

# APPENDIX 13

## NON-PERMANENCE RISK REPORT

### NORTH PIKOUNDA REDD+



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## 1 INTERNAL RISK

### Project Management:

- A) No Planting of trees is planned at this point so this section is not applicable.
- B) The Project Area Is extremely remote and there is no credible threat of deforestation from outside actors that would threaten more then 50% of stocks.
- C) CIB-Olam Management teams, both on site, in country and out of country have more then five (5) years of management experience in all areas relevant to a forestry project of this type.
- D) CIB-Olam and the Project maintain a management team located less then 1 day of travel from the Project site. Management are in both Brazzaville and in Pokola. CIB maintains an active presence in the country location as the North Pikounda concession headquarters at Pokola are located only seventy (70) kilometers (less then one day travel) from the actual project location, allowing sufficient oversight. All locations of the Project Area can be located within a day of travel.
- E) **Mitigation:** The project proponents includes entities (CIB and Carbon Conservation Pte Ltd) with significant experience in many of the skills necessary for the successful implementation of the project activities, including forest management and planning, monitoring of ecosystems, protection of forest areas, carbon project development, quality assurance and quality control systems, financial management, community engagement, etc. Furthermore, the project developer proponent has individuals on the management team with AFOLU project design and implementation experience, as well as having successfully validated and verified forest carbon projects under other GHG programs.
- F) **Mitigation :** The project proponent CIB maintains an adaptive and flexible management approach to its activities such that its operations are regularly reviewed and management strategies are revised. This adaptive management system is an inherent part of CIB’s FSC certification.

Project Management		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	No planting is to take place	0
b)	No Significant enforcement is required to protect more then 50% of forest stocks	0
c)	Management Team does not lack experience	0
d)	Management Team has permanent in-country presence	0

e)	Mitigation - Management Team has significant experience	-2
f)	Mitigation – An adaptive management plan is in place	-2
<b>Total Project Management (PM) [as applicable, (a + b + c + d + e + f)]</b>		<b>-4</b>
Total may be less than zero.		

**Financial Viability:**

The project proponents have access to all the required funding for the project implementation prior to the initiation of the project and can as such operate the project until the projects break even point. This can be adequately demonstrated through evidence of sufficient cash reserves. It is anticipated based on the economic models constructed that the breakeven point in which cash flow is positive (based on generally accepted accounting principles) is five (5) years from the submission of the project for validation.

The Project Proponent, Olam International Limited, is a leading global integrated supply chain manager and processor of agricultural products and food ingredients and reported SGD\$ 17.1 billion of revenues in 2012 in its 2012 Annual Report. CIB is a wholly owned subsidiary of Olam International.

In the same 2012 Annual Report, Olam reports total available liquidity of SGD\$10.5 billion, made up of cash and other short-term deposits while also having debt facilities of SGD \$11.8 billion at the end of FY2012. The project

Proponent Olam International has secured cash assets far in excess of 80% of the funding needed to cover the total cash out prior to reaching the project break even point.

**Mitigation**

The Project Proponent for its 2012 Annual report indicated that it had callable cash and short deposit reserves of SGD \$1.11 billion, secured receivables of SGD \$1.26 billion, SGD \$11.8 billion of available debt facilities and available liquidity in the amount of SGD \$10.5 billion.

Proponent Olam International has adequate callable financial resources to cover more then 50% of the total cash outlay needed for the Project prior to it reaching a breakeven point.

Financial Viability		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	Project cash flow breakeven point is greater than 10 years from the current risk	0

	assessment	
b)	Project cash flow breakeven point is greater than 7 and up to 10 years from the current risk assessment	0
c)	Project cash flow breakeven point greater than 4 and up to 7 years from the current risk assessment	0
d)	Project cash flow breakeven point is 4 years or less from the current risk assessment	0
e)	Project has secured less than 15% of funding needed to cover the total cash out before the project reaches breakeven	0
f)	Project has secured 15% to less than 40% of funding needed to cover the total cash out required before the project reaches breakeven	0
g)	Project has secured 40% to less than 80% of funding needed to cover the total cash out required before the project reaches breakeven	0
h)	Project has secured 80% or more of funding needed to cover the total cash out before the project reaches breakeven	0
i)	<b>Mitigation:</b> Project has available a callable financial resources at least 50% of total cash out before project reaches breakeven	-2
<b>Total Financial Viability (FV) [as applicable, ((a, b, c or d) + (e, f, g or h) + i)]</b>		<b>0</b>
Total may not be less than zero.		

