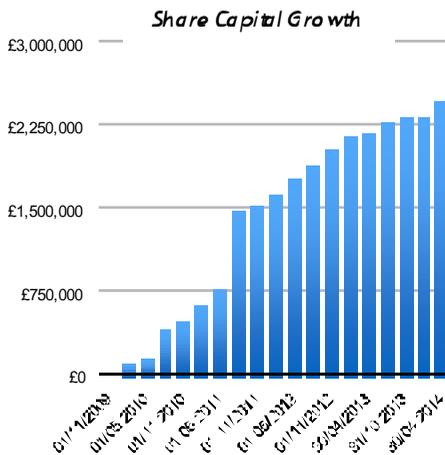
To view the current registration status of a project, visit the Plan vivo website or contact the Foundation (info@planvivofoundation.org).

The Plan Vivo Foundation is a charity registered in Scotland (charity number SC040151).

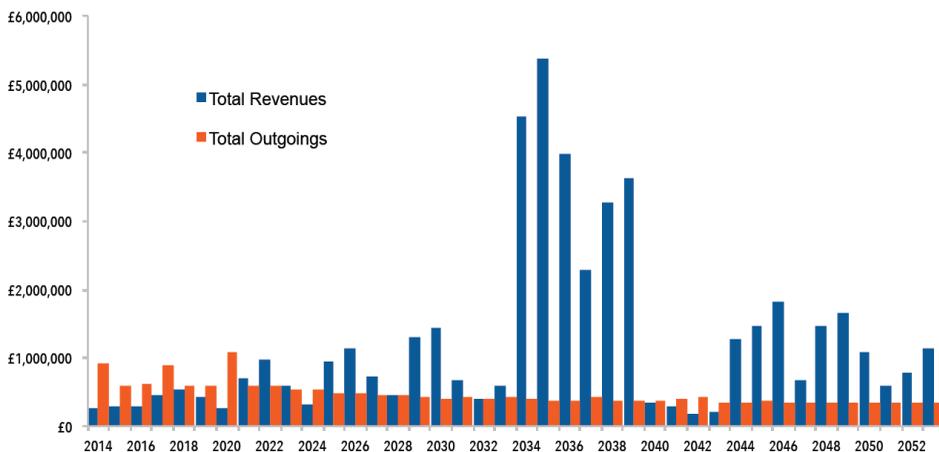
Registered office: 18b Liberton Brae, Edinburgh EH16 6AE www.planvivo.org

Investment & Finances

By 31st October 2013 the society had issued share capital of £2,331,356 and had over 463 members, which includes 11 individual investors represented by Rathbones Nominees. The society also had long term loans and loan stock amounting to £897,407 at that date. The society has built up an entitlement to a 50% share of the majority of the hectares that have been established to date. The first substantial timber revenues are expected in 2014. In addition the society has security over ArBolivia's verified emissions reductions (carbon credits) which are certified by both the Plan Vivo Foundation and the Gold Standard Foundation.



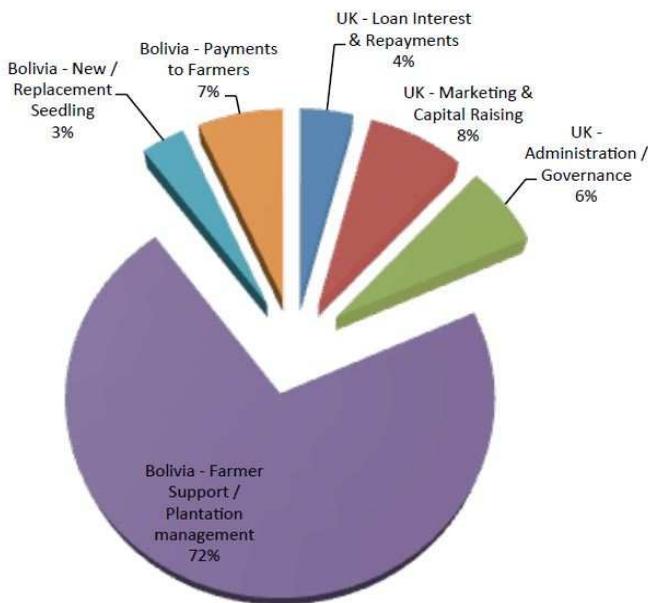
We do not expect the project to break even until 2021 when timber revenues are projected to more than cover operating costs. Until then we need to raise capital to meet the shortfall.



