The Voluntary Carbon Market **Explained**

Chapter 12

Chapter 12: How are voluntary carbon market benefits shared?

High-quality voluntary carbon market (VCM) activities include transparent benefit sharing agreements with Indigenous Peoples and local communities (IPs&LCs) as well as other local landowners and stakeholders. The stakeholders who are involved in VCM activities 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. VCM activity developers need to follow benefit sharing requirements set by carbon standards and governments in host countries. Where benefit sharing requirements are not imposed, activity developers should still follow benefit sharing best practices to ensure activities are equitable and effective in the long-term.

What is benefit sharing?

Benefit sharing is the allocation of the proceeds from the commercialization of carbon credits to local stakeholders involved in a VCM activity. Benefit sharing is primarily used in nature-based solutions (NbS) activities, such as avoided deforestation or community forest projects, but also applies to other community-based carbon activities.

The goal of benefit sharing is to reward local actors for past contributions to greenhouse gas (GHG) emission reductions and removals and to incentivize future contributions to climate change mitigation activities. Benefit sharing 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 VCM activities, benefit sharing aims to increase the legitimacy of carbon markets by providing tangible benefits to stakeholders that are involved or affected.

Benefit sharing arrangements are often designed to reward and incentivize the activities of IPs&LCs, forest-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 costs and receive benefits, what institutional arrangements and implementation conditions are in place, and how decisions will be made and implemented in VCM activities. When agreements are established in an inclusive, transparent, and equitable manner, actors are more likely to participate in VCM activities and the activities are more likely to achieve their climate change mitigation and other goals.

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 IPs&LCs. 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. Well-designed benefit sharing agreements can strengthen land tenure, support community governance, and enable IPs&LCs to manage their territories and livelihoods according to their needs and priorities.

However, benefit sharing can pose risks. Benefit sharing is an administrative process that may not be easily understood by potential beneficiaries. As a result, benefit sharing agreements may not accurately reflect the needs or priorities of IPs&LCs and confer power to activity developers. Benefit sharing agreements can also reinforce inequalities between members of IP&LC groups who are directly involved in benefits sharing negotiations or are the recipients of funds and those who are less directly involved. Following best practices for benefit sharing can avoid or mitigate these risks.

The Forest Carbon Partnership Facility (FCPF) outlined the following key elements and approaches for benefit sharing arrangements:

VCM activity developers and managers need to identify all relevant beneficiaries.
Beneficiaries include those who are contributing directly to generating or sustaining emission reductions and removals, those who have historically managed land or contributed to avoided emissions in the VCM activity area, and those who require incentives to contribute to mitigation goals.

Beneficiaries may include IP&LC groups, 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. Arrangements should reveal risks, challenges, successes, and rewards of mitigation activities as well as how benefits are allocated between stakeholders. Existing or potential conflicting interests should be discussed openly with stakeholders. Managing expectations is essential to maintain trust and legitimacy for beneficiaries. 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 roles in VCM activities.

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 VCM 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 VCM activity so that benefit sharing arrangements can be revised based on changing conditions and activity 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 mitigate existing inequalities in beneficiary communities. This can be done by involving Indigenous Peoples, smallholders, forest communities, and other vulnerable or 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 (SDGs). VCM activity developers 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 land tenure and land use systems, governance arrangements, and historical or political conditions in the VCM activity site. Benefit sharing arrangements should not be scaled up or applied from one project to another without careful prior assessment and consultation.

Further Reading

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