

VERIFICATION REPORT FOR THE “REDD PROJECT IN BRAZIL NUT CONCESSIONS IN MADRE DE DIOS” PROJECT



Document Prepared By Zane Haxtema

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Prepared By	SCS Global Services (SCS)
Contact	2000 Powell Street, Suite 600, Emeryville, CA 94608, USA http://www.scsglobalservices.com

Approved By	Email: cpollet-young@scsglobalservices.com
	Telephone: +1 (510) 452-8000
Work Carried Out By	Christie Pollet-Young
	Lead auditor: Zane Haxtema
	Technical expert: María Lucía Santa María Peralta
	Technical reviewer: Francis Eaton

Summary:

This report describes the verification audit of the REDD Project in Brazil Nut Concessions in Madre de Dios (“the project”), a Reduced Emissions from Deforestation and Degradation (REDD) project located in the region of Madre de Dios, Peru, that was conducted by SCS. The purpose of the verification audit was to assess the conformance of the project with the verification criteria. The verification audit was performed through a combination of document review, interviews with relevant personnel and on-site inspections. The project complies with all of the verification criteria, and the assessment team has no restrictions or uncertainties with respect to the compliance of the project with the verification criteria.

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1 INTRODUCTION

1.1 Objective

The purpose of the verification audit activity was to conduct an independent assessment of the REDD Project in Brazil Nut Concessions in Madre de Dios ("the project") to determine whether the quantification of GHG emission reductions for the project during the period 1 January 2010 through 31 December 2012 ("the monitoring period") complies with the verification criteria, as set out in the guidance documents listed in Section 1.2 of this report.

1.2 Scope and Criteria

In accordance with Section 4.3.4 of ISO 14064-3:2006, the scope was defined as follows:

- The project and its baseline scenarios;
- The physical infrastructure, activities, technologies and processes of the project;
- The GHG sources, sinks and/or reservoirs that are applicable to the project;
- The types of GHGs that are applicable to the project; and
- The reporting period, as discussed in Section 5 of this report.

In accordance with Section 5.3.1 of the VCS Standard, the criteria for verification was the versions of the VCS documents submitted under the initial registration or issuance (e.g. project validation), including the following documents:

- Verified Carbon Standard, Version 3.2 (1 February, 2012)
- Verified Carbon Standard Program Guide, Version 3.2 (1 February, 2012)
- AFOLU Requirements, Version 3.2 (1 February, 2012)
- VCS Non-Permanence Risk Tool, Version 3.1 (1 February, 2012)

The assessment was also performed against the relevant versions of the framework document and modules of the VM0007 methodology, as indicated in Section 2.1 of the validated project description, as well as the requirements of the validated project description itself.

1.3 Level of assurance

In accordance with Section 5.3.1 of the VCS Standard, the level of assurance of this report is reasonable.

1.4 Summary Description of the Project

The project is located in the region of Madre de Dios, in Peru, and is aimed at reducing emissions related to unplanned deforestation.

2 VALIDATION PROCESS, FINDINGS AND CONCLUSION

2.1 Validation Process

The process for validation of the methodology and project description deviations described below was identical to, and occurred concurrently with, the verification process described in Section 3.1 below.

2.2 Validation Findings

2.2.1 Gap Validation

2.2.2 Methodology Deviations

2.2.3 Project Description Deviations

The following deviations to the project description were noted at verification. None of the deviations described below were considered by the audit team to impact the applicability of the methodology, additionality or the appropriateness of the baseline scenario. All deviations are appropriately described and justified within the monitoring report.

Project description deviation 01

Section 3.4.12.2 of the VCS Standard requires that the grouped project description must contain “A delineation of the geographic area(s) within which all project activity instances shall occur. Such area(s) shall be defined by geodetic polygons as set out in Section 3.10 below.” Section 3.10 of the VCS Standard requires that “Project location for grouped projects shall be specified using geodetic polygons to delineate the project’s geographic area or areas (see Section 3.4.2 for further information on geographic areas for grouped projects) and provided in a KML file.” As described in Section 2.2 of the monitoring report, the project area and leakage belt have been modified (in comparison to the project area and leakage belt approved at validation) to correct a discrepancy in the concessions included in the project area. This adjustment reflects a sincere attitude of quality control on the part of project personnel. With hundreds of concessions included in the project area, discrepancies are bound to arise, regardless of the rigor of the quality control systems in place, and it is always appropriate for such discrepancies to be corrected upon detection. As described in Section 2.2.4 below, the change was confirmed by the audit team to have been correctly carried out. While this deviation has resulted in a discrepancy between the leakage belt as approved at validation (and thus used to quantify the baseline carbon stock change in the leakage belt) and the leakage belt as used for the quantification of carbon stock changes in the leakage belt in the project scenario, this discrepancy has had a conservative impact on the quantification of leakage emissions, as the larger leakage belt that has been monitored for deforestation in the project scenario has allowed for more opportunity for such deforestation to be identified and accounted against the project, in comparison to the smaller leakage belt that was used for the estimation of baseline carbon stock change in the leakage belt. The audit team can confirm that the deviation is appropriately described and justified in the monitoring report, and that the project remains in conformance with the VCS rules.

Project description deviation 02

Section 3.4.12.2 of the VCS Standard requires that the grouped project description must contain “A delineation of the geographic area(s) within which all project activity instances shall occur. Such area(s) shall be defined by geodetic polygons as set out in Section 3.10 below.” Section 3.10 of the VCS

Standard requires that “Project location for grouped projects shall be specified using geodetic polygons to delineate the project’s geographic area or areas (see Section 3.4.2 for further information on geographic areas for grouped projects) and provided in a KML file.” The project description does not indicate the specific geographic area(s) within which all project activity instances must occur; however, Section 2.2 of the Monitoring Report, PD Deviations, includes Map 1. Map 1 depicts the geographic region where new Project Activity Instances may occur in the grouped project. SCS has determined that the project description is valid and that the designated geographic region, supported by a KML file, is in conformance with Section 3.4 of the VCS Standard. Specifically, the delineated geographic area complies with the requirements for the determination of the baseline scenario for the project activity (Section 3.4.5) and the demonstration of additionality (Section 3.4.6) for the entirety of the designated geographic area. This evaluation was supported through a thorough review of the validated PD and during the site visit to determine that the claims by the Project Proponent are applicable to the proposed designated geographic region. In the validated PD, both the project area which included the original PAIs, and the surrounding leakage belt were found to have the same baseline determination for Brazil nut activity within the designated geographic area. This determination was reconfirmed onsite through site reconnaissance and interviews with local representatives.

With respect to additionality, Section 2.5 of the PD contains an analysis of the additionality of Brazil nut activity irrespective of the concession holder’s participation in the grouped project. This analysis is applicable to the designated geographic area of the grouped project due to the similar characteristics between concessions as well as the fact that the concessions within this area face similar threats and agents of deforestation. The applicability of the additionality to the designated geographic area was confirmed through interviews with Brazil nut concession holders, including project participants and non-project participants, the Project Proponent, and local representatives. The audit team can confirm that the deviation is appropriately described and justified in the monitoring report, and that the project remains in conformance with the VCS rules.

Project description deviation 03

Section 3.4.12.2 of the VCS Standard requires that the grouped project description must contain “A delineation of the geographic area(s) within which all project activity instances shall occur. Such area(s) shall be defined by geodetic polygons as set out in Section 3.10 below.” Section 3.10 of the VCS Standard requires that “Project location for grouped projects shall be specified using geodetic polygons to delineate the project’s geographic area or areas (see Section 3.4.2 for further information on geographic areas for grouped projects) and provided in a KML file.” The project description does not indicate the specific geographic area(s) within which all project activity instances must occur. Rather, the area indicated in the project description as the “project area” (see Map 3a of the project description) includes only those areas within the boundaries of the 377 concessions that were part of the project at validation. In addition, the KML file uploaded to the VCS website (accessed 6 May 2013 from the VCS Project Database; <http://www.vcsprojectdatabase.org/>) only includes the 377 concessions that were part of the project at validation. Therefore, any modification to the list of concessions was approved at validation, and included in the KML file that was provided to the VCSA, must be considered a project description deviation. As described in Section 2.2.4 below, the change in the list of project concessions was confirmed by the audit team to have been correctly carried out. The audit team can confirm that the project remains in conformance with the VCS rules.

Project description deviation 04

The description of parameter “Emissions by biomass burning”, in Section 4.1 of the project description, indicates that it is assumed that “55 % of the deforested forest is burnt”. This assumption was made in the ex-ante quantification of baseline and project emissions. However, as noted in the monitoring report, it has been assumed, in the quantification of project emissions within the project area, that 100% of the carbon stock change in the transition from forest to the “farming”, “agriculture”, “pastures” and “secondary forest” land-uses represents biomass that is burned. The audit team agrees that this is an appropriate deviation, as it will have a clearly conservative impact on the quantification of emissions in the project scenario, relative to the approach set out in the project description.

Another change has occurred that, although not a clear deviation to information contained within the project description, constitutes a deviation to the quantitative approach that was approved at validation (the results of which are provided in the project description). It was assumed, in the ex-ante quantification of project and baseline emissions, that 55% of the carbon stock change in the transition from forest to the “infrastructure” land-use represents biomass that is burned. However, it has been assumed in the quantification of project emissions that no biomass burning has occurred in the transition to the “infrastructure” land-use. In support of this, the audit team was provided with convincing evidence documenting that instances of conversion to the “infrastructure” land-use, during the monitoring period, are overwhelmingly linked to the construction and maintenance of roads. The audit team was provided with further evidence that government regulations permit the burning of biomass in road construction only in special circumstance, and the audit team received an email from an individual in the road-construction industry, who affirmed that burning of biomass is not a common practice in road construction. Thus, the audit team agrees that the assumption made in the quantification of project emissions is reasonable. The discrepancy of this change in approach with respect to the quantification of baseline emissions is minimal, as only 2.32% of deforestation in the baseline scenario was attributed to conversion to the “infrastructure” land-use (as indicated in Table 18a of the project description).

This deviation has been approved by the audit team in accordance with the VCS rules.

2.2.4 New Project Activity Instances

As required by Sections 5.3.14-5.3.17 of the VCS Standard, a risk-based validation assessment of the changes to the project area and leakage belt, as described in Sections 2.2-2.3 of the monitoring report, was performed by the audit team.

Through visual inspection and comparison with the pre- and post-addition project area and leakage belts, it was confirmed that the appropriate area of the new project activity instance concession described in Section 2.2 was appropriately added to the project area and subtracted from the leakage belt. Through a similar review, it was confirmed that the appropriate area of the concession mistakenly included as a project activity instance at validation was removed from the leakage belt and added to the project area. (“Appropriate area” means the area of the concession, excluding areas that were non-forest 10 years prior to the project start date and peat soils, according to the applicability conditions of the REDD-MF methodology framework). The audit team reviewed the records of the concession corresponding to the project activity instance to be included in the area, and confirmed that a valid concession contract, assignment of rights agreement and management plan (see Section 3.2 below for a description of these documents) were on file. The audit team confirmed that the vertices of the concession area in the GIS system matched the vertices included in the legal description of the concession contract.

During the desk review and through field reconnaissance during the site visit, the inclusion of new Project Activity Instances (PAIs) was evaluated. The audit team confirmed that the new PAIs were within the designated geographic area for the grouped project (Map 1 in Section 2.2 of the Monitoring Report) as well as complied with the complete list of eligibility criteria described in the PD and Monitoring Report (Section 2.2., PD Deviations). Given their location with the grouped project geographic area, the new PAIs were also evaluated for conformance to the baseline and it was found to be reasonable because the new PAIs are located in the leakage belt. In the validated PD, both the original PAIs and the surrounding leakage belt were found to have the same baseline determination. In fact, the baseline scenario is applicable to the larger Reference Region to Project the Location of Future Deforestation in the Baseline Scenario (RRL).

