

Updates to AFOLU Requirements

1 INTRODUCTION

This document summarizes the main points of feedback received during the 2018 VCS Version 4 public consultation in respect of the proposal to update a number of requirements for AFOLU projects. This document also sets out whether and how the original proposal was updated as a result of that feedback for the following:

- Standardized reference region selection criteria (Section 2)
- Optional default non-permanence risk ratings (Section 3)
- Mechanism for identifying potentially inactive projects (Section 4)
- Strengthened local stakeholder engagement (Section 5)
- REDD+ projects nesting in jurisdictional REDD+ programs (Section 6)

The abstract, background, and details of the proposal published during the 2018 consultation are available in the [original consultation document](#).

Additionally, this document sets out two new proposed updates to the VCS *AFOLU Requirements* that were not included in the first consultation. These include:

- Positive activity implementation (Section 7)
- Standardized leakage defaults (Section 8)

2 STANDARDIZED REFERENCE REGION SELECTION CRITERIA

Results and Considerations of 2018 Consultation

During the 2018 public consultation, Verra received comments on this proposal from 18 different stakeholders, including project proponents, validation/verification bodies (VVBs), and other market participants. The feedback received during the first consultation was supportive of the underlying concept of having a single set of requirements for the selection of reference regions for all new REDD projects that include avoided unplanned deforestation and degradation (AUDD) activities. However, a majority of commenters did highlight areas where they believed the proposed requirements language should be revised.

More specifically, many commenters noted that the list of proposed selection criteria (i.e., drivers and agents of deforestation, forest type, land tenure, etc.) was generally complete. However, the bulk of feedback received was in respect of how the proposal language defined comparability between the reference region and the project area. In this respect, much of the feedback was contradictory; many commenters were supportive of flexibility, while others were of the opinion that the proposed language did not provide enough specificity. Verra conducted a number of

follow up conversations with commenters in order to tease out these areas, though no clear consensus was reached.

Additionally, Verra received feedback that our focus on reference regions and the use of project-method approaches to determining baseline rates of deforestation and degradation may in fact be misplaced. More specifically, a number of commenters suggested that Verra should instead focus on encouraging projects to align with jurisdictional approaches by developing a methodological tool, or at minimum a guidance document, to allow project proponents to determine the baseline scenario and rate of deforestation and degradation based on an assessment of a jurisdictional rate of deforestation and degradation (developed by project proponents where there is no existing or emerging national or subnational reference level).

Verra has considered all feedback received.

Updated Proposal

Based on the feedback received during the 2018 consultation, Verra has concluded that the proposal will not move forward in its current form. As such, this proposal will not be included in the release of VCS Version 4.

More specifically, Verra agrees with the suggestion that we should focus on encouraging projects to align with jurisdictional approaches to setting baselines, as described above. Accordingly, Verra has begun exploring the potential to develop rules and/or guidance for how project proponents might develop a jurisdictionally-derived baseline where the government has not developed a reference level and is unlikely to do so in the near future. This work will be done concurrently with the development of guidance to aid projects to apply jurisdictional reference levels appropriately, including guidance on approaches to “allocate” reference levels to smaller areas of a jurisdiction. Further details on this thinking can be found in Section 6 below.

Finally, note that an “allocation” approach could provide a means to spatially distribute the jurisdictional baseline for deforestation or degradation, recognizing smaller areas (e.g., at district or municipality level) with different relative threats, thereby strengthening the viability of a REDD+ program and ensuring resources are delivered to those areas most in need. Beyond technical considerations, such an allocation approach may involve negotiations with governments and consideration of relevant political factors, socio-economic indicators or trends. The allocation may also be subject to public consultation and would need to be approved by the government.

3 OPTIONAL DEFAULT NON-PERMANENCE RISK RATINGS

Results and Considerations of 2018 Consultation

During the 2018 public consultation, Verra received comments on this proposal from 19 different stakeholders, including project proponents, NGOs, validation/verification bodies and other market participants. The feedback received during the first consultation was largely positive. However, some commenters provided constructive feedback on how the proposal could be improved.

