The Voluntary Carbon Market **Explained**

Chapter 11

Chapter 11: How are VCM benefits shared with local communities?

Local communities, Indigenous Peoples, landowners, and other stakeholders involved in carbon projects or programs may receive benefits directly from the sale of carbon credits or through benefit sharing arrangements. Benefit sharing arrangements identify how monetary and non-monetary benefits will be allocated to which stakeholders and how the distribution will take place.

What is benefit sharing?

Benefit sharing is the allocation of the proceeds from the commercialization of **carbon credits** to local stakeholders involved in a carbon project or program. The goal of benefit sharing is to reward local actors for past contributions to greenhouse gas emission reductions and removals and to incentivize future contributions to climate change mitigation activities. It can also be used to avoid future emissions by, for example, rewarding conservation and good stewardship of ecosystems. In addition to incentivizing relevant actors to participate in and support the implementation of carbon projects and programs, benefit sharing aims to increase the legitimacy of carbon markets by providing tangible benefits from activities that involve or affect local stakeholders.

Benefit sharing is primarily used in **nature-based solutions (NbS)** projects, such as avoided deforestation or community forest projects, but also applies to other community-based carbon activities.

Benefit sharing arrangements are often designed to reward and incentivize the activities of Indigenous Peoples, dependent communities, smallholder farmers and other actors whose livelihoods intersect with forest conservation and sustainable land management activities. Benefit sharing arrangements outline who will bear the costs and benefits of carbon projects and programs, through which institutional arrangements, and under which conditions, as well as how decisions are made and implemented. When agreements are established in an inclusive, transparent, and equitable manner, actors are more likely to participate in carbon projects or programs.

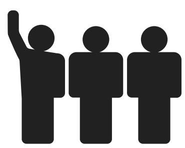
Benefit sharing is relevant to governments in two ways:

1. Governments are required to develop government-driven benefit sharing mechanisms for jurisdictional programs and project activities that they sponsor.
2. Governments can regulate private benefit sharing by creating guidelines for benefit sharing best practices.

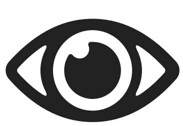
What are the best practices for benefit sharing?

Benefit sharing agreements should be based on the right to Free, Prior and Informed Consent (FPIC) of **Indigenous Peoples and local communities** (IPLCs). Consequently, benefit sharing negotiations should start with a clear understanding of land and resource rights, the needs and priorities of affected peoples and communities, and potential barriers to participation.

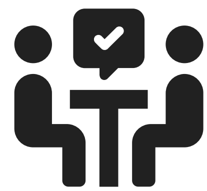
The **Designing Benefit Sharing Arrangements: A Resource for Countries platform** from the World Bank Forest Carbon Partnership Facility (**FCPF**) and the BioCarbon Fund Initiative for Sustainable Forest Landscapes (**BioCF ISFL**) outlines the following key elements and approaches for benefit sharing arrangements:



Project or program managers need to identify all relevant beneficiaries. Beneficiaries include groups who are contributing directly to generating or sustaining emission reductions and removals, have historically managed land or contributed to avoided emissions in the project or program area, and those who require incentives to contribute to mitigation goals. Beneficiaries may include IPLCs, government entities, private landowners, and any actors who engage either in behavior that should be rewarded (e.g., conservation) or behavior that should be changed (e.g., deforestation).



Benefit sharing arrangements should be transparent. They should reveal risks, challenges, successes, and rewards of mitigation activities as well as how benefits are allocated between stakeholders. Where there are existing or potential conflicting interests, these should be discussed openly with beneficiaries. Managing expectations is essential to maintain trust and legitimacy for stakeholders. Formal and informal, statuary and customary land and carbon rights inform benefit sharing arrangements and facilitate effective benefit distribution. Cost-benefit analyses can help stakeholders understand and make informed decisions about their role in the mitigation activity.

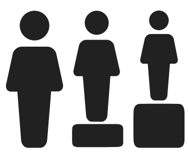


Successful benefit sharing depends on effective, extensive, and frequent consultations with stakeholders. Consultations build and maintain trust and ensure that arrangements continue to meet beneficiaries' needs. Through consultation, beneficiaries should set criteria for their participation in mitigation activities to ensure that benefits reflect stakeholders' needs and priorities. Consultations should be initiated before the activity is implemented and occur regularly throughout all stages of a project or program so that benefit sharing arrangements can be revised based on changing conditions and project outcomes.