With respect to additionality, the PAIs were found to have characteristics that support the additionality demonstrated by the PAIs and the designated geographic area in the validated PD. The new PAIs face the same threats and agents of deforestation, as supported by interviews with Brazil Nut concession holders.

In addition to the assessment of baseline and additionality for the PAIs, the PD describes an additional set of eligibility criteria for the inclusion of new PAIs that was reviewed during the assessment through document review, interviews, and the inspection of the data management system. Because it was determined not feasible to undertake a detailed assessment of each new instance described in Section 2.3 of the monitoring report, a sample of instances was selected for detailed review. A sample size of 6 instances was based on the square root of the number of instances to be added (rounded up to the nearest integer), a common method of determining sample size in auditing practice. A systematic sample (with a random start) from a sorted list was drawn, with concessions being sorted based on forested area in order to capture the full gradient of concession sizes. Each concession had an equal probability of selection.

The following checks were done to assess the 6 sampled instances:

- In order to confirm conformance to the eligibility requirements set out in Section 1.13 of the project description, a review of records was undertake to ensure that a valid concession contract, assignment of rights agreement and management plan were on file. In some cases, project personnel did not have a copy of the concession contract and/or management plan, but it was possible to obtain a resolution document (formerly titled “Resolución Administrativa Aprobando el Plan Operativo Anual” and issued by the government to indicate approval of a management plan), which provided implicit proof of existence of a concession contract and management plan, as both documents would have to exist in order for a resolution to be issued.
- For each instance, the above records were cross-checked at the relevant Forestry Technical Administration office (for the province of either Tahuamanu or Tambopata) to ensure that concession contracts were also on file in those offices.
- The area of each concession, as included in the project GIS system, was cross-checked against the area as indicated in either the concession contract or the resolution document. Where a concession contract was available (i.e., in most cases), the shape of the concession was cross-checked between the schematic in the concession contract and the shape of the concession in the GIS system.

- The process of excluding non-forested area from the area of the corresponding concession included in each instance (using the updated Forest Cover Benchmark Maps discussed in Section 4.2 below) was confirmed to be correctly carried out.
- Through visual inspection and comparison with the pre- and post-addition project area and leakage belts, it was confirmed that the area of each instance was appropriately removed from the leakage belt and added to the project area.

In addition, the following checks were made to confirm the appropriateness of the addition of all project activity instances described in Section 2.3 of the monitoring report:

- The new instances were viewed in the project GIS system alongside the previously existing instances, roads and rivers in order to confirm that the new instances have “similar characteristics” to the previously validated instances “in terms of size, distance to roads, physiography, condition of the holder of the concession”, as required by Section 1.13 of the project description.
- The audit team observed the calculation of the area of all the new instances. The audit team confirmed that, as reported in the monitoring report, the additional instances represent an addition of 18,043.06 hectares to the project area.

Finally, the audit team confirmed, through strategic observation of area calculation procedures and simple arithmetic, that no changes to the project area and leakage belts, other than those described in the monitoring plan, occurred.

In conclusion, the audit the audit team has a reasonable level of assurance that all changes made to the project area and leakage belt (including those relating to the addition of new project activity instances) are compliant with the VCS rules. All of the sampled instances were found to be in compliance, and no changes to the sampling methods as a result of the assessment findings were required. The audit team can confirm appropriateness of the areas provided within Table 5 of the monitoring report.

2.3 Validation Conclusion

The project description deviations described in Section 2.2.3 above conform to Section 3.6.1 of the VCS Standard. Proceeding on the assumption that all other aspects of the project were confirmed at validation to conform to the VCS rules, the audit team can attest that the project remains compliant with the VCS rules.

3 VERIFICATION PROCESS

3.1 Method and Criteria

The verification was performed through a combination of document review, interviews with relevant personnel and on-site inspections, as discussed in Sections 3.2 through 3.4 of this report. At all times, the project was assessed for conformance to the criteria described in Section 1.2 of this report. As discussed in Section 3.5, findings were issued to ensure that the project was in full conformance to all requirements.

Prior to the site inspections documented in Section 3.4 below, a sampling plan was assembled that highlighted the areas of highest risk of material error. These included the reported wood volumes and the

reported measurements of skid trails, logging roads and logging decks. A verification plan was constructed that took the sampling plan into account.

3.2 Document Review

The monitoring report (version 05, dated 13 November 2013) and supporting documentation were carefully reviewed for conformance to the verification criteria.

In addition to the monitoring report, the following written documents (e.g., reports, memos, land deeds and titles) were reviewed to ensure conformance of the project to the VCS rules and the methodology:

Document (Date Created)	Date Reviewed
"Degradation monitoring: conclusions of the first step (PRA) to measure the degradation potential due to illegal felling" (not dated)	July 2013
Resolution documents (entitled "Resolución Administrativa Aprobando el Plan Operativo Anual") for the six new project activity instances described in Section 2.2.4 above	July 2013
"Assignment of rights" agreements for the six new project activity instances described in Section 2.2.4 above	July 2013
Concession contracts (entitled "Contrato de Concesión para Manejo y Aprovechamiento de Productos Forestales a la Madera en el Departamento de Madre de Dios") for some of the six new project activity instances described in Section 2.2.4 above	July 2013
approved management plans for some of the six new project activity instances described in Section 2.2.4 above	July 2013
"Gestión de los Riesgos del Proyecto" (August 2011)	July 2013
an investment agreement with a reputable firm, as described in Appendix B below (28 February 2013)	July 2013
Bank records for the project proponent (October 2012-July 2013)	July 2013
Climate, Community & Biodiversity Standards Project Design Documentation (6 May 2013)	June-July 2013
"Carta No 1286-2013-GOREMAD-GGRNYGMA-DRFFS" (17 September 2013)	
Concession contracts and/or resolution documents for the sampled project activity instances described in Section 4.1 below	September 2013

3.3 Interviews

Interviews constituted an important component of the audit process. The following personnel associated with the project proponent and/or implementing partner were interviewed. The phrase “throughout audit” under “Date Interviewed” indicates that the individual in question was interviewed on multiple occasions throughout the audit process.

Individual	Affiliation	Date(s) Interviewed
Jorge Torres Padilla	Bosques Amazónicos	Throughout audit
Natalia Woo	Bosques Amazónicos	Throughout audit
Andres Huby	Bosques Amazónicos	12-18 July 2013
Marco A. Villegas Paucar	Bosques Amazónicos	12-18 July 2013
Cesar Alejandro Huisa Lopez	Bosques Amazónicos	12-18 July 2013
Jerry Martinez Gonzales	Bosques Amazónicos	12-18 July 2013
Edgard Collado Delgado	-	12-18 July 2013
Leoncio Huisa Lopez	-	12-18 July 2013
Pedro Ruiz	Bosques Amazónicos	18 July 2013, 18-19 September 2013
Lizardo Fachín Malaverri	Instituto de Investigaciones de la Amazonía Peruana	18 July 2013
David Asturima Huamantica	FEPROCAMD	16 July 2013
[various FEPROCAMD employees]	FEPROCAMD	16 July 2013

The following personnel not associated with the project proponent and/or implementing partner were interviewed.

Individual	Affiliation	Date Interviewed
Carlos Salazar	Directorate of Forestry and Wildlife of Tambopata	15 July 2013
Chaleb Ruiz Vera	Directorate of Forestry and Wildlife of Tahuamanu	15 July 2013
Various individuals	[a variety of concessionaires, both those involved with the project and those not involved with the project]	12-18 July 2013

3.4 Site Inspections

The objectives of the on-site inspections performed were to:

- Select samples of data from on-the-ground measurements for verification in order to meet a reasonable level of assurance and to meet the materiality requirements of the project, as required by Section 5.1.3 of the VCS Standard;
- Perform a risk-based review of the project area and project activities to ensure that the project conformed to the requirements of the VCS rules and the methodology throughout the monitoring period; and
- Ensure that monitoring was conducted in accordance with the requirements of the validated monitoring plan, the methodology employed and the VCS rules.

In fulfilment of the above objectives, the audit team performed an on-site inspection of the project area on the dates 21-25 April 2013. The main activities undertaken by the audit team were as follows:

- Interviewed project personnel (see Section 2.3 of this report) to gather information regarding the monitoring procedures and project implementation;
- Interviewed project personnel to confirm the appropriateness of the non-permanence risk score claimed for the project (see Appendix B for further details);
- Conducted appropriate cross-checks to confirm the validity of the data used to quantify the parameters required to be monitored by the methodology;
- Conducted a field review of measurement systems employed to determine the area of skid trails, logging decks and logging roads, as required by the methodology;

Subsequent to the on-site inspection, web-based meetings were conducted with project personnel, on 18-19 September, to confirm methods used to exclude a subset of project activity instances from the quantification of GHG emission reductions, as described in Section 4.1 below.

3.5 Resolution of Any Material Discrepancy

Any potential or actual material discrepancies identified during the assessment process were resolved through the issuance of findings. The types of findings issued by SCS were characterized as follows:

Non-Conformity Report (NCR): An NCR signified a material discrepancy with respect to a specific requirement. This type of finding could only be closed upon receipt by SCS of evidence indicating that the identified discrepancy had been corrected. Resolution of all open NCRs was a prerequisite for issuance of a verification statement.

New Information Request (NIR): An NIR signified a need for supplementary information in order to determine whether a material discrepancy existed with respect to a specific requirement. Receipt of an NIR did not necessarily indicate that the project was not in compliance with a specific requirement. However, resolution of all open NIRs was a prerequisite for issuance of a verification statement.

Opportunity for Improvement (OFI): An OFI indicated an area that should be monitored or ideally, improved upon. OFI's were considered to be an indication of something that could become a non-conformity if not given proper attention, and were sometimes issued in the case that a non-material discrepancy was identified. OFIs were considered to be closed upon issuance.

All findings issued by the audit team during the verification process have been closed. In accordance with Section 5.3.6 of the VCS Standard, all findings issued during the verification process, and the impetus for their closure, are described in Appendix A of this report.

4 VERIFICATION FINDINGS

4.1 Project Implementation Status

As described in Section 5 of the monitoring report, a number of project activity instances were excluded from the quantification of GHG emission reductions for purposes of reporting and verification. The baseline emissions during the monitoring period, as confirmed at validation and set out in Table 31 of the validated project description, included emissions from deforestation over the entire project area. Therefore, as GHG emission reductions were only reported for a subset of the project area, it was necessary to adjust the baseline emissions, for purposes of the quantification of GHG emission reductions, to only reflect baseline emissions projected to have occurred within that portion of the project area for which GHG emission reductions were reported.

Note that, contrary to what is reported within the monitoring report, this activity does not constitute a change to the project area. The audit team has confirmed with the VCSA (via written guidance issued 19 September 2013) that, once confirmed to be part of the project area through validation, project activity instances cannot be removed from the project area during the project lifetime. However, this is simply an activity of only reporting GHG emission reductions for a subset of the project area. The area for which GHG emission reductions have been reported will be termed the "project area subset" for the remainder of this report.

The audit team confirmed the appropriate adjustment to the quantification of the GHG emission reductions through the following activities:

- The audit team reviewed records for a sample of the concessions to be excised from the reported GHG emission reductions. The audit team compared the boundaries of the sampled concessions in the project GIS system against official documentation (either the concession contract or, in the case that the boundaries of the concession had been modified since the concession contract was executed, the resolution document) to confirm that the boundaries matched and that the areas in the official documentation were consistent with those for the concessions as contained within the GIS database. A discrepancy was identified for one concession, but it was determined to be quantitatively immaterial by the audit team.
- The audit team reviewed (within the GIS system used by the project) the boundaries of the sampled concessions (as described in Section 2.2.4 above), and the boundaries of the excluded concessions (as described previously within this section), against the boundaries of the project area subset in order to confirm the absence of any spatial overlap.