Specifically, some commenters questioned whether the use of default values for non-permanence risk ratings would actually reduce the amount of time and effort required to develop a project, given that the project proponent would still be required to demonstrate compliance with the proposed set of eligibility conditions. Additional feedback highlighted that it may be difficult to set out globally-applicable default factors that are conservative in every geographic region, given the wide variability in natural risk and social/political risk across different regions and countries.

Verra has considered all feedback received.

Updated Proposal

Although Verra continues to see value in setting out conservative default non-permanence risk ratings to help reduce the amount of time and resources that would be required for project proponents to determine, and validation/verification bodies to assess risk, Verra has concluded that further analysis of potential future changes to project risk profiles is required before conservative default values can be set out.

As described in the original proposal, the analysis conducted to determine the conservative default values was based on historical application of the *AFOLU Non-Permanence Risk Tool* by existing VCS AFOLU projects. However, current risk levels in existing projects may not accurately predict the future risk of non-permanence to new and existing projects, as baseline drivers of deforestation may change and natural risks may increase due to the effects of climate change.

The *AFOLU Non-Permanence Risk Tool*, which is intended to assess the current and future risks to a project, requires project proponents to base natural risk ratings on the frequency and significance of historical loss events that occurred in the project area within the past 100 years. Since the natural risk ratings are only based on past loss events, they do not take into consideration of future changes to the frequency or significance of loss events that are expected to occur due to effects from climate change. It will be important that any new default values for non-permanence risk ratings be conservative so that there is a lower chance that projects may have a significantly higher risk rating than the applied default value, and to ensure that the default value reflects both the historic and future risks faced by projects. Further analysis is required to ensure that future natural risk is accurately considered in the *AFOLU Non-Permanence Risk Tool* before any default values can be set out.

Additionally, we expect to have more clarity regarding how project-level AFOLU activities will nest into national accounting or transition to government-operated programs in the coming year. These transitions may impact the risk profile for project-level activities as well as how risks are managed over time and by whom.

Given the above, Verra is postponing the release of this update until we are able to fully consider the effects of changing natural risk profiles and the changing landscape for project-level AFOLU activities on the non-permanence risk of VCS projects. Accordingly, this proposed update will not be included in the initial release of VCS Version 4.

4 MECHANISM FOR IDENTIFYING POTENTIALLY INACTIVE PROJECTS

Results and Considerations of 2018 Consultation

During the 2018 public consultation, Verra received comments on this proposal from 15 different stakeholders, including project proponents, governments, NGOs and validation/verification bodies. The feedback received during the first consultation was largely supportive of the need for a mechanism for identifying potentially inactive projects. However, some commenters provided constructive feedback on how the proposal could be improved.

More specifically, the main points of feedback included:

- In order to be as clear and accurate as possible, Verra should consider using the status “Late to verify”, instead of “Potentially inactive” or “Buffer credits on hold”.
- Verra should allow a short grace period after the 5 year deadline before a project is required to submit the letter of evidence of activity and receive the label of “Late to verify”.
- Evidence submitted by a project should be at a reasonable level of detail and not overly burdensome.
- Verra must be clear about what happens when a project remains inactive for a certain period of time.
- Verra should allow a means for stakeholders to submit comments if they feel a project is falsely claiming activity (which may be done based on current procedures as outlined in Section 7 of the *VCS Registration and Issuance Process*).

Verra has considered all feedback received and has concluded that the proposal should be updated as set out below.

Updated Proposal

Verra proposes providing a clear indication to the market when projects may have become inactive, meaning they have stopped verifying for at least 5 years and therefore have had buffer credits put on hold (per Section 6.3.4 of *VCS Registration and Issuance Process*). The following proposed text describes a mechanism for Verra to publicly identify which projects have buffer credits on hold as an indication of potential inactivity, taking into account the above comments received during the 2018 public consultation. It should be noted that all issued VCUs for such projects remain permanent due to the safeguards embedded in Section 6.3.4 of the *VCS Registration and Issuance Process*.