Benefit sharing should be linked to the contributions from stakeholders to mitigation activities. Benefits can compensate transaction, implementation and opportunity costs incurred by stakeholders.

Benefits can be output-based, in which case local stakeholders are rewarded for achieving mitigation or conservation outcomes, or input-based, in which case local stakeholders receive benefits for carrying out activities that maintain ecosystems.

Benefits can be monetary or non-monetary. Non-monetary benefits may include training, capacity-building, provision of infrastructure or social services, agricultural inputs, technology, strengthened land tenure or governance, access to ecosystem services, and introduction of alternative livelihood or revenue-generating activities.



Benefit sharing arrangements can also mitigate existing inequalities in beneficiary communities. This can be done by involving Indigenous Peoples, smallholders, forest communities and other historically marginalized groups even if they are not agents of deforestation. Benefit sharing can help to redress socioeconomic inequality, recognize land and carbon rights, and sustain climate change mitigation outcomes. When benefit sharing does not address inequalities, it can exacerbate existing socioeconomic divisions, land tenure insecurity, gender discrimination, and elite capture of resources. Benefits may include capacity-building needed for stakeholders to achieve or receive benefits.

Sufficient financial, administrative, and technical resources to implement and maintain benefit sharing arrangements must be budgeted. Benefit distribution is determined by differentiated beneficiary groups and the mechanisms required to share different types of benefits. Benefits may be distributed based on future or past contributions to reduced or avoided emissions, beneficiaries' level of need for incentives, and/or indicators such as Sustainable Development Goals. Project and program implementers should be prepared to provide upfront resources to design and fully implement consultations and benefit sharing arrangements. Engaging existing institutions and payment for ecosystem services programs can reduce start up and transaction costs.

It is important to remember that there is no one-size-fits-all for benefit sharing. Arrangements should be developed based on the specific land tenure, governance, land use, historical and political conditions. They depend to a large extend on local circumstances and conditions. Therefore, benefit sharing arrangements should not be scaled up or applied from one project to another without careful prior assessment and consultation.

Further Reading

1. FCPF. (2018). REDD+ Benefit Sharing. Forest Carbon Partnership Facility. https://www.forestcarbonpartnership.org/redd-benefit-sharing

2.FCPF and BioCF ISFL. (2020). Designing Benefit Sharing Arrangements: A Resource for Countries. https://www.forestcarbonpartnership.org/bio-carbon/en/index.html

3.Loft, L., Pham, T. T., & Luttrell, C. (2014). Lessons from Payments for Ecosystem Services for REDD+ Benefit-Sharing Mechanisms (CIFOR Infobriefs). Center for International Forestry Research (CIFOR). https://doi.org/10.17528/cifor/004488

4. O'Gara, K. (2020, September 9). Guest blog: Reaping the rewards of well-de signed benefit sharing arrangements. UN-REDD Programme. https://www.un-redd.org/post/reaping-the-re wards-of-well-designed-benefit- sharing-arrangements

5.Parizat, R. (2020, February 25). Getting the incentives right on forest protection—Guest blog. UN-REDD Programme. https://www.un-redd.org/post/getting-the-incen tives-right-on-forest-protection-guest-blog

6. Streck, C. (2020). Who Owns REDD+? Carbon Markets, Carbon Rights and Entitlements to REDD+ Finance. Forests, 11(9), https://doi.org/10.3390/f11090959

7. World Bank Group. (2019). Benefit Sharing at Scale: Good Practices for Results-Based Land Use Programs. International Bank for Reconstruction and Development / The World Bank. https://openknowledge.worldbank.org/handle/10986/32765?CID=CCG_TT_climatechange_EN_EXT

Acknowledgments
Authors: Charlotte Streck, Melaina Dyck and Danick Trouwloon
Figures and visuals: Leo Mongendre
Design: Sara Cottle

Date of publication: December 2021

The Voluntary Carbon Market Explained (VCM Primer) is supported by the Climate and Land Use Alliance (CLUA). The authors thank the reviewers and partners that generously contributed knowledge and expertise to this Primer.