- By observing replication of the entire process, the audit team confirmed that the raster files indicating the cumulative number of pixels converted to a non-forest land use in each year of the monitoring period were correctly intersected with the project area subset in order to produce the projected baseline area deforested within the project area subset in each year of the monitoring period, for use in the validated calculation workbook. The audit team confirmed that the raster files used in the above analysis were identical to those used in the validated baseline analysis by observing replication of the entire process of intersection of the raster files with project area shapefile that was confirmed at validation, in order to confirm that the output was consistent with that reported in Table 18 of the validated project description.
- The audit team confirmed that the procedures for quantification of baseline emissions, as used in the modified calculation of baseline emissions, were identical to those that were used to produce the values that are reported in Table 31 of the validated project description. The audit team confirmed this by pasting the validated baseline area deforested into the revised calculation workbook and confirming that the output values were identical to those in Table 31.

While the audit team was not able to confirm that the project has been implemented as described in the Section 2.1 of the monitoring report, it was clear during on-site activities that a good working relationship exists between the project proponent and the Federación de Productores de Castaña de Madre de Dios (FEPROCAMD), an implementing partner that represents Brazil nut concessionaires in the Madre de Dios region. The audit team was able to confirm that the project proponent and FEPROCAMD have been working together to resolve issues of boundary overlap within the concessions (as is discussed further regarding the “Land Ownership and Resource Access/Use Rights” in Appendix B below).

4.2 Accuracy of GHG Emission Reduction or Removal Calculations

The M-MON module requires that several parameters be monitored for quantification of project emissions. The observations of the audit team with respect to the quantification of each parameter are described below. Unless noted, each parameter has been quantified in a manner that complies with the methodology and is sufficiently accurate to meet the materiality threshold required by the VCS rules.

While some timber harvest occurred within the project area subset during the monitoring period, the emissions from such harvesting were omitted as de minimis, in accordance with Section 4 of the M-MON module. However, as the reporting of such emissions was within the scope of the verification assessment, the findings regarding the quantification of timber harvest emissions are discussed below.

Parameter/ Module	Verification Findings
Degradation PRA Results (M-MON)	As required by the M-MON module, this parameter was determined on the basis of a participatory rural appraisal (PRA). As described in the document “Degradation monitoring: conclusions of the first step (PRA) to measure the degradation potential due to illegal felling”, the most recent PRA was carried out to assess the potential for illegal logging in August-September 2011. The adequacy of this PRA exercise was confirmed during the validation audit. Because the PRA must be repeated every two years, the in additional PRA must be performed on or before August-September 2013, and it will be the responsibility of the next verification audit team to confirm that the next PRA has been appropriately carried out. However, the PRA that was conducted in August-

Parameter/ Module	Verification Findings
	September 2011 is still valid for purposes of the monitoring period in question. Because the proportion of concessionaires interviewed who suffered illegal logging was less than 10%, an on-the-ground degradation survey was not required, per page 34 of M-MON.
A _{DefPA,u,i,t} (M-MON)	This parameter was quantified using two scenes from the ResourceSat-1 sensor. The audit team viewed the website from which the scenes were downloaded and confirmed that the selected scenes were entirely free of cloud cover. The procedures used for geometric and radiometric correction of the remotely sensed data were reviewed by the audit team and determined to conform to good remote sensing practice, as well as the monitoring plan. The audit team then confirmed that monitoring of deforestation within the selected scenes was implemented in accordance with the monitoring plan, with the exception of the project description deviations discussed in Section 2.2.3 above. The monitoring was undertaken by a qualified expert, and the audit team was able to confirm, through visual observation of the ResourceSat-1 scenes, that no deforestation occurred within the project area during the monitoring period.
A _{DefLB,u,i,t} (M-MON)	This parameter was quantified using the same remotely sensed data, and the same analytical techniques, described above. The audit team confirmed, through visual review of the land classification polygons in comparison to the ResourceSat-1 data, that the classification procedures used to determine the quantity of area of land-cover change in the leakage belt were appropriate, replicable and justified. The audit team also observed replication of the calculation of the quantity of area deforested per post-deforestation land use reported within the leakage belt, and the calculated values were identical to those reported for the project.
A _{ROADi,t} (M-MON), A _{DECKSi,t} (M-MON)	These parameters were quantified using a transect sampling approach. The audit team confirmed the values reported for this parameter by confirming the correctness of the procedures employed to calculate said values. In addition, the audit team assessed the process of measuring a sample of transects. The following activities were carried out for this sample: • The audit team viewed the transects being remeasured by project personnel in the field and assessed the consistency of the approach taken and its ability to deliver accurate data. • The audit team confirmed that data were appropriately entered from field sheets into the project reporting workbook. While some opportunities for improvement were identified by the audit team in the measurement of roads and logging decks, no material errors were identified during the audit team's review. It should be noted that the area of roads and decks was calculated based, in part, on the

Parameter/ Module	Verification Findings
	area harvested. The area harvested was determined on the basis of GIS analysis regarding the forested area of each concession harvested and the forest type and stratum within which each harvest concession was located and the average ratio of the “plan operativo anual” (POA) area (the area that was harvested each year) to total concession area. The process used to determine harvested area was reviewed by the audit team and found to be reasonable. In addition, inputs to this process (such as information on area covered by certain POAs) were reviewed by the audit team and found to be appropriately sourced.
L _{SKID,i,t} (M-MON)	As no skid trails were used during the monitoring period, this parameter is not applicable.
W _{SKID} (M-MON)	As no skid trails were used during the monitoring period, this parameter is not applicable.
V _{EXTj,z,i,t} (M-MON)	The audit team confirmed the correct quantification of this parameter, beginning with provision of reporting workbooks to project personnel by the Directorate of Forestry and Wildlife (the office responsible for administering concession contracts and tracking volume harvested on each concession). The audit team cross-checked a record for one sample concession with the corresponding record in the database of the Directorate of Forestry and Wildlife and found that the values matched exactly, thus confirming that no corruption of the data occurred following transfer of the data from the Directorate to project personnel. In a review of the quantification of this parameter in the project's reporting workbooks, no errors were detected by the audit team.
A _{DisPA,q,i,t} (M-MON)	It was indicated to the audit team that the quantity of area subject to natural disturbances in the project area was monitored through visual observation of the remotely sensed data. The audit team was able to confirm, through visual observation of the same data, that no natural disturbances had occurred in the project area prior to the date of acquisition of the remotely sensed imagery.
A _{burn,q,i,t} (M-MON)	The comments made directly above also apply to this parameter. It was clear to the audit team, through visual observation of the remotely sensed imagery, that no natural fires had burned in the project area prior to the date of acquisition of the remotely sensed imagery.
D _j (M-MON)	The audit team confirmed that the sourcing of wood density values complies with the relevant criteria of Section 4.5.6 of the VCS Standard, as referenced by Section 4.1.7(1) via Section 3.1.5. The sources for the wood density values applied were recognized, credible sources that were either reviewed for publication by an appropriately qualified peer review group or were published by government agencies. The sources were appropriate to the geographic scope of the project, being specific either to the Madre de Dios region or the country of Peru.

Parameter/ Module	Verification Findings
C _{LB} (LK-ASU)	As required by the LK-ASU module, the weighted average value for C _{LB} has been re-calculated for the present monitoring period, using information on the quantity of forest remaining in each stratum at the end of the monitoring period. The audit team confirmed that information from the remote sensing process (see the description of parameter A _{DefLB,u,i,t} above) was appropriately used to calculate the value for C _{LB} .
Uncertainty p,i (X-UNC)	The audit team confirmed that uncertainty of the estimate of project emissions was accounted for according to the X-UNC module. Section 5.2.2.2.2 of the M-MON module requires that “the uncertainty in carbon stocks estimates and resulting emissions must be included in the estimation of with-project scenario uncertainty calculations performed using the module X-UNC (VMD0017) during each verification event unless indisputably conservative estimates are used.” Project personnel provided a justification that, since estimates of the total quantity of carbon stock change in the construction of roads and logging decks is based on the area of said roads and logging decks, uncertainty in the area covered by roads and logging decks constitutes “the uncertainty in carbon stocks estimates and resulting emissions”, particularly since uncertainty in per-hectare carbon stock estimates is already accounted for in the quantification of baseline uncertainty. The requirements of the X-UNC module are not clear on this point, and therefore it was not clear that the approach undertaken by project personnel is out of conformance with the X-UNC module. The audit team confirmed that the quantification of uncertainty in area of logging decks and roads was technically correct. In addition, the audit team confirmed that uncertainties were combined in the manner required by the X-UNC module.

All other parameters were available at validation, and have been appropriately referenced in the calculation of GHG emission reductions. The audit team thoroughly reviewed the various workbooks used to report the GHG emission reduction calculations and confirmed the absence of any discrepancies. An obvious level of care and attention to detail was evident in the reporting workbooks, and this level of diligence manifested itself in the fact that absolutely no sloppy calculation errors (e.g., cell referencing errors, incomplete summation errors) were identified by the audit team.

4.3 Quality of Evidence to Determine GHG Emission Reductions or Removals

The evidence used to determine GHG emission reductions for the monitoring period was of high quality. A series of workbooks, which contained the high-level calculations for determination of project emissions, leakage emissions and the calculation of GHG emission reductions, was exceptionally well-organized. Supporting evidence (as described in Section 4.2 above), including remotely sensed imagery, data sheets and reports, was made fully available to the audit team. All of the evidence required by the methodology was found to be present during the audit team’s review.

4.4 Management and Operational System

The management and operational system undertaken for the project was found to be relatively sound, with good communication clearly evident between the different parties involved in the project. Project

personnel have a robust record-keeping system that is well suited for the documentation needs involved in maintenance of a complex grouped project with hundreds of project activity instances. As documented in Appendix A below, opportunities for improvement were identified by the audit team in the measurement of roads and logging decks. However, no material non-conformities currently exist for the monitoring period in question. In summary, the system currently in place was found to be of sufficient quality as to provide the audit team with a reasonable level of assurance as to the reported GHG emission reductions.

5 VERIFICATION CONCLUSION

The project conforms to the verification criteria for projects and their GHG emission reductions set out in the VCS rules. The audit team asserts no qualifications or limitations with respect to the statement above.

The audit team has been able to confirm, with a reasonable level of assurance, that the quantity of GHG emission reductions set out below has been quantified in accordance with the VCS rules. As documented in Appendix B, the audit team can also confirm that the non-permanence risk score of 11% has been quantified in accordance with the VCS rules.

Reporting period: From 01-January-2010 to 31-December-2012.

Verified GHG emission reductions or removals in the above reporting period:

GHG Emission Reductions or Removals	tCO ₂ e
Baseline Emissions	7,755,174.60
Project Emissions	1,904,717.24
Leakage	0.00
Net GHG emission reductions or removals (C_{REDD,t})	5,850,457.36
Confidence-deduction-adjusted net GHG emission reductions or removals (Adjusted_C_{REDD,t})	5,579,828.83

Because the monitoring period has multiple calendar years, and because the monitoring report has not specified the breakdown of GHG emission reductions by vintage, the GHG emission reductions, as stated above, have not been broken down by vintage. For purposes of consistency with the monitoring report, the values above have been specified to a precision of 0.01 tCO₂e or 0.01 buffer credit.

