Updates to AFOLU Requirements

1 ABSTRACT

As the leading greenhouse gas (GHG) program for Agriculture, Forestry and Other Land Use (AFOLU) projects, Verra seeks to ensure that its VCS AFOLU projects continue to support global efforts to address climate change. Verra sees an important continued role for AFOLU projects in advancing on-the-ground activities that verifiably reduce or remove emissions and generate significant benefits for communities. Accordingly, Verra is considering a number of updates to the VCS *AFOLU Requirements* intended to make them more streamlined and user-friendly, and to address several identified key risks to help maintain the integrity and improve the quality of VCS AFOLU projects, including facilitating their nesting within emerging jurisdictional programs. The updates under consideration include the introduction of rules and requirements for:

- 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)

2 STANDARDIZED REFERENCE REGION SELECTION CRITERIA

Background

VCS REDD methodologies currently include various criteria for assessing the appropriateness of reference regions, which potentially could lead to inconsistent assessments of reference regions across projects. Accordingly, Verra is considering an update to the *AFOLU Requirements* to standardize the criteria by which reference regions are selected for all new REDD projects that include avoided unplanned deforestation and degradation (AUDD) activities[1], regardless of which methodology is applied. Such updates are intended to lead to more consistent assessments of reference regions across projects.

In order to develop this proposal, Verra assessed the various reference region selection criteria currently included in approved VCS REDD methodologies and distilled them into the criteria provided below. The proposal also provides a degree of flexibility to ensure that projects will be able to identify an appropriate reference region in all cases.

[1] Verra is considering updates to standardize criteria for reference region selection for avoided planned deforestation (APD) activities, and will make future proposals available for public comment when complete.

Proposal

Verra is considering an update to the VCS *AFOLU Requirements* which would introduce the following standardized criteria for selecting reference regions for new REDD projects with AUDD activities. Verra proposes that these requirements would be mandatory for new projects (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 (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. These proposed criteria would supersede the current reference region requirements for AUDD activities of all existing VCS REDD methodologies:

- **Drivers and agents of deforestation and degradation**
  When selecting a reference region (RR), the project proponent shall demonstrate that the types of prevalent drivers and agents are comparable (within ±10%) between the RR and project area (PA). To determine this, two lists of all identified and probable drivers and agents must be prepared, one for the RR and one for the PA. All the drivers and agents in the respective regions must be documented and justified through appropriate evidence, including peer-reviewed literature, reports, or expert opinion.

- **Reference region size**
  Reference region size shall be at least 95% of the size of the PA, though the RR would preferably be larger than the PA.

- **Other criteria**
  When selecting a RR, the project proponent shall provide both a quantitative and qualitative assessment of all criteria between the RR and PA set out in the table below. Where no area exists within the country that satisfies the requirements of all points of comparison, the project proponent shall provide adequate justification for use of a RR that does not meet all criteria, including justification for any criteria that have been excluded, and that the rate of deforestation determined is conservative. This justification must provide a discussion of all below criteria.

Criteria	Points of comparison
Forest types and landscape criteria	The forest types and landscape factors within the RR must be similar to the forest types and landscape factors within the PA. With respect to forest types, a list of all the forest types within the PA and RR must be prepared, and the RR must be comparable in proportion (within ±20%) to those present in the PA. Any forest type that comprises at least 5% of the PA must be present within the RR, and any forest type comprising more

	than 5% of the RR that is not present in the PA must be removed from any LULC analysis. With respect to landscape factors, a comparison of elevation, slope, and climatic conditions (e.g., temperature and rainfall) must be undertaken between the PA and RR, and each factor must be demonstrated to be comparable in proportion (within ±20%).
Land tenure and management practices	The land tenure system and management practices prevalent in the RR must be demonstrated to be comparable to the land tenure system and management practices in the PA, as demonstrated through appropriate evidence, including reference to peer-reviewed literature, reports, or expert opinion. The RR and PA may not be subject to two completely different land tenure and management practices.
Policies and regulations	The RR must fall within an administrative boundary which exhibits similar policies and regulations that impact land-use change patterns as the PA. Where an RR cannot be determined within the same administrative boundaries, it must be demonstrated that policies and regulations that impact land-use change patterns are comparable as those impacting the PA, taking into account the current level of enforcement.
Population criteria and transportation infrastructure	Existing or expected road density must be comparable (within ±20%) between the RR and PA. Where navigable rivers are present in the PA, navigable river/stream density must be comparable (within ±20%) in the RR. Settlement density and proximity to population centers must be comparable (within ±20%) between the RR and PA.

