CARBON MARKET WATCH

A fair share *of the* voluntary carbon market?

How the absence of standard rules on benefit sharing arrangements hurts local communities and indigenous peoples

POLICY BRIEFING | NOVEMBER 2023

EXECUTIVE SUMMARY

How and to what extent are the benefits from carbon credit sales shared with those implementing the projects and the local communities where the projects are located? This is the question Öko-Institut investigated and the resulting report, commissioned by Carbon Market Watch, provides insights and answers.

Öko analysed the existing rules on benefit sharing arrangements (the contractual clauses that distribute the benefits of climate projects to stakeholders, including indigenous peoples and local communities) of selected carbon crediting programmes and standards, in addition to assessing the benefit sharing provisions in the documentation of selected projects that are registered under these standards.

The study reveals that there are insufficient rules and enforcement of benefit sharing arrangements. The report worryingly uncovers that only two out of five of the assessed carbon standards made a reference to "benefit sharing arrangements" in their standard documents.

A total of 47 projects were reviewed, and only 15 mentioned benefit sharing arrangements in their project design documents. Of these 15 projects, only four were found to contain "evidence of benefit sharing with stakeholders other than just the project implementers". Out of these, only one single project has published evidence of having distributed benefits that go beyond mere payments for results. Payments for results and benefit sharing should not be considered equivalent, as the first is akin to salaries or wages for work done.

Although the research does not cover the entire market, the study's sample is skewed towards projects that are more likely to perform better than the market average when it comes to benefit sharing. Overall, it is therefore likely that evidence of benefit sharing across the voluntary carbon market is extremely lacking.

This briefing highlights the five main lessons of the Öko assessment and suggests recommendations to make sure that benefits accrued from voluntary market projects are more equitable and supportive of IPLCs. Standards should require all projects to have robust, clearly-defined benefit sharing arrangements. Benefit sharing should be separate from payments for results, whilst clear and consistent reporting should be the norm. We encourage the ICVCM to adopt clear rules requiring benefit sharing to be regulated by standards.

INTRODUCTION

Carbon crediting projects are under increased scrutiny from civil society, the media, the public and policymakers alike due to the controversy surrounding their environmental, social and human impact. One such problem where significant concerns arise is how crediting projects affect 'Indigenous peoples and local communities' (IPLCs). Carbon crediting project developers are not often members of the communities where their climate projects are located. Sometimes, they are "outsiders'' who are using local land and other resources to implement their projects, often in the Global South. It is therefore reasonable to expect that communities living on and/or owning this land also benefit from voluntary carbon market (VCM) business activities.

A potential way to help achieve this is through so-called "benefit sharing arrangements" (BSAs), which are contractual clauses meant to distribute monetary and non-monetary benefits to stakeholders involved in or affected by the project, including IPLCs. A new report by Öko-Institut, commissioned by Carbon Market Watch, sheds light on the transparency and effectiveness of such arrangements, and identifies examples of good practice with respect to how benefit sharing is implemented.[1]

In the first part of the report, the authors review existing rules on benefit sharing arrangements of the following carbon crediting programmes: American Carbon Registry (ACR), Climate Action Reserve (CAR), Verified Carbon Standard (VCS - administered by Verra), Gold Standard (GS) and Plan Vivo. Two complementary standards were also assessed, which include the Sustainable Development Verified Impact Standard (SD Vista) and the Climate, Community & Biodiversity Standards (CCBS), both of which are administered by Verra.

The second part of the report focuses on a qualitative assessment of the benefit sharing provisions contained in the project design documents of a sample of projects registered under the aforementioned standards. Below, we identify the five most significant lessons from this study.

[1] Öko Institut (2023), 'Assessing the transparency and integrity of benefit sharing arrangements related to voluntary carbon market projects'

LESSON 1

A dearth of benefit sharing arrangements

Only two out of five of the selected carbon standards (ACR and Plan Vivo) made a reference to “benefit sharing arrangements” in their standard documents. Plan Vivo is the only one that requires a BSA to be in place (or, more specifically, it requires projects to include a “benefit sharing mechanism”)[2] and specifies that 60% of revenues from credit sales must benefit project participants or local stakeholders. However, it is unclear what the split between “project participants” and “local stakeholders” should be. The report notes that further investigation is necessary in order to determine to what extent this requirement benefits local stakeholders, which would include IPLCs.