APPENDIX A: VERIFICATION FINDINGS

NIR 2012.1 dated 08/02/2013

Standard Reference: M-MON V2.0, Section 4; T-SIG

Document Reference: Significance Test v2.xlsx

Finding: The M-MON module states, as an applicability condition, that "Emissions from logging may be omitted if it can be demonstrated the emissions are de minimis using T-SIG" and that "if emissions from logging are not omitted as de minimis, logging may only take place within forest management areas that possess and maintain a Forest Stewardship Council (FSC) certificate for the years when the selective logging occurs". The audit team understands that logging activities took place within the project area during the monitoring period, and that the areas on which such activities took place did not possess a Forest Stewardship Council certificate for the years when the logging occurred. However, the document does not contain a clear demonstration that emissions from logging were de minimis during the monitoring period. Please provide this demonstration.

Client Response: We have removed from the Project Area 84 partner concessions that have made timber harvesting during the 2010-2012 period. Now, they are part of the leakage belt, leaving the PA with 293 partners from the original 377 ones. This change has demanded the update of all the workbooks previously presented (to version 3, attached). The insignificant level of the emissions due logging is now clearly demonstrated in the excel document "Significant test v3". Some other minor changes are presented in the corresponding workbook through comments. Additionally, we had to update the baseline estimations for this period, to accurately calculate the emissions reduction.

Auditor Response: As indicated in the Client Response, the reported quantification of GHG emission reductions has been modified such that the emission reductions for 84 project activity instances (i.e., concessions) are no longer reported. The workbook "Significance Test v4.xlsx" was provided as evidence that, with the logging emissions from the 84 project activity instances excluded from the analysis, logging emissions can be determined to be de minimis in accordance with the T-SIG tool. Therefore, the information request has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

OFI 2012.2 dated 08/02/2013

Standard Reference: VCS Standard V3.3, Section 3.16.2

Document Reference: NA

Finding: The VCS Standard requires that "Quality management procedures to manage data and information shall be applied and established."

In reviewing the measurement procedures used to determine the average width of logging roads, total length of logging roads and total area of logging decks in the measurement transects located in concession 17-TAH-C-OPB-J-058-04, the audit team noted specific situations where opportunities existed for additional documentation and training with respect to measurement procedures. These situations included the following:

- In locations where logging roads adjoined logging decks, it was not always clear how measurement personnel were to determine where logging roads began and logging decks ended (and vice versa).
- In locations where logging decks had a shape that was not clearly rectangular, it was not always clear how measurement personnel were to determine the axes along which to take measurements of length and width

- In locations where logging decks adjoined logging gaps created by recently fallen trees, it was not always clear how measurement personnel were to determine the exact boundaries of the logging decks. Taking steps to ensure that measurement procedures are as transparent as possible, and the measurements themselves as replicable as possible, will help to ensure the ongoing conformance of the project's monitoring and measurement systems to the VCS rules.

Client Response: A SOP is being prepared to provide guidance in the field work for evaluating timber harvest inside the BN concessions.

Auditor Response: While responses to Opportunities for Improvement are not required, it is encouraging to know that a Standard Operating Procedure is being prepared to increase the transparency and consistency of future monitoring efforts.

Closing Remarks: The Client's response adequately addresses the finding.

OFI 2012.3 dated 08/02/2013

Standard Reference: VCS Standard V3.3, Sections 3.1.1 and 2.4.1

Document Reference: NA

Finding: Section 3.1.1 of the VCS Standard states that "Projects shall be guided by the principles set out in Section 2.4.1." The principle of completeness, as set out in Section 2.4.1, requires that projects "include all relevant GHG emissions and removals".

In reviewing the measurement procedures used to determine the average width of logging roads, total length of logging roads and total area of logging decks in the measurement transects located in concession 17-TAH-C-OPB-J-058-04, the audit team learned that, while performing the measurements, project personnel had been unable to access certain roads and logging decks because of timber harvesting activity that was taking place. The audit team learned that, on these occasions, the project personnel did not measure the road or logging deck in question and the emissions from the road or logging deck in question were not included in the quantification of project GHG emissions. This situation is of concern to the audit team because such omission is not consistent with the principle of completeness, which requires accounting of all emissions that are included in the project boundary. Although the audit team is confident that such omission did not cause a material error in the quantification of GHG emission reductions, it is possible that such a material error may occur in the future if the situation continues. Efforts on the part of project personnel to ensure that all logging roads and logging decks can be measured in the future will help to ensure the ongoing conformance of the quantification of GHG emission reductions to the VCS rules.

Client Response: A SOP is being prepared to provide guidance in the field work for evaluating timber harvest inside the BN concessions.

Auditor Response: While responses to Opportunities for Improvement are not required, it is encouraging to know that a Standard Operating Procedure is being prepared to increase the transparency and consistency of future monitoring efforts.

Closing Remarks: The Client's response adequately addresses the finding.

NIR 2012.4 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.3.1(9)

Document Reference: NA

Finding: The AFOLU Non-Permanence Risk Tool requires that "where there are overlapping access/usage rights within the project area... It shall be demonstrated, in addition to the VCS requirements for right of use, that the project has endorsement (such as a legal agreement or memorandum of understanding) from all entities with credible ownership claims or land/resource access/use rights (such as customary rights holders), including from formal and/or traditional authorities." As explained to the audit team during the site visit, the Peruvian government has granted individual concessionaires the right to access the land described within the concession contract for their concession, and (within limits) to use the resources within it. During the site visit, the audit team learned that there are many instances where overlap occurs between the boundaries of individual concessions, as stated in the concession contracts. The audit team was provided with evidence to indicate that, in 14 individual cases, the boundary of a concession that has joined the project has overlapped with the boundary of a concession that has not joined the project. As the concessionaires that have not joined the project have not signed a contract to cede carbon rights to FEPROCAMD, and as they hold access/use rights over their individual concessions, the 14 instances of boundary overlap between concessions that are part of the project and concessions that are not part of the project constitute instances of overlapping access/use rights. Therefore, please provide evidence that the project has endorsement from the concessionaires of the 14 non-project concessions for which the situation described above exists.

Client Response: [No formal response was provided to this finding.]

Auditor Response: In response to this finding, the audit team was provided with a letter, dated 17 September 2013, that was provided by the Direccion Regional Forestal y Fauna Silvestre (the Forestry Directorate) of the Regional Government of Madre de Dios. As translated into English, the letter affirms the following:

- "Overlapping between Brazil nut Concessions with other Brazil Nut Concessions does not affect the sustainable management of the forest neither the flora nor the fauna in the overlapped area, because the management is based on the collection of the Brazil nut fruits."
 - "In addition, it must be highlighted that the overlapping only happens in the digital database, not necessarily in the field."
 - "...it must be mentioned that current overlapping does not reflect conflicts or risks on the sustainable management of the concession because the Brazil nut concessionaires know who the owner of each road in the field is and all the trees are clearly identified of who has the right to collect their fruits."
- The above statements are consistent with the understanding of the audit team, based on many interviews with the concessionaires. During the site visit, the audit team did not observe evidence of, or hear about, any conflict due to the overlapping boundaries. Interviews with the organization that represents concessionaires in the region confirmed that, where overlaps exist, they exist only in the description in the contract, and do not affect the situation on the ground.

Section 2.3.1(8) of the AFOLU Non-Permanence Risk Tool requires that "Evidence shall be provided that due process has been undertaken to discover any disputes over ownership and land/resource access/usage rights, including to determine whether there are overlapping boundaries or competing claims on the land or resources that may place carbon stocks in pools included in the project boundary at risk of reversal." In an email dated 20 September 2013, the VCSA provided guidance clarifying that "The intention of requirement in section 2.3.1(8) is that only overlapping boundaries or competing claims on the land resources that may place carbon stocks in pools included in the project boundary at risk of reversal must be addressed, not any overlapping boundaries or competing claims."

Because it is the judgment of the audit team (as supported by official documentation) that the instances of overlapping boundaries are unlikely to place carbon stocks at risk of reversal, it is determined that a situation of overlapping access/use rights does not exist. Therefore, the information request is not relevant, and can be withdrawn.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.5 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.3.1

Document Reference: T-BAR - Castañeros REDD Project.docx, pages 8-9

Finding: The AFOLU Non-Permanence Risk Tool allows a mitigation risk score to be claimed for the sub-category "Land Tenure and Resource Access/Impacts" in the situation that "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". As indicated in pages 8-9 of the risk report, this particular score has been claimed by the project. The audit team agrees that there are overlapping access/use rights (see NIR 2012.4). In addition, the audit team has been able to confirm that efforts have been made to resolve instances of overlapping rights. However, it is the audit team's understanding that there are no disputes over access/use rights among concessionaires. Therefore, the mitigation risk score in question is not applicable to the project.

Client Response: OBSERVATION DELETED

Auditor Response: Subsequent to the issuance of this finding, the audit team received guidance from the VCSA (in an email dated 29 August 2013) indicating that "item (d) from the Land Tenure and Resource Access/Impacts sub-category of the Risk Tool is intended to apply where there are overlapping access and/or use rights, even where there does not appear to be a "tension" or "confrontation" with respect to those overlapping rights". Therefore, the finding should not have been issued, and is withdrawn. The audit team can confirm that the mitigation risk score in question is applicable to the project.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.6 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.2.2

Document Reference: T-BAR - Castañeros REDD Project.docx, pages 5-6

Finding: The AFOLU Non-Permanence Risk Tool allows a mitigation risk score to be claimed for the sub-category "Financial Viability" in the situation that "Project has available as callable financial resources at least 50% of total cash out before project reaches breakeven". As indicated in page 6 of the risk report, this particular score has been claimed by the project. The risk report states that "Upon the reception of the Monitoring Report by an independent auditor, the project will receive US\$675,000. This will allow the project to complete at least 50% of the total cash outflows before breakeven (US\$1.55 million)." However, the \$675,000 referred to above is already included in the quantity of funding secured, as described in the following quote from page 5 of the risk report: "Part of the forward sales has been prepaid (~US\$1.3m) and part will be received upon delivery of the Monitoring Report to the VCS auditor (US\$675,000) and upon delivery of credits to our clients in their registry account (US\$730,000)". As callable financial resources must be those resources "not included in secured funding", the AFOLU Non-Permanence Risk Tool does not permit the \$675,000, which has already been included in secured funding, to be considered a callable financial resource.

Client Response: The mitigation risk score in question is not being used anymore, and the total score for the Financial Viability section is equal to zero.

Auditor Response: As indicated in the Client Response, the risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx") no longer indicates that the mitigation risk score has been claimed. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.7 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.3.2

Document Reference: T-BAR - Castañeros REDD Project.docx, page 10

Finding: The AFOLU Non-Permanence Risk Tool requires a risk score of 5 to be applied to the "Community Engagement" sub-category in the event that "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". The risk report states that "In despite of the many actions developed, a consultation process per se with people living in a 20km buffer zone outside the leakage belt has not been carried out." However, the audit team has confirmed that most individuals who live within 20 km of the project boundary outside the project area, and who are reliant on the project area, are the concessionaires for the concessions that are part of the project, as well as their families and employees. The audit team was able to confirm that these groups have been consulted. Therefore, the risk score is not applicable to the project.

Client Response: The risk score (b) is not being used anymore, and the Community Engagement score is now equal to -5 (which is allowed in that section).