### Opportunity Cost

It is the current opinion of Carbon Conservation that the net present value from harvesting, the most profitable alternative land use activity, is one hundred percent (100%) more profitable than from project activities.

A mitigating factor though, is that the Project expects itself to be subject to a legally binding agreement with the RoC to continue management practices protect the carbon stocks and the forest over the life span of the project and subject to a validated Forest Management Plan.

Opportunity Cost		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	NPV from the most profitable alternative land use activity is expected to be at least 100% more than that associated with project activities; or where baseline activities are subsistence-driven, net positive community impacts are not	8

	demonstrated	
b)	NPV from the most profitable alternative land use activity is expected to be between 50% and up to 100% more than from project activities	0
c)	NPV from the most profitable alternative land use activity is expected to be between 20% and up to 50% more than from project activities	0
d)	NPV from the most profitable alternative land use activity is expected to be between 20% more than and up to 20% less than from project activities; or where baseline activities are subsistence-driven, net positive community impacts are demonstrated	0
e)	NPV from project activities is expected to be between 20% and up to 50% more profitable than the most profitable alternative land use activity	0
f)	NPV from project activities is expected to be at least 50% more profitable than the most profitable alternative land use activity	0
g)	<b>Mitigation:</b> Project proponent is a non-profit organization	0
h)	<b>Mitigation:</b> Project is protected by legally binding commitment to continue management practices that protect the credited carbon stocks over the length of the project crediting period.	-2
i)	<b>Mitigation:</b> Project is protected by legally binding commitment (see Section 2.2.4) to continue management practices that protect the credited carbon stocks over at least 100 years	0
<b>Total Opportunity Cost (OC) [as applicable, (a, b, c, d, e or f) + (g or h)]</b> Total may not be less than 0.		<b>6</b>

### Project Longevity

The project proponents have secure title to the project area through a government issued concession license. Furthermore, the Project Proponents have a written agreement between the Republic of Congo and CIB-Olam for the North Pikounda REDD+ to protect the forest stocks for thirty (30) years during the lifetime of the REDD+ project.

Project Longevity		
a)	Without legal agreement or requirement to continue the management practice	0
b)	With legal agreement to continue management practice = 30 - (30/2)	15
<b>Total Project Longevity (PL)</b> May not be less than zero		<b>15</b>

Internal Risk	
<b>Total Internal Risk (PM + FV + OC + PL)</b> Total may not be less than zero.	<b>17%</b>

## 2 EXTERNAL RISKS

### Land & Resource Tenure

Although the land is formally owned by the government, the Project Proponents can demonstrate clear title to use the project area through a government issued forestry concession, approved Forest Management Plan and related documents. These usufructuary rights of felling timber are formally sanctioned by the Ministry of Sustainable Development for Forests and the Environment (MDDEFE) of the Republic of Congo. The risk of dispute of land tenure or use of the land is low as there are as of today no communities that reside within the project area and there are no known land claim or claims of rights to use the land itself. However, it is known that in the past, that communities have in the past used on a temporary basis some of the south-eastern areas within the project area for fishing and collection of other non-timber forest products.

The project proponents, as part of their overall FSC certification requirements have standard operating procedures in place to deal with any complaints or claims that might arise and have not only experience in dealing with such issues, but dedicated staff and resources to address such claims.

Land Ownership and Resource Access/Use Rights		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	Ownership and resource access/use rights are held by same entity(s)	N/A
b)	Ownership and resource access/use rights are held by different entity(s) (e.g. land is government owned and the project proponent holds a lease or concession)	2
c)	In more than 5% of the project area, there exist disputes over land tenure or ownership	0
d)	There exist disputes over access/use rights (or overlapping rights)	0
e)	WRC projects unable to demonstrate that potential upstream and sea impacts that could undermine issued credits in the next 10 years are irrelevant or expected to be insignificant, or that there is a plan in place for effectively mitigating such impacts.	
f)	<b>Mitigation:</b> Project area is protected by legally binding commitment (eg, a conservation easement or protected area) to continue management practices that protect carbon stocks over the length of the project crediting period	-2

g)	<b>Mitigation:</b> Where disputes over land tenure, ownership or access/use rights exist, documented evidence is provided that projects have implemented activities to resolve the disputes or clarify overlapping claims	0
<b>Total Land Tenure (LT) [as applicable, ((a or b) + c + d + e+ f)]</b> Total may not be less than zero.		<b>0</b>

### Community Engagement

The project proponents have significant experience with community consultation activities with local populations directly adjacent to and near the project area. Households nearest the project site have been consulted and involved in a participatory planning process via direct meetings.