Verra proposes revising the *VCS Registration and Issuance Process* to include a new section immediately after Section 6.3.4, as follows:

6.3.5 Where a project fails to submit a verification report to a VCS registry within five years of its last verification, Verra will send written communication to the project proponent to request evidence that the project is still active despite not having verified. The project shall have one year

to provide such evidence. Evidence may take the form of a letter submitted by the project proponent to Verra and should explain in detail the status of the project, including an explanation as to why the project has not verified on time and, where relevant, why it should still be considered active. The letter may be accompanied by any relevant documentation of activity implementation (e.g., photographic evidence, monitoring reports, contract for verification in the near future). Where a letter is received, it shall be posted publicly to the Verra project database and the project shall be labeled in the database as “Late to verify”. Where no letter is received, the project shall still be labeled as “Late to verify”, but will not benefit from an explanation being available to potential buyers and other stakeholders. The project proponent is encouraged to submit an updated letter annually.

Note: Where a project has not verified because it has transitioned to another GHG program (e.g., integrated into a government program), it shall be labeled as “Project transferred to other GHG program” instead of “Late to verify”.

Verra also proposes revising Section 6.3.4 as follows (see red text):

*6.3.4 Where a project fails to submit a verification report to a VCS registry within five years of its last verification, 50 percent of the buffer credits associated with the project shall be put on hold. After a further five years, all of its remaining buffer credits shall be put on hold. Where no subsequent verification report has been presented within a period of 15 years, and the project crediting period has not yet expired, buffer credits shall be cancelled from the AFOLU pooled buffer account in an amount equivalent to the total number of VCUs issued to the project (including buffer credits put on hold) **and the project shall be labeled as “Inactive”.***

Note: Where a project has not verified because it has transitioned to another GHG program (e.g., integrated into a government program), it shall be labeled as “Project transferred to other GHG program” instead of “Inactive”.

5 STRENGTHENED LOCAL STAKEHOLDER ENGAGEMENT

Results and Considerations of 2018 Consultation

During the 2018 public consultation, Verra received comments on this proposal from 13 different stakeholders, including project proponents, validation/verification bodies (VVBs), and other market participants. The feedback received during the first public consultation was largely positive, with most commenters agreeing that strengthened local stakeholder engagement requirements for AFOLU projects would be a positive step for the successful implementation of AFOLU projects.

However, some commenters raised concern regarding the anticipated cost of implementing the stakeholder engagement requirements. Other commenters expressed confusion as to whether the proposed new requirements would be satisfied by virtue of achieving CCB Standards certification. Finally, some commenters expressed concerns with the burden of undue reporting for projects with little or no community impacts.

Verra has considered all feedback received and has concluded that the proposal will move forward with minor changes. First, as was included in the [original proposal](#), Verra re-emphasizes that the proposed new requirements would be satisfied by virtue of achieving CCB Standards certification. Second, Verra has clarified that the proposed new requirements will only apply where projects impact local stakeholders. No other changes to the content of the original proposal have been made other than these two higher-level clarifications.

With respect to concern expressed regarding increased cost of project implementation due to these new proposed requirements, Verra believes that the benefits realized from strengthened stakeholder engagement requirements justify these.

The section below provides the revised proposal as it would be incorporated into the VCS rules. Verra proposes that these requirements would be mandatory for new projects only (i.e., those which have not yet completed validation), unless the new project has a validation contract in place within six months after the release date of VCS Version 4 (in which case the project would not be subject to these updated requirements). After such grace period expires, all new projects would be required to meet the updated requirements.

Updated Proposal

The proposed new requirements below are based on key requirements from the third edition of the *CCB Standards*. Each proposal lists the CCB indicators upon which it is based in a footnote associated with the section title. These footnotes are only for reference purposes and will be eliminated from the final version of the *AFOLU Requirements*. Note that the indicators have been altered from how they appear in the *CCB Standards* in some cases in order to eliminate requirements that are outside the scope of the VCS Program. Some CCB indicators have been split up between more than one proposal.

Verra proposes revising the *AFOLU Requirements* to include a new section immediately after Section 3.4, as follows:

3.5 STAKEHOLDER ENGAGEMENT

This Section 3.5 applies to projects that impact local stakeholders through the implementation of project activities. Where project activities do not impact any local stakeholders, evidence of such shall be provided at validation and each verification. Where such evidence is provided, it is not necessary to demonstrate compliance with the requirements set out in this Section 3.5.