The Carbon Credit Quality Initiative (CCQI) provides transparent information on the quality risks of different types of carbon credits. The CCQI includes one quality criterion related to benefit sharing arrangements: “[t]he program requires, at least for specific project types as defined by the program, the establishment of a specific benefits-sharing mechanism with local stakeholders (e.g., that part of carbon credit proceeds are made available for community activities).”[3]

According to CCQI assessment reports, none of the standards it assessed (which excluded Plan Vivo) fulfil this criterion.

[2] The report points out that “that the terms benefit -arrangement, -agreement, -mechanism and -plan are not clearly distinguished, [and] can be understood differently depending on the program”.
[3] CCQI (2022a). Methodology for assessing the quality of carbon credits.

LESSON 2

Few projects mention or prove implementation of BSAs

Öko-Institut reviewed the project design documents from 47 projects across multiple activities and four different crediting programmes .[4] 15 projects included benefit sharing claims, and were therefore covered by a further qualitative assessment to determine if there was evidence of implementation, in addition to identifying any examples of best practice.

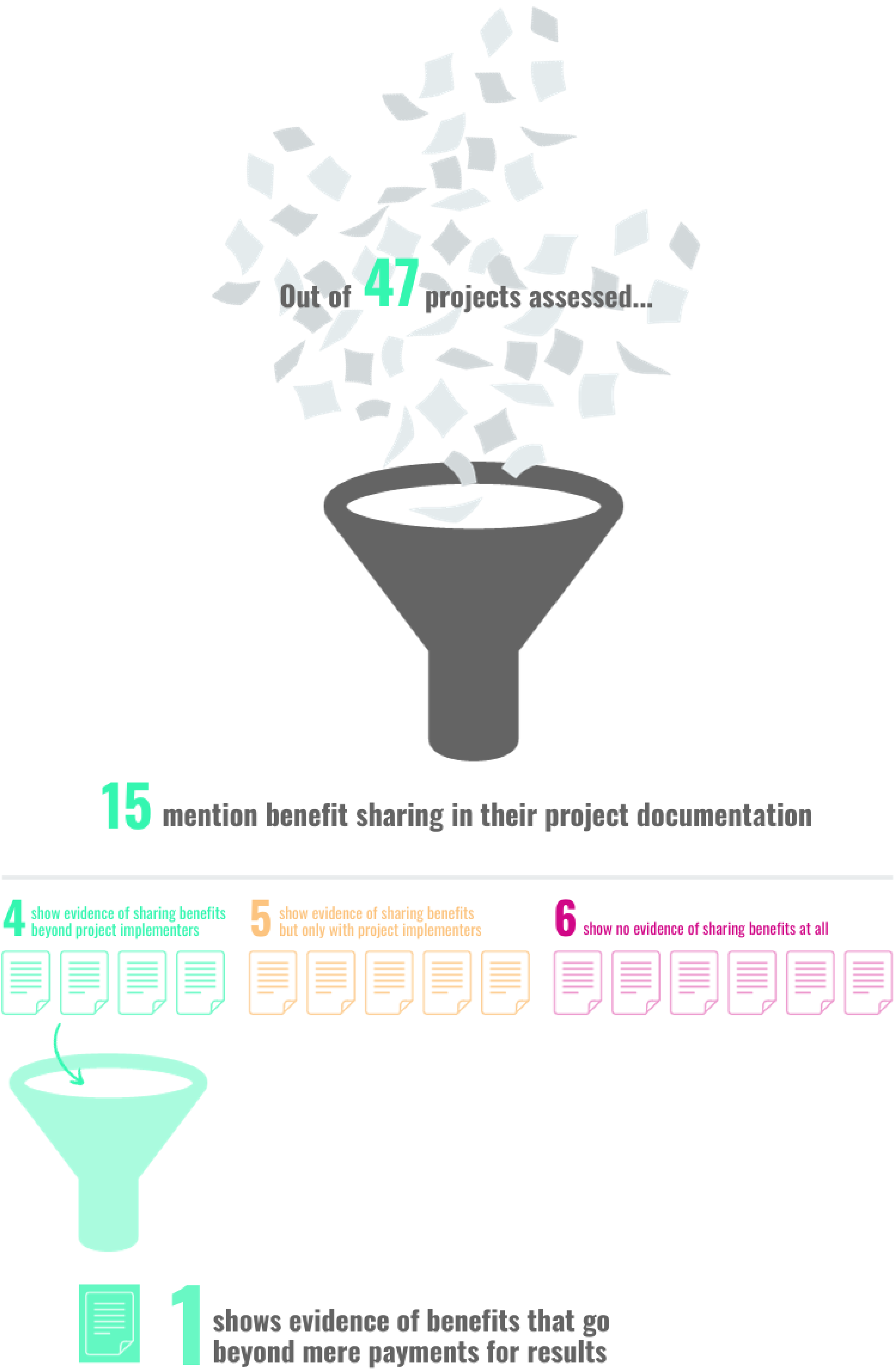
The authors of the study categorised these assessed projects as follows:

- **CATEGORY A:** Projects with evidence of benefit sharing with stakeholders other than just the project implementers
- **CATEGORY B:** Projects with evidence of benefit sharing either only with the project implementers or it is not possible to see evidence of benefit sharing with other stakeholders
- **CATEGORY C:** Projects with no evidence of benefit sharing

The authors note that for categories A and C, an assessment will be made on whether the evidence is "relatively clear". For category B, the assessment "will ultimately depend on the specific level of sharing which cannot be assessed as part of this study".

Of the 15 projects that were subject to a qualitative assessment, only four were found to contain "evidence of benefit sharing with stakeholders other than just the project implementers". Five projects contained "evidence of benefit sharing either only with the project implementers or it [was] not possible to see evidence of benefit sharing with other stakeholders". For the final six projects, however, the authors were not able to find any "evidence of benefit sharing".

[4] The authors note that Carbon Action Reserve (CAR) was excluded in this sample "because the programme does not have any requirements for benefit sharing arrangements and the projects are mostly based in the US".


Out of 47 projects assessed...
15 mention benefit sharing in their project documentation
4 show evidence of sharing benefits beyond project implementers
5 show evidence of sharing benefits but only with project implementers
6 show no evidence of sharing benefits at all
1 shows evidence of benefits that go beyond mere payments for results

Furthermore, 10 out of these 15 projects are from Plan Vivo, which issues only 0.6% of the total volume of credits on an annual basis. If Plan Vivo projects were excluded from the assessment, or weighed according to their market share, the already poor picture worsens considerably: from the 34 (non-Plan Vivo) projects assessed, only five contain some reference to benefit sharing, and none has clear evidence of benefit sharing with actors other than the project implementers.

Whether Plan Vivo is excluded or not, it is striking that only four projects contain the recommended level of evidence, especially considering that this sample of projects is quite likely to skew towards those that have a greater chance of performing well on benefit sharing, compared to the market average.

While it is clear that the study sample is not representative of the whole market, it is nonetheless informative of overall trends. Given that the sample bias leans towards projects more likely to score well on benefit sharing, compared to the market average, it is therefore also probable that the level of transparency and prevalence of benefit sharing arrangements is significantly higher in the report than the average level found across the market.

TABLE: List of carbon credit projects that claim benefit sharing within the sample[5]

CREDITING PROGRAM	DESCRIPTION	TYPE OF BENEFIT	ARE BENEFITS LINKED TO PERFORMANCE?	EVIDENCE OF DISTRIBUTION OF BENEFITS[6]
Plan Vivo	The CommuniTree Carbon Program (formerly Limay Community Carbon Project) *Nicaragua, Esteli*	Monetary and non-monetary	Yes and no. This project "distinguishes between direct payments for ecosystem services under the project (i.e. to the project implementers) ***and additional payments to the wider community that are distributed via the community fund covering costs such as nursery expenses, grafted fruit trees and fuel-efficient cookstoves*** [emphasis added]"	Category a
Plan Vivo	Durian Rambun *Indonesia, Jambi Province*	Monetary and non-monetary	Yes: includes PES payment(s)	Category a
Plan Vivo	Bujang Raba Community PES Project *Indonesia, Jambi*	Monetary and non-monetary	Yes	Category a
Plan Vivo	Pasture Conservation and Climate Action *Mongolia, Arkhanngai*	Monetary	Yes: PES	Category a

[5] Source: Öko report. Carbon Market Watch amended the table and added columns.
[6] For category C, projects in which evidence of benefit sharing could not be found, an explanation is provided as to the reason(s) for the lack of evidence.