The NPR+ Project has local populations that regularly reside equal to or less than 20km of the project area and members of the Molanda community are reliant on the NPR+ Project Area for fishing, hunting, gathering of herbs, medicine, other non-timber forest products as well as having sites of particular cultural and esoteric value that relate to symbolic practices and rituals.

The requirements of the 2.3.2 Community engagement standard indicate that those communities living within or surrounding the project area (given as within 20 km of the project boundary are to be reliant on the project area:

The Molanda community is the closest fixed community to the NPR+ Project site, it is situated about 20 – 25 km from the boundary (estimated distance using GIS software) of the NPR+ Project Area boundary. The Molanda community is made up of both Bantu and Balouma indigenous groups (formally known as Pygmies). The Indigenous members of the community in particular are semi-nomadic. As part of their semi-nomadic way of life, they spend a large part of year in the forest where they establish seasonal camps, far from Molanda. They therefore regularly live less than 20 km from the NPR+ Project site, and most of their area of gathering/hunting/fishing is closer than 20 km from the boundaries of the NPR+ project site. Furthermore, during those seasonal migrations, depending on the availability of natural resources on which they depends for their living, indigenous people can travel into the NPR+ project area for collecting resources.

CIB Social program manager Roger Monbendzo has confirmed that this is the situation in North Pikounda.. Furthermore, the North Pikounda Socio-Economic Report (2010) clearly states that the administrative boundaries of UFE North Pikounda overlap the traditional land of the former village of Molanda, such that now, part of the NPR+ Project Area is administratively a part of the Molanda community.

The NPR+ Project Area makes up a portion of the traditional lands of the Molanda communities and continues to be used by the community, particularly the indigenous semi-nomadic Balouma group. It is typical of villages such as this for the semi-nomadic indigenous people to be installed at the periphery of the village area. (N Pikounda Soci-Econ Report (2010))

Essentially the boundary of the villages are much more dynamic, they alter slowly over time based on the movement of the members of the community.

The local Molanda community is community of subsistence fisherman, farmers and to a lesser extent subsistence hunters. They live in a delicate balance with the forests, rivers and nature that thoroughly surrounds them. Their lives are almost entirely reliant on what they are able to fish, harvest or hunt. Any small loss of access to land, or the loss of a single crop, or a drought affecting the rivers, all will negatively impact the subsistence livelihood of the Molanda community. They truly are a community of forest dwellers.

As subsistence forest dwellers, the Molanda communities rely on all aspects of their lands, both large and small, and each of those aspects allows the community to prosper. Take a small amount away and the community will suffer; the difference between subsistence and not having enough is a very fine line. As such, there is significant relevance to every aspect of the community lands, even when not used extensively.

### **Community Reliance**

The Proponents maintain that the local populations are reliant on a part of the project area for the following activities:

1. Fishing - During the stakeholder engagement process, there were Molanda community members who indicated that the area was used by fisherman. They would go to the area and set up a short term camp for a number of days in order to fish the area.

Although the fishing is generally only intermittent, in years when the other areas might not be productive and there is a need to fish further afield, the fishing areas within the NPR+ Project Area can become areas that communities rely on to make up the balance in more difficult times.

2. Hunting – A portion of the Molanda community uses the NPR+ project area for hunting.

It is known that if the project area were to be selectively logged, that the increased access via roads and skidding trails would lead to an increase in the level of poaching of fauna, particularly the forest elephant. The increased access to the forest for poaching opportunities, whether it was for ivory or bushmeat, would create additional competition on forest resources that would be a detriment to any of the traditional hunters from Molanda. It is important to state that a poacher will hunt both legal and illegal game, and that local community are reliant on legal game, thus setting up competition. So long as no logging takes place, any hunting that is undertaken by the members of the Molanda community within the NPR+ Project Area would not be competing for limited resources with poachers, this is a substantial benefit to the economic and social welfare of the community at large.

3. Non-Timber Forest Products: The Sepele Caterpillar are considered a local delicacy and are actively collected. It is known, also from the community engagement activities, that some caterpillar

collecting is conducted in the North Pikounda Project Area where the caterpillar trees are known to be. Additionally herbs and medicines would be traditionally collected during any fishing or gathering excursions within the NPR+ Project area.