Investment & Finances

The internal rate of return for the ArBolivia project is very difficult to predict. Firstly ArBolivia is pioneering the commercialisation of at least 12 native species grown in plantations for the first time. Secondly the rate of return will be affected by our success in selling carbon credits, which is also a very unpredictable market. Nevertheless, using suitably cautious assumptions, the society anticipates being able to achieve its social obligations to communities in Bolivia by maintaining its capital investment and also to reward members for their ongoing commitment to the project by awarding an annual interest entitlement in the region of 5% per annum

As with any enterprise, the Society is constantly seeking ways of improving its financial position, for example by improving the efficiency of its timber harvesting, processing and marketing operations or through expansion as funds allow. In any event the Society also has significant costs which need to be taken in to account in setting the annual rate of interest, including the cost of finance, marketing costs, administration, legal costs and directors' salaries, as outlined. These costs may increase as the Society grows and will obviously impact on the society's profitability.



Where the money goes

Ordinary Shares

The society has one class of shares, which can be withdrawn but cannot be sold or transferred. The society's directors have a right to suspend (or limit) a member's right to withdraw shares and to set a notice period. Since we rely on future timber revenues to repay your original investment together with the accrued interest, we currently do not allow shares to be withdrawn within the first five years from the issue date. If you wish to withdraw your shares on or after the 5th anniversary we will require 180 days notice in writing. We will currently pay any accrued interest as and when shares are withdrawn, although this policy will be reviewed as our revenues grow.



Interest is based on the increasing value of timber

Please note that we pay interest on share capital rather than a dividend - a dividend is share of profits and the society is a not-for-profit enterprise. We set an interest rate each year that reflects our need to attract funds and the commercial risks involved, whilst also taking account of the fact that our prime objective is to maximise our social and environmental impact. We seek to ensure that our future liabilities, having applied interest to our share capital, can be met by future timber revenues. We can

only make a rough estimation of what our future timber revenues will be and since we are pioneering the commercialisation of native species grown in plantations we cannot be certain of our estimates. However, our projections of future timber revenues indicate that there will be ample revenues to meet all liabilities over the term of the project.

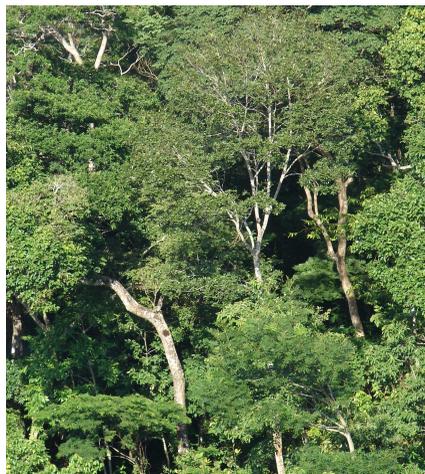
From time to time we also may issue shares or loan stock for a specific purpose, which may have a different interest rate or notice period. For example, we may seek to develop a new aspect to the project, which is additional and different to the main proposition, which our existing members have agreed to support.

Waiver Of Interest Option

Many investors have said that they do not wish to receive interest at all and would prefer the saving to go towards maximising the impact of the society. If you wish to waive the interest awarded to you, please tick this box on the application form

Carbon Credit Retirement Option

We are conscious that some potential investors oppose the practice of carbon offsetting. We estimate that the level of financial subsidy conferred by the sale of carbon credits equates to the amount of interest that members are due to receive over a five year period. We therefore offer an option for members who do not wish to benefit from this financial subsidy to waive their entitlement to interest for this period. The society will then remove the corresponding number of VERs from the official register so that they cannot be sold in future. In this way opponents of the carbon market can make a very positive contribution without conflicting with their stance.



