



## OBSERVATIONS IN RELATION TO CATEGORY ASSESSMENT REDD+/JREDD NOVEMBER 2024

### 1. Purpose of these observations

The Governing Board (the Board) of the Integrity Council for the Voluntary Carbon Market (ICVCM), when considering the assessment of methodologies related to activities to Reduce Emissions from Deforestation and Forest Degradation in developing countries (REDD+<sup>1</sup>) identified that it would be beneficial to make public the Integrity Council's observations for the purpose of supporting the future development of methodologies in this Category.

These observations are non-binding and do not impact or form any part of the Assessment Framework, Assessment Procedure, or any Decision (as defined under the Assessment Framework) and are published by the Integrity Council for the purpose of information only.

The Integrity Council may, from time to time, publish other observations for other Categories where it considers this may be useful for CCP-Eligible Programs and other stakeholders and may update and revise its observations from time to time based on further assessment processes or information. Observations are not an exhaustive set of views of the Integrity Council, and not all aspects addressed in assessment processes are included. The Integrity Council has received feedback from stakeholders that increased detail in its observations would be welcomed and has attempted to meet that request in these observations and will try to continue to do so, if appropriate, in future observations it may publish. No reliance may be placed on observations, as they are for the purpose of information only, and observations published are without prejudice to other ongoing assessments.

The Governing Board would like to express its gratitude to the representatives of governments of interested forest countries and jurisdictions, as well as experts and other stakeholders engaged in the assessment process, who provided input to the ICVCM regarding this Category.

### 2. REDD+ methodologies that have been assessed

The Governing Board's observations regarding the assessment of REDD+ methodologies against the ICVCM Assessment Framework and its Core Carbon Principles generally relate to robust quantification, additionality, and permanence.

The three methodologies considered by the Board within this Category and to which these observations relate are:

- VM0048 Reducing Emissions from Deforestation and Forest Degradation v1.0 (Voluntary Carbon Standard (VCS))
- Jurisdictional and Nested REDD+ (JNR) Framework v4.1 (VCS)

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<sup>1</sup>The international community established the 'REDD+' framework to protect forests as part of the [Paris Agreement](#). 'REDD' stands for 'Reducing emissions from deforestation and forest degradation in developing countries. The '+' stands for additional forest-related activities that protect the climate, namely sustainable management of forests and the conservation and enhancement of forest carbon stocks.

- The REDD+ Environmental Excellence Standard (TREES) V2.0, TREES Crediting Level (ART)

The assessment process is still underway for the Removals and the High Forest, Low Deforestation (HFLD) Crediting Approaches in ART-TREES and ACR's Active Conservation and Sustainable Management on US Forestlands methodology. Decisions on these methodologies, and any related observations, will follow in due course.

### **3. Robust Quantification**

A crucial consideration in strengthening the integrity of the voluntary carbon market is ensuring that GHG emission reductions or removals are robustly quantified so that their levels are not overstated. Robust quantification relates to the measurement of emission reductions from an activity, the determination of baselines, and the accuracy of the number of credits issued.

The Board considered the following issues in making its decision on CCP approval for the above-mentioned methodologies.

#### **3.1. Decreasing baselines, uncertainty, and the risk of overestimation of emission reductions**

Under the VM0048, VERRA-JNR, and TREES methodologies, jurisdictional baselines are determined by projecting a linear extrapolation of average deforestation rates and are revised at the time of crediting period renewal.

The assessment process considered the effect of uncertainty in predicting future deforestation in jurisdictions using historical averages, as VM0048, VERRA-JNR, and ART-TREES do. Because the baseline is an average of past observed deforestation, it may either fall above or below future observed deforestation.

The assessment process considered that baseline setting through historical averages would be conservative under an increasing deforestation rate. Conversely, under a declining deforestation rate (where the decline is happening in the absence of expectations of carbon payments), historical averages could be expected to lead to systematic over-crediting. In this case, the presence of biased residuals, i.e. the difference between modelled and observed deforestation levels, would lead to an overestimation of emission reductions.

The assessment process thus considered whether there was evidence to indicate that such declining deforestation rates were present or frequent. The assessment process concluded that there are currently no instances that support a systemic decline in deforestation rates in tropical countries for reasons unrelated to policies that directly address deforestation and/or the expectation of carbon payments.