Projects validating or verifying to the VCS Program while also validating or verifying to the CCB Program are not required to conduct a separate demonstration of compliance with the requirements set out in this Section 3.5. Where a project seeks verification of a monitoring period to the VCS Program without also undergoing verification to the CCB Program for the same monitoring period, demonstration of compliance with the requirements set out in this Section 3.5 is required.

3.5.1 Local Stakeholder Identification and Background¹

Projects shall conduct a thorough assessment of the local stakeholders that will be impacted by the project. The project description shall include information on local stakeholders at the start of the project. This information shall include:

- The processes used to identify local stakeholders likely impacted by the project and a list of such stakeholders;
- Identification of any legal or customary tenure/access rights to territories and resources, including collective and/or conflicting rights, held by local stakeholders;
- A description of the social, economic and cultural diversity within local stakeholder groups and the differences and interactions between the stakeholder groups;
- Any significant changes in the makeup of local stakeholders over time;
- The expected changes in well-being and other stakeholder characteristics under the baseline scenario, including changes to ecosystem services identified as important to local stakeholders;
- The location of communities, local stakeholders and areas outside the project boundaries that are predicted to be impacted by the project; and
- The location of territories and resources which communities, community groups and local stakeholders own or to which they have customary access.

3.5.2 Risks to Local Stakeholders²

Projects shall identify likely natural and human-induced risks to local stakeholder well-being expected during the project lifetime and outline measures needed to mitigate these risks.

Projects shall also identify the risks for local stakeholders to participate in the project, including project design and consultation. Risks should include trade-offs with food security, land loss, loss of yields and climate change adaptation. The project must be designed and implemented to avoid trade-offs and manage the identified risks to local stakeholders.

The project proponent or any other entity involved in project design or implementation shall not be involved in any form of discrimination or sexual harassment.

The management teams shall have expertise and prior experience implementing land management and carbon projects with community engagement at the project scale. If

¹ Based on G1.3, G1.5, G1.6, G1.7, G5.1, CM1.1, CM1.3 of the third edition of the *CCB Standards*

² Based on G1.10, G3.7, G4.2, CM2.2, GL2.3 of the third edition of the *CCB Standards*

relevant experience is lacking, the project proponent must either demonstrate how other organizations are partnered with to support the project or have a recruitment strategy to fill the gaps.

3.5.3 Respect for Local Stakeholder Resources³

The project shall avoid negative impacts of project implementation and mitigate impacts when unavoidable, including the following:

- The project shall recognize, respect and support local stakeholders' property rights and where feasible, take measures to help secure rights. The project shall not encroach on private, stakeholder, or government property or relocate people off their lands without consent. The project may affect property rights if free, prior and informed consent is obtained from those concerned and a transparent agreement is reached that includes provisions for just and fair compensation. In the event there are any ongoing or unresolved conflicts over property rights, usage, or resources, the project shall undertake no activity that could exacerbate the conflict or influence the outcome of an unresolved dispute.
- To reduce damage to the ecosystems on which the local stakeholders rely:
 - The project shall not introduce any invasive species or allow an invasive to thrive through project implementation.
 - The project shall justify the use of non-native species over native species, explaining the possible adverse effects of non-native species.
 - The project shall justify the use of fertilizers, chemical pesticides, biological control agents and other inputs used by the project and their possible adverse effects.