Verra is requesting feedback on the following:

- Is the list of factors and points of comparison complete?
- Are the requirements for each comparison criterion clear, concise and appropriate?
- Does the proposal provide the necessary level of rigor?
- Does the proposal provide the necessary level of flexibility?

3 OPTIONAL DEFAULT NON-PERMANENCE RISK RATINGS

Background

AFOLU project proponents and VVBs spend a significant amount of time preparing and reviewing AFOLU Non-Permanence Risk Reports at validation and each verification. However, experience has shown that resulting non-permanence risk ratings may not vary widely enough to justify this amount of effort. Accordingly, Verra is considering setting out, and allowing projects to use, optional and conservative default non-permanence risk ratings, rather than determine project-specific ratings. This proposal would lead to large time and resource savings during the project development, implementation, and auditing processes, without compromising the conservativeness and integrity of the accounting or undermining incentives to manage non-permanence risk.

Proposal

Verra is considering setting out, and allowing projects to use, optional and conservative default non-permanence risk ratings, instead of applying the *AFOLU Non-Permanence Risk Tool* at validation and each verification.

In order to develop these defaults, historical application of the *AFOLU Non-Permanence Risk Tool* would be reviewed to identify appropriate and conservative values depending on project characteristics (e.g., project size, activity type). Verra proposes that these default risk ratings would be available for use by new projects at validation and all existing projects at their next verification.

In addition, it is important to note that the *AFOLU Non-Permanence Risk Tool* has the critical function of determining whether a project is too risky to be allowed to pursue VCS certification at all; default non-permanence risk ratings would not filter out these projects. In order to maintain this function, Verra proposes that project proponents opting to use default risk ratings would first be required to demonstrate that the project complies with a set of eligibility criteria derived from the *AFOLU Non-Permanence Risk Tool*. These criteria would be assessed on a pass/fail basis at validation and every verification, and would be intended to exclude projects which would be considered too risky to be allowed to pursue VCS certification. These criteria may include:

- Project longevity (e.g., a demonstration that a minimum number of years of project activities would be maintained)
- Project management (e.g., a demonstration that management teams include experienced individuals)
- Project ownership (e.g., a demonstration that due process has been undertaken to discover and resolve any disputes over ownership and land/resource access/usage)
- Drivers and agents of deforestation/degradation (e.g., a demonstration that drivers and agents of deforestation/degradation are stoppable)

- Financial viability (e.g., a demonstration that project cash flow breakeven point is within a maximum number years)
- Natural/climate risks (e.g., a demonstration that catastrophic natural risks would be unlikely to occur within a maximum number of years)

Finally, for projects using default non-permanence risk ratings, a project verifying consistently for [X] years could demonstrate good risk management and the project could opt for a lower default rating over time. Note that this proposal would not affect existing VCS rules in respect of buffer credit releases whereby projects can become eligible for releases of buffer credits over time where their risk ratings remain the same or decrease from one verification to the next.

Verra is requesting feedback on the following:

- Are there any unidentified or unaddressed potential risks associated with allowing the use of default non-permanence risk ratings?
- Are there other eligibility criteria that we should include for ensuring that the use of a default non-permanence risk rating does not mask projects that would otherwise be considered too risky?
- Is there a better way to ensure comprehensive mitigation activities are still incentivized when using a default non-permanence risk rating?

4 MECHANISM FOR IDENTIFYING POTENTIALLY INACTIVE PROJECTS

Background

Verra has received feedback from multiple stakeholders regarding the importance of 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. In response, Verra is considering introducing a mechanism for publicly identifying which projects have buffer credits on hold as an indication of potential inactivity.

Proposal

Verra proposes the creation of a new project status publicly viewable on the Verra project database that would label relevant projects as having “buffer credits on hold”. Verra also proposes formalizing a process (within the *VCS Registration and Issuance Process*) for communicating with projects that have not verified for 5 years (i.e., when buffer credits first go on hold) to request evidence that the project is still active despite not having performed a verification. Evidence would take the form of a letter submitted by the project proponent to Verra and would explain in detail the status of the project, including an explanation as to why the project has not verified in the last 5 years and why it should still be considered active (e.g., by providing evidence of activity implementation or a VVB contract for verification in the near future). The letter would be uploaded to the project database and would be publicly available.