Auditor Response: As indicated in the Client Response, the risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx") has been revised such that the risk score for item (b) is no longer applied. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NIR 2012.8 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.4.1

Document Reference: T-BAR - Castañeros REDD Project.docx, page 13

Finding: The AFOLU Non-Permanence Risk Tool requires that "Natural risk is based on likelihood (ie, the historical average number of times the event has occurred in the project area over the last 100 years) and significance (ie, the average significance of each event). Any significant natural risk (ie, a risk affecting more than 5% of the project area) that has occurred over the past 100 years in the project area shall be considered applicable to the project." For fire, the non-permanence risk report indicates that a score of 1 should be applied for fire risk. However, it has been indicated that this score was applied on the basis of an understanding that the risk of fire includes all fire (whether natural or human-caused). It is the understanding of the audit team, based on communication with VCSA, that the risk is only intended to apply to fire ignited by natural sources. As the audit team can confirm, on the basis of professional judgment, that such fires do not exist in the region of the project, the risk score is not applicable to the project.

Client Response: The score for Risk of Fire is not being used anymore, which makes the total Natural Risk section equal to zero.

Auditor Response: As indicated in the Client Response, the risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx") has been revised such that the risk for natural fire is correctly indicated as zero. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.9 dated 08/02/2013

Standard Reference: X-UNC V2.0, Equation 7

Document Reference: Uncertainty Analysis.xlsx

Finding: Equation 7 of the X-UNC module requires that the combined uncertainty in all pools be divided by the sum of emissions in the project area in the project scenario. Review of the calculation of the value in cell B27 of worksheet "Uncertainty ExPost" of workbook "Uncertainty Analysis.xlsx" indicates that the reported uncertainty has only been divided by the sum of emissions from infrastructure creation rather than the sum of all emissions in the project scenario.

Client Response: The emissions from extracted timber and damaged biomass were added in the sum, to account for all emissions in the project scenario. The correction (and some explanatory comments) can be seen in the excel doc "Uncertainty Analysis v3"

Auditor Response: Through review of the updated uncertainty workbook ("Uncertainty Analysis v3.xlsx"), the audit team was able to confirm that the emissions from timber extraction have been appropriately accounted for. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.10 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.2.4

Document Reference: T-BAR - Castañeros REDD Project.docx, page 7

Finding: The AFOLU Non-Permanence Risk Tool requires that the formula $30 - (\text{project longevity}/2)$ be used to calculate the score for the "Project Longevity" sub-category in the event that there is a legal agreement or requirement to continue the management practice. While the risk report asserts (and the audit team agrees) that there is a legal requirement to continue the management practice, this formula has not been used to calculate the risk score. The formula $24 - (\text{project longevity}/5)$, which is appropriate for the situation where there is not a legal requirement to continue the management practice, has been used instead.

Client Response: The appropriate formula is being used now: $30 - (\text{project longevity}/2)$. Additionally, the project longevity was corrected because there are 31 years of accreditation, not 30. Therefore, the Project Longevity section has a score of 14.5

Auditor Response: As indicated in the Client Response, the risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx") has been revised to use the correct formula to calculate the project longevity score. The audit team agrees that the revision of the project longevity from 30 years to 31 years is appropriate, as this is the duration of the crediting period. The non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.11 dated 08/02/2013

Standard Reference: VCS Standard V3.3, Section 3.16.3

Document Reference: VCS Monitoring Report Castañeros REDD Project v1.pdf; Cp Estimations in BAM v2.xlsx; VCUs Estimations BAM v2.xlsx

Finding: The VCS Standard requires that the monitoring report contain "The calculation of net GHG emission reductions and removals". While the net GHG emission reductions are presented in the monitoring report, the following values are not consistent with the values in spreadsheets provided to the audit team:

The value of 2,297,832.24 for the emissions in the project area (inconsistent with the values presented in "Cp Estimations in BAM v2.xlsx")

The value of 6,823,496.74 for the uncertainty-adjusted GHG emission reductions (inconsistent with the values presented in "VCUs Estimations BAM v2.xlsx")

The value of 1,228,230.3 for the non-permanence risk buffer (inconsistent with the values presented in "VCUs Estimations BAM v2.xlsx")

The value of 4,920,840.72 for the number of VCUs (inconsistent with the values presented in "VCUs Estimations BAM v2.xlsx")

Client Response: The values in the Monitoring Report have been updated.

Auditor Response: The corresponding values in the updated monitoring report ("Castañeros REDD Project - VCS Monitoring Report v2.pdf") were reviewed and found to be consistent with the values in the following workbooks, which have been confirmed to be correct by the audit team:

- VCUs Estimations BAM v5.xlsx
- Cp Estimations in BAM v3.xlsx
- Leakage Estimations in BAM v5.xlsx
- Uncertainty Analysis v3.xlsx

Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.12 dated 08/02/2013

Standard Reference: AFOLU Requirements V3.3, Section 3.7.3

Document Reference: T-BAR - Castañeros REDD Project.docx

Finding: The AFOLU Requirements states that "The non-permanence risk report shall be prepared using the VCS Non-Permanence Risk Report Template, which may be included as an annex to the project description or monitoring report, as applicable, or provided as a stand-alone document." The non-permanence risk report has not been prepared using the VCS Non-Permanence Risk Report Template.

Client Response: The updated template is being used now, and the Non-Permanence Risk Report will be send as an annex of the Monitoring Report.

Auditor Response: As indicated in the Client Response, the risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx") has been updated to use the version of the VCS Non-Permanence Risk Report Template (Version 3.1) that prevailed at the time of the closure of this finding. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.13 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.2.3

Document Reference: Scenarios Calculations (T-ADD and T-BAR).xlsx

Finding: The AFOLU Non-Permanence Risk Tool requires that "The opportunity cost analysis shall include a net present value (NPV) analysis, covering the project crediting period, of such alternatives as compared to the project, taking into consideration a conservative estimate of revenue from GHG credit sales and other project revenue streams, and potential price fluctuations of commodities impacted by the project." The opportunity cost analysis, as presented in the workbook "Scenarios Calculations (T-ADD and T-BAR).xlsx", does not cover the project crediting period.

Client Response: The opportunity cost analysis made is no longer applicable. We have changed the analysis as the majority of baseline activities are subsistence-driven. The chosen alternative is now letter d (where baseline activities are subsistence-driven, net positive community impacts are demonstrated).

Auditor Response: As indicated in the Client Response, the risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx") has been updated to use the version of the VCS Non-Permanence Risk Report Template (Version 3.1) that prevailed at the time of the closure of this finding. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NIR 2012.14 dated 08/02/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.2.3

Document Reference: Scenarios Calculations (T-ADD and T-BAR).xlsx

Finding: The AFOLU Non-Permanence Risk Tool requires that "The opportunity cost analysis shall include a net present value (NPV) analysis, covering the project crediting period, of such alternatives as compared to the project, taking into consideration a conservative estimate of revenue from GHG credit sales and other project revenue streams, and potential price fluctuations of commodities impacted by the project. The financial discount rates used shall be based on published sources and represent the appropriate risk for the relevant land use scenario. The analysis shall be undertaken in a transparent manner and shall provide all relevant assumptions, parameters, and data sources such that a reader may reproduce the analysis and determine the same results."

Please provide evidence that the financial discount rate used is based on published sources and represents the appropriate risk for the relevant land use scenario. Please provide all relevant assumptions, parameters, and data sources that were used in the creation of the workbook "Scenarios Calculations (T-ADD and T-BAR).xlsx".

Client Response: The opportunity cost analysis made is no longer applicable. We have changed the analysis as the majority of baseline activities are subsistence-driven. The chosen alternative is now letter d (where baseline activities are subsistence-driven, net positive community impacts are demonstrated).

Auditor Response: As indicated in the Client Response, the risk assessment documented in the risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx") has been revised to consider the majority of baseline activities as subsistence-driven. The conclusion that the majority of baseline activities (particularly those activities that are not related to the Brazil nut industry) as subsistence-driven is consistent with the understanding of the audit team, as the audit team has observed that the majority of deforestation in and around the project area has characteristics (e.g., small patches of land clearing) that are consistent with subsistence agriculture. Therefore, the information request is no longer relevant, and the finding will be withdrawn.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.15 dated 08/02/2013

Standard Reference: VCS Standard V3.3, Sections 3.4.2, 3.10.1(2) and 3.14.2

Document Reference: VCS Monitoring Report Castañeros REDD Project v1.pdf, Sections 2.3 and 5

Finding: Section 3.10.1 of the VCS Standard states that "Project location shall be specified in the project description as follows... Project location for grouped projects shall be specified using geodetic polygons to delineate the project's geographic area or areas (see Section 3.4.2 for further information on geographic areas for grouped projects) and provided in a KML file." Section 3.4.2 states that "Grouped projects shall have one or more clearly defined geographic areas within which project activity instances may be developed. Such geographic areas shall be defined using geodetic polygons as set out in Section 3.10 below."

The above sections confirm that the project description must contain a specification of the geodetic polygons that delineate the geographic area within which project activity instances may be developed.

The KML file that was submitted for registration of the project should also have delineated that geographic area within which project activity instances may be developed.

However, it appears that the project description does not contain a clear specification of the area within which project activity instances may be developed. In addition, the KML file on the VCS website does not delineate the geographic area within which project activity instances may be developed, but rather indicates only those project activity instances that were approved at validation. Therefore, the addition of new project activity instances, as described in Section 2.3 of the monitoring report, must be considered a project description deviation. The deviation does not impact the applicability of the methodology, additionality or the appropriateness of the baseline scenario, and the project remains in compliance with the applied methodology. However, while the deviation has been generally described and justified in Section 2.3 of the monitoring report, it has not been specifically described and justified as a project description deviation.

In addition, the modification of the project area and leakage belt to account for the mistaken inclusion of a non-project concession, and the mistaken exclusion of a project concession, in the project area as confirmed at validation also constitutes a project description deviation, for similar reasons. While the deviation has been generally described and justified in Section 5 of the monitoring report, it has not been specifically described and justified as a project description deviation.

Client Response: The 2 changes are considered now a project description deviations, and are explained in the appropriate section.

Auditor Response: Section 2.2 of the updated monitoring report does contain a description of the project description deviations that have been applied, and the non-conformity has been resolved. However, a new finding, NCR 2012.24, has been opened to address a specific non-conformity regarding Section 3.6.1 of the VCS Standard.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.16 dated 08/02/2013

Standard Reference: VCS Standard V3.3, Section 3.16.6

Document Reference: VCS Monitoring Report Castañeros REDD Project v1.pdf

Finding: The VCS Standard requires that the monitoring report "shall be prepared using the VCS Monitoring Report Template". While the monitoring report was prepared using an earlier version of the VCS Monitoring Report Template, it has not been prepared using the prevailing version of the VCS Monitoring report template, which is Version 3.2.

Client Response: The Monitoring Report now uses the VCS Monitoring Report Template v3.2. The updated version is being attached (v2).

Auditor Response: The audit team has confirmed that, as indicated, the updated monitoring report ("Castañeros REDD Project - VCS Monitoring Report v2.pdf") has been prepared using the prevailing version of the VCS Monitoring Report Template. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NIR 2012.17 dated 08/02/2013

Standard Reference: VCS Standard V3.3, Section 3.16.2

Document Reference: VCS Monitoring Report Castañeros REDD Project v1.pdf

Finding: As described in Section 5 of the monitoring report, a correction to the project area has resulted in a net loss of 852 hectares to the project area. The audit team understands, as was confirmed during discussions with the project personnel, that it should be found that the project area decreased in area by 852 hectares and the leakage belt increased in area by 852 hectares. The project area, as confirmed at validation, is 291,566.5 hectares. The corrected project area, as indicated in the monitoring report and confirmed during on-site review, is 290,714.25 hectares, which (ignoring rounding error) is 852 hectares less than the project area as confirmed at validation. However, the leakage belt, as confirmed at validation, is 723,748.3 hectares. The corrected leakage belt, as indicated in the monitoring report and confirmed during on-site review, is 724,840.5 hectares. This value is higher than the sum of (723,748.3 + 852) by approximately 240 hectares.