The assessment process subsequently identified that considering the potential for such cases, more research should be undertaken on determining and modelling deforestation drivers and identifying early signs of declining deforestation rates that are not associated with carbon payments. These issues will be included in an ICVCM Continuous Improvement Work Program.

The ICVCM will consider options in the next iteration of its Assessment Framework to address this issue. This will include considering whether to require taking into account any clear downward deforestation trend when establishing baselines.

### **3.2. Likelihood of exploiting risk distribution mechanisms**

Under VM0048, VCS establishes the baseline for each mitigation project, taking into account deforestation trends and risk profiles for specific areas within the relevant jurisdiction. A key issue considered in the ICVCM assessment process is access to the information needed and whether project developers may have better information than the carbon-crediting program and use that information to their advantage. For example, misallocation of risk rating to a particular plot of land (e.g., one deemed to have a high deforestation risk when it is, in fact, scheduled for government protection) might become more attractive to the project developer and potentially lead to over-crediting. This issue was identified in analyses by CCQI (2024)<sup>2</sup> and Haya (2024)<sup>3</sup>.

In relation to this risk, the following mitigating factors were considered:

- Defining project boundaries takes significant effort, including securing rights to the activity under local jurisdictions and securing enough funding to achieve financial viability for the project. It is not a straightforward assumption that a project developer could or would choose an area for a long-term investment because of a potentially incorrect risk profile in the first crediting period.
- Any misallocation of risk would be factored into the baseline revision after the first crediting period, therefore eroding the value of any privileged information the project developer may have had.

The assessment process noted that over time, as mitigation projects are nested within jurisdictional programs (such as JNR or TREES), the exploitation of imperfect risk allocation might cause a distributional issue but that it would not result in over-crediting for the REDD+ jurisdictional program (as over-crediting in one area would result in under-crediting in another).<sup>4</sup> The assessment process also noted that, in line with UNFCCC decisions and the Paris Agreement, countries are expected to implement REDD+ at the national level, aiming towards halting and reversing deforestation and forest degradation by 2030<sup>5</sup>.

The Governing Board considers it to be important that the assessment process allows for the identification of situations in which asymmetric information results in misallocation of risk. The ICVCM will consider whether to require carbon-crediting programs to have provisions for external validation of project risk profiles in the next iteration of its Assessment Framework. The Governing Board also recommends that the ICVCM continuous improvement work program (CIWP) on jurisdictional crediting approaches consider and recommend options for third-party scrutiny and

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<sup>2</sup><https://carboncreditquality.org/download/Assessments/1.3.2%20VM0048%20%2802%20July%202024%29.pdf>

<sup>3</sup> <https://gspp.berkeley.edu/assets/uploads/page/Quality-Assessment-of-VM0048--July-2024--BCTP-Policy-Brief.pdf>

<sup>4</sup> In relation to Jurisdictional REDD+: The ICVCM will consider whether to require carbon-crediting programs to have provisions requiring that where it has a registered Project-based mitigation activity within a Jurisdictional REDD+ Program (as defined by the ICVCM), that the Project-based mitigation activity takes into account the provisions of that Jurisdictional REDD+ Program where the Jurisdiction requires it.

<sup>5</sup> See (i) Decision 1/CP.16, which is part of the UNFCCC REDD+ framework; (ii) Article 5.2 of the Paris Agreement; and (iii) 1/CMA.5.

ground-truthing of modelling results, particularly the values of residuals from applying the risk allocation model to past historical rates. The Governing Board encourages carbon-crediting programs to make modelling results available to external scrutiny, including information on residuals.

#### **4. Leakage**

Leakage refers to emissions that are caused by the implementation of a project activity but that occur outside the project boundary. The assessment process considered leakage and relevant literature, in particular, appropriate leakage deduction rates for these types of activities. VM0048 spans several modules with distinct applicability to different activity types, namely Avoided Planned Deforestation (APD) and Avoided Unplanned Deforestation (AUD). For VM0048, the assessment process was focussed on AUD as this is the only module so far submitted to the ICVCM for assessment. The assessment process considered that the impacts of activities would likely occur at a localized level and that these would be contained within the prescribed leakage approach.