Monthly / Annual Payment Option

If you wish to become a member but cannot afford the minimum investment in one lump sum you may pay for your shareholding by a annual or monthly instalments by setting up a standing order to the Society, as

directed on the application form. There is no minimum payment as such but no shares will be issued until you have paid our minimum subscription of £1,000. You will receive an annual statement based on your holding on 31st October each year. Any interest will also be awarded annually based on your holding at that date. No interest will be awarded until payment for the minimum number of shares has been received.

Joint holdings / Groups

Shares may be held jointly in the names of up to four persons. For unincorporated associations shares must be held in the joint names of two or more persons. The association cannot hold shares in its own name but the holders of its shares may ask the society to note the association's name and address in the society's register of members. We also accept applications from companies, trusts, SIPPs and other incorporated bodies. Please ask for a separate form.



A characteristic village in one of the project areas

Loan Stock

Loan stock differs from ordinary shares in that both the rate of interest and the term of the investment are fixed. The term is set to ensure that we have sufficient revenues in the year of maturity to repay the capital raised. We set a rate that is intentionally lower than the rate we expect to pay ordinary shareholders. This is because Loan stock holders are

creditors of the society and it will therefore endeavour to pay interest and repay capital at maturity before paying interest or capital to shareholders. In addition, whilst the society will not pay out interest to shareholders in the early days until its trading revenues reach a satisfactory level, it will pay interest out to loan stock holders. It is therefore in effect the ordinary shareholders, who provide the capital to pay loan stock holders' interest. For this reason, the rate of interest offered for loan stock is lower than the rate assumed for ordinary share holders.



Farmers also plant food crops

Private Investment Opportunities

The directors are always looking for opportunities to increase the scale and scope of the society's activities. We would be happy to discuss individual terms for individuals and organisations who wish to support our work, whether as philanthropy or on a fully commercial basis.

We are always looking to increase our impact by planting more trees and including more families in the ArBoli via project. We can also focus investment on specific areas such as trade finance for our farmers' food crops, developing timber harvesting and processing facilities, acquiring property to use as office facilities, accommodation for field staff and guests.

Carbon Credits

Whilst both the society and its partners in Bolivia recognise the criticisms levelled against what is loosely termed the “carbon market” it is undeniable that the many social and environmental impacts, which ArBolivia delivers, are in every sense “additional” to profit-centred investment and would simply not be possible without some form of financial subsidy. We will therefore continue to pursue all means of generating the subsidies needed to secure the future of the ArBolivia project and optimise the non-commercial impacts it brings about. There are two distinct markets for carbon credits – the compulsory market and the voluntary market:

CDM

The compulsory market includes buyers from the 39 developed countries, who signed up to the Kyoto protocol and are obliged under the agreement to pay for credits when they exceed the limit for emissions laid down in the agreement. The most common type of compliance credit is a



CER (Certified Emission Reduction unit) which originates from projects in developing countries. Certification and overall approval of these abatement projects and their credits is known as the Clean Development Mechanism (CDM). In order to gain accreditation CDM projects must demonstrate:

- The amount of carbon they lock up for the long term after taking account of all “leakage” (caused, for example by relocating the damaging activities elsewhere)
- A positive effect on biodiversity
- A positive and sustainable effect on local communities, based on full consultation and agreement
- “Additionality” – i.e. that the project would not have gone ahead without the financial subsidy afforded by credits.

It is extremely difficult for forestry projects not only to fulfill the conditions for CDM status but also to be able to evaluate them and as such very few reforestation projects have achieved accreditation to date — ArBoli via was one of the first three. However, following the Copenhagen summit in 2009 the Bolivian government withdrew support for the CDM system and as a result ArBoli via lost any prospect of being able to sell its CERs under CDM. It has nevertheless been independently audited and has been shown to have met all the exacting quality standards required to do so.