3.5.4 Communication and Consultation⁴

The project shall take all appropriate measures to communicate and consult with local stakeholders in an ongoing process for the life of the project. The project shall communicate:

- The project design and implementation, including the results of monitoring.
- The risks, costs and benefits the project may bring to local stakeholders.
- All relevant laws and regulations covering workers' rights in the host country.
- The process of VCS validation and verification and the VVB's site visit.
- The project shall develop a grievance redress procedure to address disputes with local stakeholders that may arise during project planning and implementation,

³ Based on G3.8, G5.1, G5.2, G5.3, G5.5, B2.5, B2.6, B2.8 of the third edition of the *CCB Standards*

⁴ Based on G3.1, G3.2, G3.3, G3.5, G3.6, CM4.3 of the third edition of the *CCB Standards*

including with regard to benefit sharing. The procedure shall include processes for receiving, hearing, responding and attempting to resolve grievances within a reasonable time period, taking into account culturally-appropriate conflict resolution methods. The procedure and documentation of disputes resolved through the procedure shall be made publicly available. The procedure shall have three stages:

- 1) The project proponent shall attempt to amicably resolve all grievances and provide a written response to the grievances in a manner that is culturally appropriate.
- 2) Any grievances that are not resolved by amicable negotiations shall be referred to mediation by a neutral third party.
- 3) Any grievances that are not resolved through mediation shall be referred either to a) arbitration, to the extent allowed by the laws of the relevant jurisdiction or b) competent courts in the relevant jurisdiction, without prejudice to a party's ability to submit the grievance to a competent supranational adjudicatory body, if any.

All communication and consultation shall be performed in a culturally appropriate manner, including language and gender sensitivity, directly with local stakeholders or their legitimate representatives when appropriate. The results of implementation shall be provided in a timely manner and consultation shall be performed prior to design decisions or implementation to allow stakeholders adequate time to respond to the proposed design or action.

6 REDD+ PROJECTS NESTING IN JURISDICTIONAL REDD+ PROGRAMS

Results and Considerations of 2018 Consultation

During the 2018 public consultation, Verra received comments on this proposal from 14 different stakeholders, including project proponents, NGOs, validation/verification bodies (VVBs) and other market participants. The feedback received during the first consultation was generally supportive of the need for Verra to issue clear guidance and requirements to facilitate the nesting of REDD+ projects into government programs. However, while commenters were generally supportive of the underlying concept, a majority of commenters highlighted areas within the proposal that could be improved.

The main points of feedback were:

- It is critical to allow flexibility for projects intending to nest. Government decisions on allocation may be highly political and often override any scientific considerations (see Section 2 above for a description of this approach).
- There is a need to clarify when a jurisdictional reference level can or should be used to inform or establish a project baseline. Allowing the use of a jurisdictional reference level

that was developed “for the purposes of market-based mechanisms” is unclear and needs further definition. There should also be more of a recognition that nesting will be a stepwise process, as jurisdictional reference levels become more rigorous over time.

- The proposed update should only be required in cases where the host country has included REDD+ as part of its NDC and only for the activities covered by it. There is a need to consider how nesting rules may differ between countries (e.g., based on what activities are or are not included in the NDC), which may be particularly relevant for ARR and IFM activities compared to REDD.
- In many cases VCS project baselines may be more rigorous, accurate and transparent than some jurisdictional reference levels. In order to maintain the rigor of the VCS Standard, the focus should be on how project level data can be incorporated into higher levels without loss of accuracy.
- Consider that projects have invested a lot of time and resources into development of site-specific baselines and allow sufficiently generous grandparenting periods.
- Project level monitoring should also be aligned with the jurisdictional level for consistency.

Verra has taken into consideration each comment received and concluded that it is best not to move forward with the release of this update with Version 4 at this time. See below for further explanation.

Updated Proposal

Verra recognizes the importance of establishing nested pathways to ensure that REDD+ project activities support the development and implementation of government-led REDD+ programs and are well placed to meet post-2020 market opportunities. Verra is considering the development and release (around the end of 2019) of a new version of the *JNR Requirements* which aims to provide streamlined guidance for jurisdictions and nested projects to adequately harmonize accounting and support national objectives. As part of the revision of the *JNR Requirements*, Verra is working with a group of experts to develop additional guidance for projects to appropriately nest within jurisdictional programs, through aligning baselines, applying allocations of government reference levels, and/or using benefit sharing plans within a jurisdiction. A revised *JNR Requirements* may also cover other jurisdictional and nesting issues such as those relating to government approvals, monitoring, safeguards, leakage and addressing potential performance differences across scales.