Verra understands that a project not verifying may not mean a project has failed or that there are no activities being implemented on the ground. In many cases, for example, the timing of verification is a financial decision and a project may simply be waiting for a stronger demand signal before moving ahead with verification. Accordingly, this proposal should not negatively impact active projects that have not been verifying, because a public letter would be available to explain the project's unique circumstances, and stakeholders would be advised to refer to the public letter for more details.

Verra proposes that implementation of this procedure would be effective immediately, and requests general feedback on this proposal.

5 STRENGTHENED LOCAL STAKEHOLDER ENGAGEMENT

Background

The integrity of VCS AFOLU projects relies heavily on positive engagement and communication with local stakeholders. Where local stakeholders are dissatisfied with a project and have little incentive to see it implemented successfully, chances of project failure increase greatly.

For REDD+ projects in particular, community engagement is the cornerstone of project success. As the world moves to a future where REDD+ projects will increasingly be integrated within government programs, it is important for projects to respect UNFCCC REDD+ safeguards. It is clear that community-related requirements regarding property rights and Free, Prior and Informed Consent (FPIC) among other issues are actually safeguards rather than co-benefits, and should therefore be required of all REDD+ and any AFOLU projects more broadly.

Currently, only VCS projects applying the Climate, Community & Biodiversity (CCB) Standards, Social Carbon or Forest Stewardship Council standards are required to provide safeguards that are aligned with those set out by the UNFCCC. Absent application of these additional certification standards, the VCS Program relies on key rules to protect communities and stakeholders from harm. While the intention of the VCS Program rules is to ensure that projects avoid any net negative impacts on local stakeholders, Verra believes that current rules should be strengthened to ensure safeguards are fulfilled.

Proposal

Verra is considering strengthening the VCS AFOLU project requirements for local stakeholder engagement. The bulleted headings below set out the proposed new requirements.

These proposed new requirements are based on key requirements from the third edition of the *CCB Standards*. Each proposal below lists the CCB indicators upon which it is based in a footnote associated with the section title. Note that the indicators have been altered from how they appear in the *CCB Standards* 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.

Note that, since the proposed requirements are addressed in the CCB Program, Verra proposes that projects validating or verifying to the CCB Program would not be required to conduct a separate demonstration of compliance with the proposed additions to the *AFOLU Requirements*, except where such projects conduct a standalone VCS verification (i.e., they apply the CCB Standards but are verifying them separately from the VCS verification). 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 (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.

- **Local Stakeholder Identification and Background**[2]

  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.

- **Risks to Local Stakeholders**[3]

  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,

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

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

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 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.

- **Respect for Local Stakeholder Resources**[4]

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.

- **Communication and Consultation**[5]

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.

[4] 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*

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

- ✓ 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, 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.

Feedback

Verra requests general feedback on the proposal but would also appreciate feedback on the following questions:

- Will the proposed updates to the rules help to ensure strengthened local stakeholder engagement?
- Do the proposed updates address key safeguards and are there other requirements which should be introduced to better address safeguards?
- Will the proposed updates to the rules require additional cost and time to develop, monitor or audit a project? If yes, how so?

6 REDD+ PROJECTS NESTING IN JURISDICTIONAL REDD+ PROGRAMS

Background

Verra is working to establish concrete nested pathways to ensure that REDD+ project activities support the development of government-led REDD+ programs. Verra therefore encourages projects that intend to continue seeking to trade VCUs internationally to nest within an existing or emerging jurisdictional REDD+ program by adopting an allocated jurisdictional reference level and aligning with other aspects and requirements of the jurisdictional program (e.g., government approvals, monitoring, leakage, performance, safeguards and benefit sharing). Project proponents should assess the possibility of a nested pathway for new and existing projects.

Although several approved VCS REDD methodologies allow for use of jurisdictional reference levels, the VCS rules currently do not support the development of projects using jurisdictional reference levels unless they are developed under a jurisdictional REDD+ program applying the VCS *Jurisdictional and Nested REDD+ (JNR) Requirements*. As many governments have now submitted REDD+ reference levels to the UNFCCC, or have otherwise officially published their reference levels, Verra recognizes the importance of facilitating project proponents' use of a jurisdictional reference level and associated datasets. Accordingly, Verra is considering a number of updates to the VCS rules to facilitate nesting.