Trees absorb lots of carbon

ArBoli via subsequently sought verification for Voluntary Emissions Reductions (VERs) for sale in the voluntary market. In consideration of the society's commitment to continue funding ArBoli via, the majority of the rights to carbon credits were transferred to the society, which is now an authorised reseller of ArBoli via VERs

Plan Vivo

Plan Vivo is a UK based foundation which provides accreditation for VERs solely from forestry projects which can demonstrate a high level of community involvement, social benefits and positive environmental credentials, such as the use of native species. A vital factor for projects themselves is that Plan Vivo's VERs can be sold as soon as verification is granted—i.e. at the start of the project when finance is most needed to pay for planting and establishment. Certification under the Plan Vivo standard was granted on 31st May 2011.

Gold Standard

The Gold Standard Foundation is a non-profit organisation registered under Swiss law and is arguably the most prestigious carbon standard in the world. Due to the same complexities mentioned above, ArBoli via



received certification under the Gold Standard Land Use module on 19th November 2013. An agreement has also been reached with Forest Finance to market ArBoli via's Gold Standard credits and we hope that this will now allow us to sell our VERs at a higher price and in much larger volumes than before.

The Climate Action Plan

In light of on-going criticism of the existing carbon trading market and the failure of the international community to agree alternative mechanisms for reducing carbon emissions (and deforestation in particular), a growing number of organisations are committing to sponsoring tree planting schemes, without linking their investment to levels of carbon sequestration. The society also offers such a scheme, which it calls the "Climate Action Plan". As part of the plan, the VERs relating to the certified trees are retired from the carbon credit register in order to avoid accusations of "double counting". For further details visit www.climateactionplan.co.uk

Among our current clients is the Ecology Building Society, which supports a specific community on the edge of the Pilon Lajas Biosphere Reserve, near San Borja (department of Beni). This is one of the most important habitats in the whole Amazon region and serves to demonstrate ArBoli via's emphasis on ecological as well as social benefits.

Risk Management

Investment in the society should be regarded as long term in nature and involving a substantial degree of risk. Accordingly, investors should consider carefully all the information set out in any prospectus and the risks attaching to their investment in the Society. As a result of these risks you may lose the value of your investment and any interest accrued. The directors consider that the following are the most important risks to the project:

- The project may not be able to secure sufficient funding to meet ongoing running costs and as a result, may place the project in financial jeopardy.
- The project depends in part on revenues from the sale of carbon credits and / or environmental services to help fund the maintenance of the trees and farmer payments and meet interest and redemption commitments until timber revenues reach sufficient levels. Should the market for these credits and services deteriorate or disappear it would at best take longer than predicted to pay back investors and at worst the project may become unviable.
- ArBoli via is pioneering the introduction or reintroduction of a number of native tree species into the domestic and international timber market. Future volumes, quality, end uses and prices for these timbers are all unknown and estimates are based on comparisons with other current commercial timbers.



Trees don't grow overnight – the biggest risk is cash flow before timber revenues cover costs

There is a risk that one or more of the species being developed does not meet expectations.

We manage these risks by reducing our UK expenditure and involving our membership as much as possible as well as by spreading our fundraising activities across a number of different channels. Whilst we have very substantial longer term debts to investors, these are all unsecured, so that there is no prospect of any creditor forcing the society into liquidation in the UK. In Bolivia, our liability in Sidi rec Bolivia is limited to 75% of the membership capital, which is currently 2,400,000 Bs (around £350,000).

We also manage our financial risks in Bolivia through the following strategies:

- Sidi rec Bolivia maintains a balance of funding from the society, grants, commercial finance and the development of a range of revenue streams.
- Sidi rec Bolivia has adopted conservative estimates of future timber volumes and prices based solely on local market prices and low annual increases. In addition the forestry manager is able to time the harvesting of trees to benefit from the most favourable market conditions



A typical tree plot

- Sidi rec Bolivia co-operates closely with the local population, non-governmental organisations and the Bolivian Government
- The ArBolivia model involves careful site selection, matching of species and soil types and use of natural flood-resistant tree species