Post-2020, countries will be required to account for emission reductions and removals across multiple sectors to demonstrate achievement of their Nationally Determined Contributions (NDCs) under the Paris Agreement, many of which include REDD+. In this context, it is important to assure there is no double counting of emission reductions and removals, and that any credits used (from any scale) in international compliance markets are deducted from jurisdictional results used for international commitments such as NDCs, where required by Article 6 of the Paris Agreement (once finalized). To operationalize this, jurisdictions wanting to attract project

investments and allow for international compliance market trading will need to have in place a system to approve project registration, to track the generation and international trading of emission reductions and removals from all relevant scales (international, national, subnational and project), and to make corresponding adjustments to the NDC, where required.

To address the risk of double counting, Verra is considering the release of a proposed new VCU+ unit. The “+” would indicate that the unit has met compliance rules, including demonstrating that double counting has not occurred (e.g., due to a government commitment to undertake a corresponding adjustment), and, in the case of REDD+, would likely require a project to have adequately aligned with a jurisdictional reference level and monitoring. The release of such a unit is pending further clarity from ongoing discussions (including within ICROA) on double counting and the upcoming COP decisions on Article 6 of the Paris Agreement (see Version 4 Consultation Roadmap for more details).

Given that the release of a revised version of the *JNR Requirements* is under consideration, and uncertainty surrounding the definition of a VCU+ (including how nesting rules may differ for a project wishing to issue a VCU compared to a VCU+), Verra has determined it is best not to move forward with this update in its current form and as such it will not be included in the release of VCS Version 4. Instead, Verra proposes releasing a comprehensive set of requirements and guidance relating to jurisdictional and nested REDD+ when there is more clarity around the proposed VCU+ unit and related implications for nesting. A draft version is expected around the end of 2019.

Meanwhile, project proponents remain subject to any and all national or subnational laws, including those that are emerging to address nesting. Furthermore, Verra encourages all projects to nest as soon as possible within existing or emerging jurisdictional REDD+ programs by aligning with the jurisdictional reference level and with other aspects and requirements of the jurisdictional program (e.g., government approvals, monitoring, leakage, performance, carbon rights, safeguards and benefit sharing plans).

For deforestation and/or degradation activities, projects are encouraged to work with governments to develop an allocation (see Section 2 above for a description of this approach) of the jurisdictional reference level (to the project area), based on jurisdictional reference levels that have been third-party assessed (e.g., by UNFCCC LULUCF experts or FCPF TAP), and to apply such allocations once approved by an appropriate government entity.

For reforestation/afforestation activities, and for deforestation and degradation activities where no allocation has been approved and is not under development, projects are encouraged to negotiate a baseline with the government, or otherwise align with the data, parameters and methods of the jurisdictional reference level (e.g., GHG emissions and removal factors, forest type and carbon stock values, where appropriate. See Section 3.11.15 of the *JNR Requirements* for more details). Furthermore, projects are encouraged to align their monitoring data, parameters and methods to the extent possible with those of the National Forest Monitoring System. Projects may follow the monitoring frequency of the jurisdictional government, or may set their own

monitoring frequency, but are encouraged to reconcile with government level data at least every 5 years (see Section 3.14.15 of the *JNR Requirements* for more details).

Where no jurisdictional reference level exists, and where there is no indication the government will publish and approve a relevant jurisdictional reference level within 2 years of project validation or baseline reassessment, REDD projects are encouraged to use a jurisdictional approach to determine the project baseline where feasible (e.g., using JNR Scenario 1). Verra intends to release guidance for taking this approach as part of the broader set of JNR updates. Where a project is undergoing validation or baseline reassessment, and where the government is likely to approve a relevant jurisdictional reference level within 2 years, Verra intends to work with projects on a case-by-case basis to permit extensions to the validation or project baseline reassessment deadline, as appropriate.

As noted, Verra intends to develop additional guidance for jurisdictional governments and nested projects (aiming for release by end of 2019 or early 2020). Meanwhile, Verra intends to work on a case-by-case basis with governments and projects to advance nesting solutions, and encourages relevant entities to reach out through secretariat@verra.org.

7 POSITIVE ACTIVITY IMPLEMENTATION

Background

This update was not included in the 2018 public consultation.