The less difficulty in access that the local communities have to the Project areas, the better able they will be able to maintain the subsistence activities. The fact that the NPR+ Project stops all logging means that the protection of the area is much better preserved as it well understood that logging can have negative impacts on the destruction of key NTFP resources.

At least 800 medicinal plants are used in the Republic of Congo by traditional practitioners for making more than 1,500 drugs (FAO, 1999). For Balouma groups Pharmacopoeia is the only source of drugs, and is therefore of paramount importance. Unfettered access to all of the Molanda community area, including the NPR+ Area, however frequent, is important

#### 5. Spiritual Sites:

It is known that there are old villages that were used by Molanda in past generations which are present in the NPR+ project area and have historical value for the Molanda community. These area could also have a spiritual value (i.e., initiation sites, cemeteries, places of esoteric value) but it is always difficult to know the existence of such spiritual/sacred site beforehand as local population are always reluctant to disclose their existence or location before harvesting operation start (because they of the fear of how they could be damaged).

It is more likely than not, that if logging proceeds, then some of these sites will either be lost or access will become more complicated because of harvesting activities.

The Proponents maintain strongly that the community is in fact reliant on the NPR+ Project Area in a number of way, when looked at holistically, the rational is far more compelling than when viewed from the perspective of a single activity that community is engaged in whilst physically within the Project Area. It is thus important that a holistic perspective be adopted toward the concept of reliance of the members of the community on the NPR+ Project Area.

#### **Evidence Requirements –**

the rural appraisal conducted as part of the North Pikounda Social report was completed in 2010.

#### **Net Positive Benefit – the Standard**

As the standard requires the NPR+ Project to demonstrate that a net positive benefit occurs as a result of the NPR+ Project on the social and economic well-being of the community or communities, the Proponents need to explain what they understand by the standard.

The Project Proponents understand that Net Positive Benefit (NPB), in simple terms, means the NPB goal means actions have positive effects on local communities that not only balance but are accepted to

outweigh the inevitable negative effects of the physical disturbances and impacts associated with mechanized logging of the North Pikounda area.

**Quantitative Requirements of the standard**

The Proponents understand the standard for NPB to mean that the implementation of the NPR+ Project will provide benefit or benefits that outweigh what would have happened in a without-project scenario. In a quantitative sense, the benefits of the Project must be greater (i.e. net positive) on the social and economic well-being of the impacted communities. As the standard is silent on what amount of benefit is required, it can be assumed that any agreed upon benefit that goes beyond what would have happened in a selective logging scenario, is net positive.

The Proponents maintain that the standard is achieved as so long there is only small amount of increase in benefit to the economic and social benefit of the communities. The quantity of the benefit is immaterial, as it must merely be more than without the NPR+ Project.

Community Engagement - Demonstration of Net Benefits

Number	Activity Impacted	Benefit	With Project	Without Project
1	Fishing	Access	+	-
2	Hunting	Access	+	-
3	Hunting	Hunting areas protected from Poachers	+	-
4	Gathering herbs/medicines	Access	+	-
5	Access to ancient villages	Access	+	-
6	Access to sacred sites	Access	+	-
7	Collection of caterpillars	Access	+	-
8	Community Access to medicine & education	Access to Pokola Medical facilities and to teachers	+	+

9	Community Access to profits of the NPR+ Project	Funding for community sustainability projects	+	+
<b>TOTALS</b>			<b>9</b>	<b>2</b>

**Conclusion**

The Proponents thus conclude that the baseline activity of selective logging would undoubtedly have an impact on members of the Molanda community that rely upon the NPR+ area in a number of ways. It is thus maintained that, access that is not restricted by logging operations, hunting that is not in competition with poachers and NTFP gathering that is not inadvertently destroyed by mechanized logging operations provides net positive benefits to the social and economic welfare of the affected communities.

The Proponents further maintain that in addition to the above mentioned benefits, as the project has been committed to CCBA standard, that as that portion of the project is developed, that there will be an increase in net benefits that the Project will provide to the Community beyond what would have happened in the baseline logging with out carbon project scenario.

As such, the Proponents strongly maintain that they have met the criteria for section 2.3.2 Community Engagement and that the NPR+ Project on a net basis, has positive impacts on the community.