The VCS Standard requires that "Quality management procedures to manage data and information shall be applied and established." In order to confirm that appropriate quality management procedures have been undertaken to manage the project's spatial database, please provide an explanation for the identified discrepancy. If the observed discrepancy resulted from an error in the project's spatial database, please provide a plan for corrective action to be taken to address the issue.

Client Response: [No formal response was provided to this finding.]

Auditor Response: During a web-based meeting on 18 September 2013, project personnel demonstrated to the audit team that a discrepancy in the "corrected " leakage belt shapefile occurred because an incorrect river shapefile was used to extract non-forest area from the "corrected" shapefile, thus leading to a mismatch in the southeastern corner of the shape. Through visual observation of the revised "corrected" shapefile in comparison to the shapefile confirmed at validation, and the "corrected" shapefile presented to the audit team during the site visit, the audit team was able to confirm that the discrepancy has been fixed in the revised "corrected" shapefile, and that this shapefile was then used to produce the spatial output for use in the "Leakage Estimations" workbook. Therefore, the information request has been satisfied. The area of the revised, corrected leakage belt is 724,601.26 hectares.

Closing Remarks: The Client's response adequately addresses the finding.

NIR 2012.18 dated 08/02/2013

Standard Reference: VCS Standard, Sections 3.1.5, 4.1.7(1) and 4.5.6

Document Reference: NA

Finding: Section 3.1.5 of the VCS Standard requires that "Where projects apply methodologies that permit the project proponent its own choice of third party default factor or standard to ascertain GHG emission data and any supporting data for establishing baseline scenarios and demonstrating additionality, such default factor or standard shall meet with the requirements set out in Section 4.1.7(1)." Section 4.1.7(1) requires that "Where the methodology uses third party default factors and/or standards, such default factors and standards shall meet with the requirements for data set out in Section 4.5.6, mutatis mutandis." Section 4.5.6(2) of the VCS Standard requires that "Data collected from secondary sources shall be available from a recognized, credible source and must be reviewed for publication by an appropriately qualified, independent organization or appropriate peer review group, or be published by a government agency."

Please provide evidence that the report "Proyecto REDD en Areas Naturales Protegidas de Madre de Dios", from which the estimate of 50 tonnes carbon/hectare for secondary forests is sourced, is a "recognized, credible source" that has been "reviewed for publication by an appropriately qualified, independent organization or appropriate peer review group" or published by a government agency, as required by the VCS Standard.

Client Response: The carbon stock value of the Secondary Forest class was changed, because we could not find any evidence that the publication was peer-reviewed. The document was published by the same institution that developed the carbon stock value (NGO AIDER). To replace it, we have found another study made in the Madre de Dios by this same NGO, with the assistance of the Ministry of the Environment (MINAM) and the International Tropical Timber Organization (ITTO). We have used the value for the youngest Secondary Forest, as they propose 3 different values according to the age of the forest. The mentioned study is also being attached.

Auditor Response: Through review of the document "Estimación del Carbono almacenado en la biomasa del Bosque de la Comunidad Nativa Ese'Esja de Infierno - Madre de Dios, Perú" (accessed 17 September 2013 from http://www.itto.int/files/user/pdf/PROJECT_REPORTS/ESTIMACI%C3%93N%20DE%20CARBONO%20CNI.pdf), the audit team was able to confirm that the carbon stock values for aboveground and belowground biomass in secondary forest have been appropriately selected from Table 7 of this study. The audit team agrees that the selection of the lowest value (for 5-10 year old secondary forest) is conservative in the project scenario, as it will result in the highest reported emissions from deforestation. In addition, the audit team was able to confirm that the value is published by a government agency (MINAM) and is appropriate to the geographic scope of the project (having been based on research conducted in the Madre de Dios region of Peru). Therefore the information request has been satisfied.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.19 dated 09/17/2013

Standard Reference: M-MON V2.0, Section 5.2.2.2.2

Document Reference: Uncertainty Analysis v3.xlsx

Finding: The M-MON module requires, regarding emissions from roads and logging decks, that "The uncertainty in carbon stocks estimates and resulting emissions must be included in the estimation of with-project scenario uncertainty calculations performed using the module X-UNC (VMD0017) during each verification event unless indisputably conservative estimates are used". The uncertainty in carbon stock estimates has not been included in the estimation of with-project scenario uncertainty calculations. It should be noted that neither the M-MON module nor the X-UNC module require uncertainty in area of roads and logging decks to be included in the estimation of with-project scenario uncertainty. However, the uncertainty of carbon stock estimates must be included in uncertainty estimation.

Client Response: [No formal response was provided to this finding.]

Auditor Response: Subsequent to the issuance of this finding, a conversation was had with project personnel, wherein it was pointed out to the audit team that "uncertainty in carbon stocks estimates" could just as defensibly be interpreted to refer to the uncertainty in the estimates of road and logging deck area, since the total carbon stock estimate in the areas that have been cleared for roads and logging decks is a product of the per-acre carbon stock estimate (from forest inventory data) and the area estimate of the roads and logging decks (from the sample performed by project personnel). The M-MON module does not clarify which type of uncertainty (i.e., the uncertainty in the per-hectare carbon stocks or the uncertainty in the area) must be included in the calculation of the confidence deduction, or if both types of uncertainty must be included. Project personnel also pointed out that the uncertainty of the per-hectare carbon stock estimates is already included in the quantification of uncertainty, as it is included in the quantification of Equation 2 of the X-UNC module.

Since the requirements of the M-MON module are not clear regarding incorporation "uncertainty in carbon stocks estimates" in the uncertainty calculation, a clear non-conformity does not exist, and the finding is withdrawn.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.20 dated 09/17/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.5.1

Document Reference: VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx, Section 4.1

Finding: The AFOLU Non-Permanence Risk Tool requires that "The overall non-permanence risk rating shall be determined using Table 11, noting that the overall risk rating shall be rounded up to the nearest whole percentage." While the overall non-permanence risk rating has been determined using the approach required by Table 11, the overall risk rating has not been rounded up to the nearest whole percentage.

Client Response: The overall risk rating has been corrected and is equal to 11%. This includes the update of: workbook "VCUs Estimations BAM" and the Non-permanence risk analysis. Both documents are being attached in their 4th and 5th version, respectively.

Auditor Response: Through review of the updated risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v4.docx"), the audit team can confirm that the risk rating has been rounded to the nearest whole percentage. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.21 dated 09/20/2013

Standard Reference: VCS Standard, Section 3.4.1

Document Reference: Documento Explicativo de Cambios.docx

Finding: The VCS Standard states that "Grouped projects are projects structured to allow the expansion of a project activity subsequent to project validation." However, the VCS Standard does not indicate that it is acceptable to remove project activity instances subsequent to the validation of those project activity instances.

In response to NIR 2012.1, the following modification has taken place regarding the project's reporting workbooks, as described in the document "Documento Explicativo de Cambios.docx":

"Some concessionaries from the group that has done logging during this verification period will be excluded temporarily. It will change the harvested volume and the harvested area estimated in "BALANCE TOTAL Y AREAS 2010-2012". The exclusion of the abovementioned concessions will imply that they will be moved from Project Area Excel and GIS databases to Leakage Belt databases in the project and the baseline scenarios workbooks."

The audit team received guidance from the VCSA, in an email dated 19 September 2013, indicating that "If [the project activity instances to be removed] were previously validated then they would need to be included within the project area for the life of the project. The project area should not be changed and the project would be required to account for any carbon losses from these areas which were harvested. Since this project has not previously issued credits, the project would be able to exclude the project activity instances that were not eligible from the quantification of emission reductions."

Therefore, while it is appropriate to not report the GHG emission reductions from the excluded project activity instances, it is not appropriate to exclude the project activity instances in question from the project area. It is, therefore, not appropriate to transfer them to the leakage belt.

Client Response: [No formal response was provided to this finding.]

Auditor Response: This finding was issued verbally to project personnel on 19 September 2013. During a follow-up web-based meeting, project personnel demonstrated to the audit team that the assessment reported deforestation in the leakage belt in the project scenario was modified to use a revised version of the leakage belt that included only those concessions that were included in the leakage belt at validation (with the exception of the change documented in Section 5 of the monitoring report. The audit team was able to confirm that the monitored deforestation from this modified leakage belt was transferred into the "Leakage Estimations in BAM v4.xlsx" workbook for further assessment. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NIR 2012.22 dated 09/20/2013

Standard Reference: NA

Document Reference: Documento Explicativo de Cambios.docx

Finding: The document "Documento Explicativo de Cambios.docx" indicates that "3. The biomass-burning factor (0.55) will be applied only to agriculture and pasture post-deforestation uses instead of all post-deforestation uses in order to be more accurate to what is indicated in the literature revised." Please provide evidence, through reference to the literature, that it is consistent with the literature to apply the factor of 0.55 only to agriculture and pasture post-deforestation uses instead of all post-deforestation uses.

Client Response: In the document " Mapa de la Deforestación de la Amazonía Peruana - 2000", made by the Ministry of Environment, made by the Ministry of Environment in 2009 (Chapter 4, page 80), it is stated that "Este cambio de uso de la tierra está específicamente referido a la agricultura migratoria, que en el Perú convierte actualmente enormes extensiones de ecosistemas forestales en tierras de cultivo y pasturas. Se estima que la mitad de la biomasa es quemada in situ y 5% ex situ. El resto se descompone en el lugar.". This means that during the conversion of forest lands into pastures and agricultural areas, half of the biomass is burned in the same deforested area, and 5% is burned outside it. The remaining biomass is left on side to decompose. The 4th chapter of the document can be found in the following link: http://geoservidor.minam.gob.pe/geoservidor/archivos/memoria/DEFORESTACION_Parte5.pdf

Auditor Response: Through review of the referenced document (accessed online 23 September 2013), the audit team can confirm that it is indicated that the factor of 0.55 only applies to land uses that fall within the category of shifting agriculture. Therefore, the information request has been satisfied.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.23 dated 09/20/2013

Standard Reference: AFOLU Non-Permanence Risk Tool V3.2, Section 2.3.1

Document Reference: VCS Non-Permanence Risk Report - Castañeros REDD Project v2.docx

Finding: As described in resolution to NIR 2012.4, it has been determined that overlapping access/use rights do not affect the project area at this time. Therefore, items (d) and (g), as indicated regarding the "Land Tenure and Resource Access/Impacts" sub-category of the AFOLU non-permanence risk report, are not applicable to the project. The risk report must be updated accordingly.

Client Response: The risk analysis has been updated and the sub-category value is zero now; nonetheless, the external risk category remains equal (zero).

Auditor Response: Through review of the updated risk report ("VCS Non-Permanence Risk Report - Castañeros REDD Project v4.docx"), the audit team can confirm that the risk scores in question are no longer claimed by the project. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.24 dated 09/23/2013

Standard Reference: VCS Standard V3.3, Section 3.6.1(2)

Document Reference: Castañeros REDD Project - VCS Monitoring Report v2.pdf

Finding: Regarding project description deviations, the VCS Standard requires that "Where the deviation does not impact the applicability of the methodology, additionality or the appropriateness of the baseline scenario, and the project remains in compliance with the applied methodology, the deviation shall be described and justified in the monitoring report. This shall include a description of when the changes occurred and the reasons for the changes." The project description deviations that have been applied are described and justified in the monitoring report. The monitoring report includes a description of the reasons for the changes. However, the monitoring report does not contain a description of when the changes occurred.