Continued active management of land use projects is essential to ensure that project proponents can adapt to changes over the lifetime of projects, which often requires continued engagement of communities involved with projects. Ultimately, continued management is required to ensure that carbon stocks remain permanent, and to report to Verra when reversals or loss events have occurred.

Based on stakeholder feedback, Verra proposes to include a safeguard to ensure that, regardless of monitoring results, projects are only credited where project proponents can demonstrate active and continued management of project activities. Although Verra is not aware of any projects that have received crediting for a given verification period where the project has not been actively managed, inclusion of this requirement will safeguard against any future scenario where this may be encountered.

Proposal

The proposal would be integrated into Section 3 of the *AFOLU Requirements* document as follows:

Project proponents shall demonstrate that management activities have occurred during a verification period in order to achieve a positive verification opinion. Where no new management activities have been implemented during a verification period, project

proponents shall demonstrate that previous activities continue to be implemented (e.g., patrolling or improved agricultural practices of community members).

Feedback

Verra seeks feedback on the overall direction of the proposal as well as any editorial feedback on the proposed language of the requirement.

8 STANDARDIZED LEAKAGE DEFAULTS

Background

This update was not included in the 2018 public consultation.

Based on stakeholder feedback, Verra has concluded that optional default values for activity-shifting and market leakage at validation may lead to substantial time and resource savings for project proponents and VVBs, while still keeping in line with the VCS principles of accuracy and conservativeness. Even where validation and verification are undertaken simultaneously, and where it is therefore possible to substantiate a lack of leakage using ex-post data in the project description, project proponents often still have to undertake a time consuming process to demonstrate projected ex-ante leakage across the project lifetime.

Activity-shifting leakage requires a thorough understanding of local dynamics to subsequently understand how implementing an AFOLU project may impact the behavior and lifestyles of community members in the project area. It is extremely difficult to accurately capture the displacement of deforestation or degradation that might occur as a result of project activities ex-ante. Currently, VCS methodologies (e.g., VM0004, VM0006, VM0009, VM0015) require unique, complex and time-consuming methods for estimating activity-shifting leakage in ex-ante models. These methods do not impact ex-post activity shifting leakage calculations or improve accuracy of projects' overall credit generation. For this reason, activity-shifting leakage is an ideal candidate for a default value to be applied at validation. The implementation of a default value for activity-shifting leakage would not impact the methodology requirements surrounding the establishment of a leakage belt or leakage area for the monitoring of leakage in the ex-post case.

Market leakage is likewise both difficult to accurately estimate ex-ante and monitor ex-post. Verra recognizes the importance of considering the market impacts of AFOLU projects, but also recognizes that commodity markets are fluid and complex. Currently, the AFOLU Requirements provide one table for IFM projects to calculate market leakage due to timber commodities, which must also be applied to numerous other project types that might affect the supply of commodities. The existing tool (AFOLU Requirements, Section 4.6.14, Table 3) can be challenging for many project proponents to use due to often insufficient regional data, and can also be difficult to apply to commodities other than timber and for varying significance of market drivers and commodities related to degradation or deforestation. This can sometimes lead to inconsistencies in the application of the tool based on various interpretations from both project developers and VVBs.

For these reasons, market leakage is also considered ideal for proposing an abbreviated estimation process at validation.

Adjustments to the market leakage tool (e.g., to better assess non-timber drivers of deforestation and degradation) and additional clarity on when and how the tool should be applied, are under consideration by Verra for a future update, but are not included as part of this proposal.

Proposal

Instead of project proponents calculating the volume of future activity-shifting leakage, Verra proposes that project proponents would have the option to claim a 15% default deduction at validation and directly monitor leakage as a requirement for ex-poste reporting. The 15% figure was determined based on an analysis of the average percent of activity-shifting leakage to total ERRs in approximately 30 VCS projects currently claiming an activity-shifting leakage deduction. By providing the option of using a default deduction for activity-shifting leakage in the ex-ante case, Verra allows projects to bypass the ex-ante methods established by methodologies while still requiring the tested framework for leakage monitoring and accounting in the ex-post case when empirical data is available. Importantly, applying the default at validation should not contribute additional risk or mask any deductions because leakage would be monitored and quantified for project verification. Finally, projects that use a methodology with applicability conditions that prohibit activity-shifting leakage from occurring would be exempt from claiming the activity-shifting leakage default, as they must demonstrate that such shifting does not occur.