In addition to the below proposal, which primarily covers baseline alignment, Verra is considering the development and release of a new version of the *JNR Requirements* which would aim to provide streamlined guidance for jurisdictions and nested projects to harmonize accounting and support national objectives, build on the UNFCCC and Forest Carbon Partnership Facility (FCPF) (among other) frameworks, and meet requirements of emerging demand and finance opportunities such as the Green Climate Fund (GCF), Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), Internationally Transferred Mitigation Outcomes (ITMOs) and domestic markets. As part of the revision of the *JNR Requirements*, Verra is considering working with a group of experts to develop methods for allocating reference levels to support project nesting and/or benefit sharing within a jurisdiction (e.g., through the use of risk-based mapping[6]). A revised *JNR Requirements* would also cover other jurisdictional and nesting issues such as those relating to government approvals, monitoring, leakage and addressing potential performance differences across scales.

[6] Allocating the jurisdictional reference level based on real deforestation threat helps to strengthen the viability of a REDD+ program and ensure resources are delivered to those areas most in need. A risk map would look at the historical average or trend of deforestation at a smaller scale, such as at the municipality level, and delineate areas under high threat of loss to determine a project's allocation of the jurisdictional reference level. Such an allocation should take into consideration relevant socio-economic indicators or trends, may be subject to public consultation, and would need to be approved by the government.

Proposal

Verra is considering the following updates to the VCS REDD+ project requirements to facilitate nesting. Note that proposed implementation would impact baseline-setting for new and existing projects:

1) Project proponents must comply with any national or subnational laws relevant to nesting.

2) After 2020, countries will be required to account for emission reductions and removals across multiple sectors, including REDD+ in many cases, to demonstrate achievement of their Nationally Determined Contributions (NDCs) under the Paris Agreement. 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 markets are deducted from jurisdictional results used for international commitments such as NDCs. To operationalize this, jurisdictions wanting to allow project investments and trading will need to have in place a system to approve project registration and to track the generation and export trading of emission reductions and removals from all relevant scales (international, national, subnational and project). Where there is a demonstrable risk of double counting and a project seeks to issue VCUs intended for international trading, the following guidance is provided. Project proponents should:

   a) Identify whether a national or subnational jurisdictional reference level has been developed and approved by an appropriate entity (e.g., national or subnational government agency). Where this is the case, project proponents should, at a minimum, apply data and parameters included in the jurisdictional reference level (e.g., forest type and carbon stock values) to appropriately align with jurisdictional accounting.

   b) Identify whether an allocation of the jurisdictional reference level to projects has been undertaken and approved by an appropriate entity (e.g., national or subnational government agency). The allocation of a jurisdictional reference level to a project will be accepted by Verra if the reference level was established under the UNFCCC or another GHG program for the purposes of market-based mechanisms. Where the reference level is intended for results-based finance rather than market mechanisms (as is the case for the vast majority of submitted UNFCCC reference levels), additional criteria may be applied from the *JNR Requirements* to increase the rigor and credibility of the reference level and ensure market/offset-quality and fungible units are produced[7]. Where such a reference level exists, project proponents should either:

[7] As mentioned in Background section, Verra is considering offering a streamlined version of the *JNR Requirements* which would support the development and implementation of market-ready jurisdictional reference levels and programs by building on frameworks such as the UNFCCC, GCF and FCPF, including through additional reference level criteria, leakage and permanence approaches such as the pooled buffer account, the VCS registry system and third-party validation/verification.

i) Nest the project with the jurisdictional accounting by adopting the jurisdictional reference level allocation established by the government; or

ii) Develop and justify a project-specific baseline adapted from the published reference level (using the same GHG emissions and removal factors, data sources and methods as the jurisdictional reference level, where appropriate) and approved by an appropriate government entity.

c) Regardless of double counting risk, projects are encouraged to voluntarily adopt an approved, allocated jurisdictional reference level and/or its data and parameters as early as possible.

3) Where there is no risk of double counting because a project seeks to issue Domestic Climate Contributions (DCCs)[8] (which could not be exported as offsets), project baseline alignment with the jurisdictional reference level is not required and a VCS project methodology can be used for baseline development (although harmonization with the jurisdiction may be encouraged, or required by the government, over time).

The above proposal is not intended to be comprehensive, but rather outlines requirements and guidance under consideration primarily with regard to baseline alignment. Note that credits generated from project activities or pools not included in a country's NDC and jurisdictional accounting (e.g., ARR or IFM activities) are not affected.

As noted, Verra intends to develop additional requirements and guidance for jurisdictions and nested projects in the near future. Verra requests general feedback on the above considerations, including their workability and any additional criteria that should be considered when fully fleshing out any updated requirements.

[8] Please refer to VCS Version 4 consultation document, *Domestic Climate Contributions (DCCs)*, for details on the DCC concept.