Client Response: The correction was made. Now, the time when the changes occurred are stated in the monitoring report.

Auditor Response: As described in the Client Response, Section 2.2 of the updated monitoring report ("Castañeros REDD Project - VCS Monitoring Report v3.pdf") indicates the time when the changes were made. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NIR 2012.25 dated 09/23/2013

Standard Reference: NA

Document Reference: validated project description, page 78; Castañeros REDD Project Calculations.xlsx; Cp Estimations in BAM v3.xlsx

Finding: In the quantification of GHG emission reductions that was confirmed at validation, the quantity of biomass burned during deforestation is assumed to be equal to 55% of the biomass stocks in the deforested area, as described on page 78 of the project description and implemented in worksheet "5.2" of the validated project calculations workbook. In the quantification of GHG emissions in the project scenario, the quantity of biomass burned during conversion to the "farming", "agriculture" and "pastures" land-uses has been assumed to be equal to 55% of the biomass stocks in the deforested area. However, it has been implicitly assumed that no biomass has been burned during conversion to the "infrastructure" and "secondary forest" land-uses. Please provide documentary evidence to demonstrate that it can reasonably be assumed that no biomass has been burned during conversion to the "infrastructure" and "secondary forest" land-uses.

Client Response: The value of burnt biomass was changed to 100% for all post-defo land uses, excepting Infrastructure. For this land use, we assume that during this period all of its area corresponds to roads, based on the graphic comparison made between areas of infrastructure in the satellite images (and shapes derived) and the existing road network. We made a review of regulations and guides to see if biomass burning is an allowed and /or common practice when constructing roads.

According to the guide for constructing non-paved roads¹, the vegetation removed has to be transported and deposited in previously established places, where it is buried. The trees with potential use are logged and put aside of the road for subsequent use, with the supervisor's approval. The document also states that, if the competent authority and environmental regulations accept, the non-usable biomass can be burned in an appropriate time and way.

The social and environmental management guide² states, as part of the workers rules of behavior, that if there is any reason for burning, it can only be authorized by the work supervisor, as the environmental representative.

By seen that burning could be admissible under certain circumstances, we consulted an expert on the subject, who declared that burning of vegetation is not a common practice during road construction. The expert mentioned that the cleared vegetation (desbroce) is putted on special places designed for that purpose.

From the above mentioned, we concluded that burning biomass in infrastructure by roads is not a common practice, so we have not estimated GHG emissions for the infrastructure land-use.

1) Manual de Especificaciones Técnicas Generales para Construcción de Carreteras No Pavimentadas de Bajo Volumen de Tránsito. Ministerio de Transportes y Comunicaciones. 2008. Page 119 and 120

2) Manual de Gestión Socio Ambiental para Proyectos Viales Departamentales. Ministerio de Transportes y Comunicaciones. 2005. Page 70

Said documents can be reviewed in:

http://www.mtc.gob.pe/portal/transportes/caminos_ferro/manual/11.MEspecificaciones/MEspecific-Volumen%20I.pdf

<http://www.mtc.gob.pe/portal/transportes/asuntos/guias/pdf/MGSAPVD.pdf>

http://www.mtc.gob.pe/portal/transportes/asuntos/proyectos/pvis/tramo_2/eia/etapa_i/8/8.2/pgsa_para_la_etapa_de_construccion.pdf

Auditor Response: In response to this information request, the audit team was provided with three screenshots demonstrating that areas converted to the "infrastructure" land-use in the project area during the monitoring period appeared to be deforested for widening of existing roads (as demonstrated in comparison to the road network GIS layer used by the project) or for building of new roads (as demonstrated through the linear shape of the deforestation). This was sufficient to demonstrate that most, if not all, of the instances of conversion to the "infrastructure" land-use have been related to the construction or maintenance of roads. In addition the audit team was able to review the government-issued rules referenced in the Client Response (all accessed 25 September 2013) and confirm, through Google translate, that the clauses in question have been accurately translated within the Client Response. In addition, the audit team was provided with a forwarded email, from an individual involved in the road construction industry, which affirmed that burning of biomass is not a common practice in road

construction. Therefore, the information provided is sufficient to justify that it is reasonable to assume that no biomass was burned in conversion to the "infrastructure" land-use. The request of the audit team to provide information regarding conversion to the "secondary forest" land-use is now irrelevant, given that the updated project calculations assume 100% burning of biomass in conversion to secondary forest. Therefore, the information request has been satisfied.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.26 dated 09/25/2013

Standard Reference: VCS Standard V3.3, Sections 3.6.1(2) and 3.16.6(3)

Document Reference: Castañeros REDD Project - VCS Monitoring Report v3.pdf, Sections 2.2 and 3.1

Finding: Regarding project description deviations, the Section 3.6.1(2) of the VCS Standard requires that "Where the deviation does not impact the applicability of the methodology, additionality or the appropriateness of the baseline scenario, and the project remains in compliance with the applied methodology, the deviation shall be described and justified in the monitoring report. This shall include a description of when the changes occurred and the reasons for the changes." As indicated in response to NIR 2012.25, "The value of burnt biomass was changed to 100% for all post-deforestation land uses, excepting Infrastructure". This is a deviation to the project description, as the project description indicates, in description of the parameter "Emissions by biomass burning", that "55 % of the deforested forest is burnt" (page 78). The audit team agrees that the deviation employed is conservative. Furthermore, the audit team agrees that this deviation does not impact the applicability of the methodology, additionality or the appropriateness of the baseline scenario, and that the project remains in compliance with the applied methodology. Therefore, the project description deviation employed is approved by the audit team. However, the project description deviation is not described and justified in the monitoring report, as required by the VCS Standard. In addition, Section 3.16.6(3) of the VCS Standard requires that the monitoring report include "The data and parameters (both available at validation and monitored) and a description of the monitoring plan." While a description of the parameter "Emissions by biomass burning" is included in the monitoring report, the description indicates that "55 % of the deforested forest is burnt", and is thus not consistent with how GHG emission reductions have been quantified for the monitoring period in question.

Client Response: The parameter table about Biomass burning emissions was updated. The description of the change made was included in the deviation section.

Auditor Response: Through review of the updated monitoring report ("Castañeros REDD Project - VCS Monitoring Report v4.pdf"), the audit team can confirm that the project description deviation has been appropriately described and the parameter table has been updated accordingly. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

NCR 2012.27 dated 11/06/2013

Standard Reference: VCS Standard V3.3, Sections 3.4.5, 3.4.6 and 3.4.11

Document Reference: Castañeros REDD Project - VCS Monitoring Report v4.pdf

Finding: Section 3.4.11 of the VCS Standard states "A grouped project shall be described in a single project description, which shall contain [...] a delineation of the geographic area(s) within which all project activity instances shall occur. Such area(s) shall be defined by geodetic polygons as set out in Section 3.10 below." While the project description does contain a description of the project area, it is the interpretation of the VCSA, as conveyed via an email dated 6 November 2013, that "Though Map 3 of the project description does delineate a geographic area where the existing project activity instances are located, it is not clear that this geographic area has been delineated for the purposes of setting a boundary for the inclusion of new project activity instances, as is the intent of the VCS rules given in Section 3.4.5 and 3.4.6 of the VCS Standard." In addition, because the project description does not contain a delineation of the geographic area(s) within which all project activity instances shall occur, the project description does not comply with Sections 3.4.5 and 3.4.6 of the VCS Standard, which require that "The baseline scenario for a project activity shall be determined for each designated geographic area" and "The additionality of the initial project activity instances shall be demonstrated for each designated geographic area", respectively.

The VCSA notes that "At this stage the VCSA is not questioning the deviation approach taken by the VVB, rather that the deviation does not appear to address the requirements set out in section 3.4 of the VCS Standard". While the monitoring report does describe the project description deviation applied to add the 28 additional project activity instances to the project area, the monitoring report does not contain the following information, which would be necessary to resolve the discrepancy in the project description:

- A delineation of the geographic area(s) within which all project activity instances shall occur
- A description of the baseline scenario for each designated geographic area, in accordance with the methodology applied to the project
- A demonstration of the additionality of the initial project activity instances for each designated geographic area (this is only required in the case that more than one designated geographic area is delineated)

Client Response: A KML file of the grouped project's delineation of the geographic area(s) within which all project activity instances shall occur was provided. In addition, a justification that the 28 Project Activity Instances are in conformance with the baseline scenario and additionality for the designated geographic area was provided in a revised version of Section 2.2 of the Monitoring Report.

Auditor Response: The audit team confirmed that the project description deviation has been appropriately described and clearly supported through the provision of the required KML file for the geographic delineation of the grouped project. Therefore, the non-conformity has been resolved.

Closing Remarks: The Client's response adequately addresses the finding.

APPENDIX B: NON-PERMANENCE RISK ASSESSMENT

In accordance with Section 3.7.3 of the AFOLU Requirements, the project's non-permanence risk report was assessed by the audit team. The non-permanence risk report upon which the risk analysis assessment was based is contained within the risk report (2nd Version, dated 13 September 2013). The findings and conclusion regarding the non-permanence risk analysis undertaken for the project are summarized below for each risk category and factor. Unless noted otherwise, the audit team agrees with the conclusion stated in the non-permanence risk report.

The findings of the audit team regarding the risk scores applied for each factor are as follows.

Project Management		
Risk Factor	Verification Findings	Risk Rating
a)	This factor is not applicable, as GHG credits have not previously been issued.	0
b)	This factor is not applicable, as GHG credits have not previously been issued.	0
c)	The audit team was able to confirm, through interviews with project personnel and review of the control systems associated with the delivery of GHG information, that the management team includes individuals with significant experience in each of the skills required for effective project implementation. The management team appeared to be the audit team to be highly competent, with a wealth of experience in forest management, GHG accounting and social projects.	0
d)	The audit team can confirm that the project proponent operates offices in Lima and Puerto Maldonado. The office in Puerto Maldonado is less than a day's travel from all concessions included in the project area, and much of the project area is certainly less than a day's travel from Lima.	0
e)	The audit team can affirm that the management team includes individuals that have already guided the project through successful validation of the project under the VCS Program. In addition, the audit team can confirm that the project proponent is also the project proponent for the Campo Verde (ID #658), which has been previously validated and verified under the VCS Program.	-2
f)	The audit team agrees that an adaptive management plan is in place. This plan is contained within the risk mitigation plan (entitled "Gestión de los Riesgos del Proyecto"). The plan identifies the categories of risk the project might face and contains a framework (including the use of specific procedures and forms) for identifying, assessing, monitoring and mitigating risks in an adaptive management context, and documenting any corrections that may be needed.	-2
Total Project Management (PM) [as applicable, (a + b + c + d + e + f)]		-4

Total may be less than zero.

Financial Viability		
Risk Factor	Verification Findings	Risk Rating
a)	The audit team was presented with a spreadsheet documenting the projected expenditures and revenue streams for the project. The audit team selected a random sample of one category of revenue and one category of expenditures, with probability proportional to the importance of each revenue/expenditure category in the year 2013. From intensive review of the values associated with these two categories, the audits team confirmed that they were appropriately derived. Through a less intensive review, the audit team also confirmed the general correctness of the formulas within the spreadsheet. From the results presented, it is very clear that the project will (subsequent to the issuance of Verified Carbon Units) reach breakeven in the year 2013.	0
b)		
c)		
d)		
e)	The audit team was provided with an investment agreement, with a reputable firm, that provided for a release of a quantity equal to at least 80% of the cash flow needed before the project reaches breakeven. In order to avoid a demonstration that the agreement counterparty was in good financial standing, the audit team was provided with bank records for the project proponent which demonstrated that the necessary quantity of funds had been deposited in the account of the project proponent.	0
f)		
g)		
h)		
i)	The audit team was not provided with evidence of callable financial resources. The remaining resources potentially at the disposal of the project proponent are contingent upon the delivery of certain deliverables as collateral, and thus the remaining funding does not qualify as a callable financial resource.	0
Total Financial Viability (FV) [as applicable, ((a, b, c or d) + (e, f, g or h) + i)]		0
Total may not be less than zero.		