- Legal contracts are concluded with all farmers and collective organisations of farmers, including permanent land use restrictions and long term financial incentives. This makes it very unlikely for farmers to fell trees without the consent of the society.
- Forestry committees consisting of representatives from the participating farmers have been established as part of the risk management strategy and these are vital for harmonious relationships with our partners. An Arbitration Board is made up of 2 members of Sidi rec Bolivia and 2 members from the participating farmers. This board has binding powers to settle disputes between farmers and the project.
- Employment of Fair trade principles. Due to the scale of the project access to markets by Sidi rec Bolivia will be much better than for individual farmers. In addition operational costs can be shared, resulting in prices, which might be 3 to 8 times higher than those achievable by one smallholder acting alone. It should be dear that even though they will only receive 50% of the higher price, there is a very dear financial incentive for smallholder to meet their contractual obligations, thereby reducing the risk of “back door” sales.
- A micro-creditscheme has been introduced, providing participating families access to loans using their standing trees as collateral. If trees are poorly maintained the family will lose its access to credit.



Planting seeds

We maintain control of Sidi rec Bolivia by sharing financial responsibility with our senior management team. This means that in the event of any

claim on the assets of Sidrec Bolivia they too will be affected on a personal basis. Under the current arrangement, the Bolivian team are also responsible for securing part of the maintenance costs for ArBolivia themselves. This means that they will only share in any future profits of Sidrec Bolivia's new activities once the core funding for maintaining ArBolivia have been met. However conversely, should the society be unable to meet its own funding obligations, then the Sidrec Bolivia team may cover the shortfall through local grants or commercial lending. This would reduce the level of revenues available to the society for distribution in the UK but it would also reduce the level of long term debt in proportion.



Natural rainforest near Rurrenabaque

History

In 1995, the Food and Agriculture Organisation of the United Nations (FAO), the European Union and the Belgian government together with the regional government in Bolivia began funding the reforestation of 2000 hectares as part of the regional sustainable development programme. The aim of this program was to promote and implement economically viable and labour-intensive land-use and forest resource management practices in the Cochabamba Tropics in the form of plantation forestry, agroforestry, silvo-pastoral systems and sustainable management of residual forests.



The project is purposely labour intensive. Seedlings are planted by hand in the nursery.

In 2002 the Centro Tecnico Forestal (Cetefor), a Bolivian foundation set up to attract international investment into sustainable forestry and farming

development, signed an agreement with Sidi rec BV, an experienced firm of consultants specialising in sustainable tropical forestry from the Netherlands. Sidi rec's brief was to create a comprehensive programme, which would qualify as a Clean Development Mechanism activity. In order to deliver the project on the ground Sidi rec Group established a separate, independent company, Sidi rec Bolivia Limitada, which is registered in Bolivia. (Sidi rec Group does not own shares in Sidi rec Bolivia but is represented on its board of directors. This ensures that, in the event of the demise of Sidi rec Group, no charge would be levied against the assets of Sidi rec Bolivia.) The formal name of this joint venture vehicle was the "Asociación Accidental Cetefor Sidi rec" (AACS). However Cetefor suffered like many NGOs from lack of funding and this partnership has been redundant for some years now, with Sidi rec Bolivia having a majority on the board of the AACS and thus complete control of the project and its finances. A formal legal process to dissolve the Asociación Accidental has been underway for some time but for tax reasons, this will not be fully completed until 30th June 2014.

AACS was established in order to execute contracts with individual smallholders, apply for accreditation as a Clean Development Mechanism (CDM) and receive funding from the sale of resultant carbon credits, known as Certified Emissions Reductions. After 6 years of monitoring and research relating to the whole portfolio of activities ArBolivia received a positive validation report from the Designated Operational Entity (DOE) in 2007 resulting in the registration of the first official CDM-AR Small Scale Activity (registration number 2510)4 in 2009. An Emissions Reduction Purchase Agreement (ERPA) was signed by the Flemish government for the forward purchase of credits.