Community Engagement		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	Less than 50 percent of households living within the project area who are reliant on the project area, have been consulted	0
b)	Less than 20 percent of households living within 20 km of the project boundary outside the project area, and who are reliant on the project area, have been consulted	0
c)	<b>Mitigation:</b> The project generates net positive impacts on the social and economic well-being of the local communities who derive livelihoods from the project area	0
<b>Total Community Engagement (CE) [where applicable, (a+b+c)]</b> Total may be less than zero.		<b>0</b>

**Political Risk**

The Republic of Congo has a politically risk climate. Although political stability is returning and corruption is being tackled since the end of the conflict years and as a result of the most recent elections, the rule of law, regulatory quality and government effectiveness remains quite low by the World Banks Governance Indicators (an average score over five years of -1.063). It is anticipated that over the projects lifetime, and as private and public investment flow into the country that the situation will change.

However, this is in part mitigated by the fact that Congo has been actively implementing an FCPF approved REDD+ Readiness program, is receiving funding from that program and has a National REDD+ coordinator.

Political Risk		
Risk Factor	Risk Factor and/or Mitigation Description	Risk Rating
a)	Governance score of less than -0.79 (-1.063)	6
b)	N/A	N/A
c)	N/A	N/A
d)	N/A	N/A
e)	N/A	N/A
f)	<b>Mitigation:</b> Country is implementing REDD+ Readiness or other activities, as set out in this Section 2.3.3	-2
<b>Total Political (PC) [as applicable ((a, b, c, d or e) + f)]</b>		<b>4</b>
Total may not be less than zero.		

External Risk	
<b>Total External Risk (LT + CE + PC)</b>	<b>4</b>
Total may not be less than zero.	

**3 NATURAL RISKS**

**Fire**

As the concession is located in the tropics and sufficient rainfall is present throughout the year, the incidences of large scale non-anthropogenic forest fires are very low to non existent. Furthermore the project proponent has a rudimentary fire plan *in situ*.

Natural Risk - Fire	
<b>Significance</b>	Insignificant to No Loss
<b>Likelihood</b>	Once every 100 years or more, or risk is not applicable to the project area
<b>Score (LS)</b>	0
<b>Mitigation</b>	0.50

**Pest & Disease Outbreak**

As a result of the diversity of tree species that are within the project’s forested areas, it is highly unlikely that a pest occurrence could devastate large areas of forested areas. It would require multiple pest or disease vectors to impact the concession; there has been no history of such a disturbance

Natural Risk (Pest and Disease outbreaks)	
<b>Significance</b>	Insignificant to no loss
<b>Likelihood</b>	Once every 100 years or more, or risk is not applicable to the project area
<b>Score (LS)</b>	0
<b>Mitigation</b>	1

**Extreme Weather**

Although the risk of flooding and drought is always present, the concession is located in the tropical area which has very little history of extreme weather events which would create a natural disturbance risk to the forests in question. There have been no known incidences of hurricanes, tornados or other such extreme events in the past 100 years.

Natural Risk - Extreme Weather	
<b>Significance</b>	Insignificant to no loss
<b>Likelihood</b>	Once every 100 years or more, or risk is not applicable to the project area
<b>Score (LS)</b>	0
<b>Mitigation</b>	1

**Geological Risk**

There are no volcanoes in the region. There is no known risk of earthquakes. The potential for landslides does not exist as the land is flat.

Natural Risk – Geological Disturbance	
Significance	Insignificant to no loss
Likelihood	Once every 100 years or more, or risk is not applicable to the project area
Score (LS)	0
Mitigation	1

#### Other Natural Risks

There are no other known natural risks associated with the Project.

Score for each natural risk applicable to the project (Determined by $LS \times M$ )	
Fire (F)	0
Pest and Disease Outbreaks (PD)	0
Extreme Weather (W)	0
Geological Risk (G)	0
Other natural risk (ON)	0
<b>Total Natural Risk (as applicable, <math>F + PD + W + G + ON</math>)</b>	<b>0</b>

## 4 OVERALL NON-PERMANENCE RISK RATING AND BUFFER DETERMINATION

### 4.1 Overall Risk Rating

The above initial analysis indicates that the project has a MEDIUM RISK rating which would translate into a requirement to set aside **21% of the credits generated** by the project to the VCS pooled buffer account.

Risk Category	Rating
a) Internal Risk	17 %
b) External Risk	4 %
c) Natural Risk	0 %

<b>Overall Risk Rating (a + b + c)</b>	<b>21 %</b>
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**4.2 Calculation of Total VCUs**

<b>Total Risk Assessment:</b>		<b>21%</b>
<b>Net change in the project's carbon stocks:</b>		<b>69,547</b>
<b>Total Number of Credit to be deposited into the VCS Pooled Buffer Account:</b>		<b>14,605</b>
<b>Total Number of VCUs:</b>		<b>54,942</b>