The JNR and ART-TREES approaches fully account for leakage when operating at the national level. At the sub-national level, ART-TREES applies a leakage deduction rate based on the percentage of total national area within the project boundary. ART-TREES does not limit the total cumulative time<sup>6</sup> and subnational accounting areas are only permitted as an interim measure until Dec 31, 2030, regardless of the number of years left in the crediting period<sup>7</sup>.

The ICVCM notes that improved leakage estimates at a subnational level are important for scaling up the market and recommends that this issue is included in the ICVCM's CIWP on jurisdictional crediting approaches and its results considered for the next iteration of the Assessment Framework.

#### **5. Permanence**

The TREES methodology does not require monitoring of reversals that may occur after the program has ceased to participate under TREES. Instead, the TREES methodology provides that if a jurisdiction leaves the TREES crediting program, all the carbon credits contributed by the jurisdiction in the buffer are cancelled (and not returned or otherwise used)<sup>8</sup>, an approach that is explicitly recognized in the Assessment Framework. A consideration raised, including by some experts in the Expert Panel, was whether it is possible to know (in advance) whether the percentage placed in a buffer reserve will be adequate and provide at least an equivalent level of protection as compared to the 40-year minimum requirement of monitoring and compensation for project-based methodologies<sup>9</sup>.

The assessment process explored this issue, specifically how buffering within the crediting period at a rate between 5% and 25%, with a cancellation of the buffer reserve for all unused carbon credits at the end of the monitoring and compensation period, would match the level of robustness required by the Assessment Framework. The information provided by the crediting

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<sup>6</sup> <https://www.artredd.org/faqs/#art>

<sup>7</sup> <https://www.art-redd.org/wp-content/uploads/2020/02/TREES-v1-Statement-of-Reasons-February-2020.pdf>

<sup>8</sup> <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/article-64-supervisory-body/rules-and-regulations#stan>

<sup>9</sup> See Criterion 9.3 a) 1) of the Assessment Framework

program included calculations for reversal scenarios. The ICVCM engaged a third party to replicate the analysis under different assumptions and found similar results, consistent with the current requirements of the Assessment Framework. As such, the assessment process determined that, under practical scenarios, the accumulated buffer of credits from the crediting period was likely to be preserved.

The Assessment Framework also requires that where a reversal exceeds the total contribution to the pooled buffer reserve made by the relevant Jurisdictional REDD+ Program proponent prior to the reversal, the participating Jurisdictional REDD+ Program proponent is required to replenish the pooled buffer reserve to return the pooled buffer reserve to a percentage proportionate to the risk. The assessment process considered how to assess whether the replenishment was to a level that is proportionate to the risk and considered that the continuous improvement work program on jurisdictional approaches address this issue.

The ICVCM will consider in the course of its upcoming CIWP whether to require in the next iteration of the Assessment Framework that carbon-crediting programs (i) commit to post-crediting monitoring for the permanence period required under the Assessment Framework, (ii) undertake periodic reassessments of buffer pool contributions to ensure these remain proportionate to the evolving risk profile of the project or jurisdiction and (iii) have provisions for increased transparency and reporting on buffer pool status.

#### **6. Additionality under REDD+ jurisdictional approaches**

Additionality is a central concept for the carbon market. Emission reductions under a jurisdictional REDD+ program will be additional if the program activities reduce emissions at higher levels than would have occurred in the absence of REDD+ implementation (i.e., the business-as-usual scenario).

The assessment process noted that additionality under jurisdictional REDD+ departs from the traditional project-based approach. Additionality under jurisdictional REDD+ rests on the assumption that deforestation drivers are best tackled through actions like enforcement, enacting laws/regulations, and putting in place incentives at a scale that national authorities can provide. Carbon payments are then required to make protecting and restoring forests more economically attractive when compared to the activities that drive deforestation. The assessment process also noted that in the presence of unplanned/illegal deforestation, additionality testing approaches such as regulatory and financial tests are either not applicable or are of unclear relevance when the government is the program proponent.

The assessment process also noted that the relevant carbon crediting programs met requirements related to the submission of implementation plans that identify new and/or enhanced activities and that these must be validated and verified. For the next iteration of the Assessment Framework, the ICVCM, through its CIWP on jurisdictional crediting approaches will explore options to require crediting programs to effectively monitor that reduced deforestation can be attributed to new and/or enhanced REDD+ activities as per registration and validation documents.