A total of 8 separate Project Design Documents (PDDs) covering a combined surface area of 6,000 hectares, were to be submitted for registration under UNFCCC regulations. A further 1,200 hectares were also to be dedicated to conservation activities outside the remit of CDM activity. However at the end of 2009 only the first of these PDDs (covering

the Cochabamba Tropics - i.e. the area which the society chose to support - and hence its name) had received a Letter of Approval (LOA) from the Bolivian government. Following the failure of talks at the Copenhagen summit in November 2009 the Bolivian government withdrew its support for CDM, meaning that ArBolivia could no longer count on further LOAs and would therefore no longer be able to deliver the certification required by the Flemish government under the ERPA. This meant that ArBolivia had to seek alternative certification in order to sell its credits in the voluntary market, where approval from the host country is not needed. A new submission for current and projected activities was subsequently made for certification under the Plan Vivo standard, which was granted on 31st May 2011.

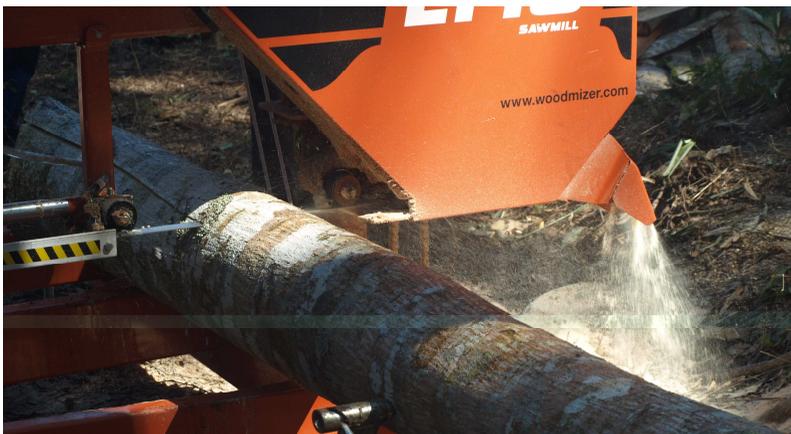
At that stage the society made a commitment to continue to fund the maintenance of the hectares that had been planted to date, and to pay for the certification of ArBolivia's carbon credits under the Plan Vivo standard. In consideration of this the remainder of the available timber rights and carbon credits (about 84% of the total) were transferred to the society as collateral, with an option for Sidrec Bolivia to buy them back at some time in the future if another backer is found to fulfil the original objective of 6,000 hectares

The society subsequently signed an agreement with the German reseller Forest Finance GmbH, to market credits on its behalf. However, since the Plan Vivo standard was not widely known in Germany, the society also agreed to fund further certification, under the CarbonFix standard, which was finally achieved on 8th March 2013. However shortly after this the CarbonFix Foundation was acquired by the Gold Standard Foundation, with a view to developing its own Forestry standard, based on the CarbonFix model. ArBolivia has since been granted certification under the new Gold Standard Land Use and Forestry module in November 2013. Gold Standard is widely regarded as the most prestigious carbon standard and should therefore improve ArBolivia's chances of selling high volumes of its credits at a premium price. The availability of marketable carbon

History

credits means that the society should be able to generate cash revenues earlier than originally anticipated. However the current market for credits remains depressed and the directors would prefer not to rely on carbon credit sales for its immediate funding requirements.

In January 2014, the society was awarded a major grant of 750,000 Euros by the Netherlands Enterprise Agency over the period to 2017. This will assist Sidrec Bolivia in developing a new unit, called “ArBo Real” which will provide timber harvesting, processing and marketing services, focusing on the specific needs of small landowners. These services will of course be offered to those farmers already participating in the ArBolivia project, helping both them and also the society achieve a higher return on our shared assets. However ArBo Real will also be offering its services to other communities, in particular a number of indigenous communities, who have recently been granted new land rights, including the right to manage forestry assets within their territory. Sidrec Bolivia has also succeeded in obtaining grant support to work with an indigenous community in the Chiquitania region, to the north east of Santa Cruz. This is an extremely valuable source of more immediate revenue, which we hope to develop further.



The portable sawmills will allow farmers to get more revenue from early thinnings.

The Cochabamba Project



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