Opportunity Cost		
Risk Factor	Verification Findings	Risk Rating
a)	The audit team agrees that the baseline land use activities (particularly those that involve deforestation and post-deforestation land uses) are subsistence-driven. The audit team was able to confirm, during observations of the region	0
b)		

c)	surrounding the project area and discussions with concessionaires and other stakeholders, that such activities are driven by a need for survival rather than by a market mechanism. The audit team can confirm that the project has resulted in net positive community impacts, as is discussed further regarding the "Community Engagement" sub-category.	
d)		
e)		
f)		
g)	The audit team can confirm that the project proponent is a for-profit organization.	0
h)	As confirmed at validation (as part of the confirmation of right of use), and as confirmed again through review of a risk-based sample of concession records as part of the verification audit, all of the concessionaires involved with the project have signed agreements with the Peruvian federal government that have a duration of 40 years, renewable. Section 9.4 of each contract requires that the forest type (literally, the "régimen forestal") of the concession must be maintained, while Section 9.9 of each contract requires that the concessionaire take steps to keep the concession free from invasion. All timber extraction within the concessions requires a plan that is approved by the government, and no more than 5 m ³ per hectare may be removed with each entry. Although it is theoretically possible to enter the same area year after year, the audit team has been told that this rarely occurs in practice. As 5 m ³ per hectare is quite a small quantity to extract, and given the express requirement of the contracts to maintain the forest structure within the concession, the audit team agrees that, for all practical purposes, the framework of the concessions requires a legal agreement that requires management practices to sequester carbon stocks for the duration of the project crediting period (i.e., until 31 December 2040), as the earliest contracts were not signed before 2002.	-2
i)	The audit team was not presented with a legally binding agreement as required for the mitigation risk score.	0
Total Opportunity Cost (OC) [as applicable, (a, b, c, d, e or f) + (g or h)]		0
Total may not be less than 0.		

Project Longevity		
Risk Factor	Verification Findings	Risk Rating
a)	As discussed with respect to item (h) of the opportunity cost sub-category, the audit team can confirm that the concession contracts constitute a legal agreement to continue the management practice for 31 years (the period from 2002-2040). As required by the concession contracts, this period is covered by	14.5
b)		

	management plans for the individual concessions, which are submitted to the Peruvian federal government for approval.	
Total Project Longevity (PL)		14.5
May not be less than zero		

The findings of the audit team regarding the risk scores applied for each factor are as follows.

Land Ownership and Resource Access/Use Rights		
Risk Factor	Verification Findings	Risk Rating
a)	The audit team agrees that the ownership and resource access/use rights are held by different entities, as the concession contracts clarify that the concession areas (of which the project area is a subset) are owned by the government of Peru, with certain access/use rights granted to the specific concessionaires.	2
b)		
c)	The audit team can confirm, through knowledge of norms governing land use in Peru, that the ownership of the concession areas by the Peruvian government is undisputed.	0
d)	In cooperation with FEPROCAMD, project personnel have made a concerted effort to uncover any disputes over access/use rights or overlapping access/use rights, as required by the AFOLU Non-Permanence Risk Tool. The audit team was able to confirm, through interviews with government representatives, that no disputed or overlapping rights exist within the project area. As described in the risk report, a small portion of the project area is overlapped with mining concessions. As described to the audit team, this overlap occurred because the Brazil nut concessions and the mining concessions are issued by two different agencies. However, the audit team was provided with a copy of the “Decreto de Urgencia No 012-2010”, an “emergency decree”, as published in the “Normas Legales” (which the audit team understands to be the official means of disseminating such decrees in Peru), which applies to the project area. Article 7.2 of the decree indicates that, where a mining concession overlaps with a timber or non-timber (e.g., Brazil nut) concession, a favorable opinion issued by a competent national authority would be required to allow any mineral extraction. According to project personnel, such an opinion has not been issued. The audit team was able to confirm the absence of such an opinion through conversations with the Directorate of Forestry and Wildlife offices of Tahuamanu and Tambopata. As an opinion has not been issued, the mining concessionaires do not hold any access/use rights to the affected portions of the project area.	0

	Also, as described in the risk report, some instances of overlapping concession boundaries, such that the boundary of a concession that is part of the project area overlaps with the boundary of another concession that is not part of the project area, were identified. However, these were not considered to be overlapping access/use rights, as overlapping access/use rights can only occur where overlapping boundaries have the potential to “place carbon stocks in pools included in the project boundary at risk of reversal”, as set out in Section 2.3.1(8) of the AFOLU Non-Permanence Risk Tool. Conversations with concessionaires and FEPROCAMD personnel confirmed that, in cases where overlapping boundaries are described in the concession contracts, they do not affect management of the concessions on the ground, as, in practice, the concessionaires are in agreement regarding the boundaries in the field. Therefore, such overlap does not place the carbon stocks in pools included in the project boundary at any particular risk of reversal. This finding was affirmed by a letter, entitled “Carta No 1286-2013-GOREMAD-GGRNYGMA-DRFFS”, which was provided by the Direccion Regional Forestal y Fauna Silvestre (the Forestry Directorate) of the Regional Government of Madre de Dios. Therefore, the audit team agrees that there are no overlapping or disputed access/use rights affecting the project area.	
e)	Not applicable, as this is not a WRC project.	0
f)	As discussed with respect to item (h) of the opportunity cost sub-category, the audit team can confirm that the concession contracts constitute a legal agreement to continue the management practice for the duration of the project crediting period.	-2
g)	Although the risk report indicates that this item is “applicable”, it is actually not applicable, as no overlapping or disputed access/use rights currently exist.	0
Total Land Tenure (LT) [as applicable, ((a or b) + c + d + e+ f)]		0
Total may not be less than zero.		

Community Engagement		
Risk Factor	Verification Findings	Risk Rating
a)	At this time, all of the households who live within the project area, and who are reliant on the project area, are concessionaires who have joined the project or the families of such. These concessionaires have been consulted through direct meetings with FEPROCAMD, which is an association that is legally recognized to represent the concessionaires. The audit team has been able to confirm this	0

	with individuals involved with FEPROCAMD at many different levels. The audit team was also able to confirm, through interviews with concessionaires, that concessionaires who are members of the project have been consulted directly by the project. As confirmed at validation and as confirmed during this verification audit with respect to new concessionaires that have been added to the project (see Section 2.2.4 above), all concessionaires who have joined the project have entered into an assignment of rights agreement with the project proponent, which provides further evidence of direct consultation.	
b)	Those households living within 20 km of the project boundary, and who are reliant on the project area, are those families of concessionaires who reside outside of the project area. In some cases, outside workers are hired by concessionaires, on a seasonal basis, to harvest Brazil nuts within the project area, but these workers are not “reliant” on the project area in the sense implied by the AFOLU Non-Permanent Risk Tool. As described above, concessionaires that are part of the project have been consulted, both directly and indirectly, by project personnel.	0
c)	The audit team can confirm that the project generates net positive impacts on the social and economic well-being of the local communities (i.e., the concessionaires and their families) who derive livelihoods from the project area. This was confirmed, in great detail, during the site visit for the verification audit, which was also a site visit for a concurrent validation audit against the requirements of the Climate, Community & Biodiversity Standards. While the project has not yet attained certification against the Climate, Community & Biodiversity Standards, the net positive impacts of the project on social and economic well-being were eminently clear during the site visit. The Climate, Community & Biodiversity Standards Project Description Documentation, as submitted to the audit team for assessment against the Climate, Community & Biodiversity Standards, constitutes the “a current participatory assessment of the positive and negative impacts of the project activities on the local communities who derive livelihoods from the project area” that is required by the AFOLU Non-Permanence Risk Tool.	-5
Total Community Engagement (CE) [where applicable, (a+b+c)]		-5
Total may be less than zero.		

Political Risk		
Risk Factor	Verification Findings	Risk Rating
a)	Through an independent analysis of governance data for Peru from the years	2

b)	2007-2011 (the last five years of available data at the time of the assessment), the audit team was able to confirm the calculation of the governance score indicated in the risk report.	
c)		
d)		
e)		
f)	The Madre de Dios region of Peru is participating in the Governors' Climate and Forest Taskforce (GCF), as confirmed through review of the Governors' Climate and Forest Taskforce (GCF) website (http://www.gcftaskforce.org/ ; accessed 31 July 2013). Thus, at least one of the criteria necessary to claim the mitigation risk score has been met.	-2
Total Political (PC) [as applicable ((a, b, c, d or e) + f)]		0
Total may not be less than zero.		

The findings of the audit team regarding the risk scores applied for natural risk are as follows.

Natural Risk		
Risk Factor	Verification Findings	Risk Rating
F	The audit team can confirm, through expert knowledge of the region in which the project is located, that the risk of natural fires (i.e., fires for whom the ignition source is not humans) is not applicable to the project area. While lightning storms do exist in the Peruvian highlands, they are not common in the region in which the project is located.	0
PD	The audit team can confirm, through expert knowledge of the region in which the project is located, that the risk of pest and disease outbreaks is not applicable to the project area. As with most natural forests in tropical ecosystems, the project area has a diverse array of tree species, which serves to minimize the risk of any outbreaks. While pests (e.g., moths) have been a problem in some plantation areas in the past, the instances of enrichment planting within the project area will be dispersed throughout the project area so as to minimize the risk of pest outbreaks.	0
W	The audit team can confirm, through expert knowledge of the region in which the project is located, that extreme weather events that would result significant impacts on carbon stocks do not occur in the project area. While strong wind events do occur, they do not typically knock trees down.	0

G	The audit team agrees that the risk of landslides in the project area is low. The audit team also agrees that the risk of other geological hazards is not applicable to the project area.	0
Total Natural Risk (as applicable, F + PD + W + G + ON)		0

In summary, the overall risk rating that was determined for the project, in accordance with the VCS Non-Permanence Risk Tool, is 11%. The audit team has concluded that the above risk rating is in conformance with the VCS rules.

Thus, the audit team can confirm that 643,550.31 buffer credits, as calculated using Equation 5 of the REDD-MF methodology framework, should be deposited into the AFOLU pooled buffer account. For purposes of consistency with the non-permanence risk report, the values above have been specified to a precision of 0.01 tCO₂e or 0.01 buffer credit.

APPENDIX C: MARKET LEAKAGE ASSESSMENT

In accordance with Section 3.6.4 of the AFOLU Requirements, the quantity of market leakage caused by the project was assessed at verification. The information upon which the market leakage assessment was based is contained within the validation report, Version 1.0, dated 20 September 2012. The market leakage assessment findings and conclusion are as follows.

Section 5, Step 2(e) of the REDD-MF methodology framework indicates that the selection of leakage sources is conducted ex ante and confirmed at validation. The REDD-MF methodology framework requires no monitoring to determine whether the selected leakage sources are still valid. Section 3.2.3 of the validation report states that "... LK ME Module has not been applied which is in conformance with the requirements set out in REDD MF for dealing with leakage." As the project design, as confirmed at validation, did not include market leakage as a leakage source, such a source does not need to be included at verification.

In summary, the total quantity of market leakage emissions is estimated to be 0 tCO_{2e} over the monitoring period. The audit team has concluded that the reporting of market leakage emissions is in conformance with the VCS rules and the methodology.