With respect to market leakage, Verra explored the potential use of default values for both timber and non-timber commodities. However, it was determined that there is insufficient data to support a similar default approach for non-timber commodities, and therefore the proposal focuses solely on timber commodities. Similar to activity-shifting leakage, this default value would be optional to apply (at validation only), and would begin with the project proponent identifying the drivers of deforestation or degradation within the project area. Where the drivers of deforestation or degradation are attributed to timber production or logging, the default deduction value could only be applied if the country in which the project is located is not identified as a major exporter or major producer of forest products. This criterion was selected due to the fact that the majority of projects claiming market leakage discount factors, and virtually all such IFM projects, are located in countries listed as major exporters or producers of forest products by the Food and Agriculture Organization of the United Nations (FAO). Applying defaults only in countries that are not major producers would effectively allow only those projects where market leakage poses a low risk to project success, to apply the default factor without needing to apply the full tool. To determine whether the country is a major producer, Verra recommends referencing data sources from a third party that focus on analyzing forest products, such as the FAO. The FAO releases annual listings for countries that are "Major Producers of Forest Products"⁵ or "Major Exporters of Forest Products"⁶.

⁵ <http://www.fao.org/forestry/statistics/80938@180723/en/>

⁶ <http://www.fao.org/forestry/statistics/80938@180724/en/>

Where the country in which the project is located is identified as a major producer or exporter of forest products (as defined by the FAO) and logging is a driver of deforestation or degradation in the baseline scenario, the project proponent must apply the existing AFOLU Market Leakage Tool in full, as described in Section 4.6.14 of the AFOLU Requirements. Where logging is a driver of deforestation or degradation in the baseline scenario, but the country in which the project is located does not appear within either list, the project proponent can apply a default deduction of 10%. The 10% figure was derived from the AFOLU Market Leakage Tool (Table 3) as the low leakage risk value, rather than from the calculated average percent of market leakage (18%) in relevant projects. As the majority of projects currently applying market leakage values are located in countries that are major exporters of forest products, they are expected to have higher market leakage discount factors due to increased market leakage risk. The use of the average 18% market leakage default would therefore over-penalize projects that are likely to have little to no market leakage effects.

The proposed eligibility criteria is sufficient to filter out the majority of IFM and REDD projects that would likely have higher market leakage effects, while allowing and incentivizing those projects with lower market leakage risk to circumvent the full application of the tool, and apply a conservative deduction. By keeping the default market deduction low and simplifying the application to all project types that are eligible, Verra aims to provide a streamlined process for an otherwise complicated assessment.

The following proposed text would be added to the “General” section of Section 4.6 of the *AFOLU Requirements*:

- *An optional default activity-shifting leakage deduction of 15% of an AFOLU project’s Gross Emissions Reductions and Removals (ERRs) may be selected at validation for projects applying a methodology that includes this leakage type.*
- *An optional default market leakage deduction of 10% may be applied by AFOLU projects where timber is a significant commodity that is driving baseline degradation or deforestation and the project country is not a leading producer or exporter of forest products as defined by the FAO.*
- *Monitoring and calculating leakage shall still be conducted for ex-post accounting and all leakage shall continue to be deducted from the total GHG emission reductions and/or removals of the project.*

Feedback

Verra seeks feedback on the overall direction of the proposal in addition to the following questions:

- Do the default values seem reasonable? Does it make sense for these to be optional and only applied at validation?

- For the default market leakage value, applicable where timber is a “significant” commodity driving baseline degradation or deforestation, how should significant be defined?
- How significant would the time and cost savings be for both project proponents and VVBs?
- Is there a risk that a project proponent could complete validation and not realize the project would have failed a full leakage assessment until they undergo verification? Are there any safeguards that should be put in place for use of a standardized leakage deduction?