Plan Vivo	Loru Forest Project *Vanuatu, Espiratu Santo*	Monetary and non-monetary	Yes: includes PES payment(s)	Category b
Plan Vivo	Rimbak Pakai Pengidup Project *Indonesia, Kalimantan Barat*	Monetary and non-monetary	Yes: “dependent upon performance”	Category b
Plan Vivo	HALO VERDE TIMOR COMMUNITY FOREST CARBON *Timor-Leste, Manatuto*	Monetary	Yes: includes PES	Category b
VCS	Bale Mountains Eco-region *Ethiopia*	Monetary and non-monetary	Yes: “based on community performance in avoiding or reducing deforestation”	Category b
Plan Vivo	gula gula food forest program *Indonesia, west sumatra*	Monetary	N/A	Category b
Plan Vivo	Drawa Rainforest Carbon Project *Fiji, Vanua Levu*	Monetary and non-monetary	Yes: PES	Category c “[e]vidence [...] is limited as the published monitoring reports state that there were no issuance of carbon credits due to ‘the necessity to await the final carbon trading approval from the Fiji government”.
VCS	CARMEN DEL DARIÉN (CDD) REDD+ PROJECT *Colombia*	N/A	N/A	Category c “[...] limited insights beyond procedural information on the on-going development of a benefit sharing mechanism”.

VCS	Siviru-Usaraga-Pizarro-Piliza (SUPP) REDD+ Project *Colombia*	N/A	N/A	Category c "[...] limited insights beyond procedural information on the on-going development of a benefit sharing mechanism".
VCS	Cajambre REDD+ Project *Colombia*	N/A	N/A	Category c "[...] limited insights beyond procedural information on the on-going development of a benefit sharing mechanism".
VCS	RESEX RIO PRETO-JACUNDÁ REDD+ PROJECT *Brazil*	Non-monetary	N/A	Category c "[...] briefly outlined investment priorities for the sharing of non-monetary benefits from carbon credit revenue as part of a wider description of the benefit sharing mechanism applied; however there was no evidence of such non-monetary benefits being delivered in the most recent monitoring report available online".
Plan Vivo	Upper Tana-Nairobi Water Fund project (UTNWF) *Kenya, Murang'a*	Non-monetary	Yes	Category c "[...] the annual report of the project revealed that so far, no sales of Plan Vivo Certificates were made during the period from 2017 until 2022 and that the activities undertaken during this time period were financed from fundraising campaigns. As a consequence, evidence of benefit sharing is so far more limited for this project compared to others evaluated in our sample".
Plan Vivo	gula gula food forest program *Indonesia, west sumatra*	Monetary	N/A	Category c "'Although historical sales have been made by the project, these have been made for uncertified PVCs and therefore will not be reported upon. Detailed sales data will be provided in the next annual report, since the sale of PVCs will have been finalised by then.' Given the lack of carbon credits sales under the Plan Vivo standard, the extent to which benefit sharing has occurred is more limited and the project is dependent upon other revenue streams such as external funding".

LESSON 3

BSAs or labour payments?

There does not appear to be a clear line drawn between benefit sharing and paying communities for their work. In fact, there is only one example of a project - the CommuniTree Carbon Programme - that attempts to clearly differentiate “between direct payments for ecosystem services under the project (i.e. to the project implementers) and additional payments to the wider community that are distributed via the community fund covering costs such as nursery expenses, grafted fruit trees and fuel-efficient cookstoves”.

With respect to the rest of these projects, IPLCs are implementing actions, delivering results, and getting paid, in the form of, among others, payment(s) for ecosystem services. These payments are more akin to a salaried arrangement than a sharing of the benefits. Some questions that naturally follow include whether this is even in the “spirit” of BSAs; if this practice is fair; and if IPLCs are properly informed about the difference.

The Integrity Council for Voluntary Carbon Markets’ (ICVCM) definition of BSAs as mentioned in the first draft of their assessment framework (mentioned in more detail, below), for example, does not reference “results-based payments”. Nor does the term “benefit sharing arrangement” give the impression that benefits are contingent on results.

Take, for example, a corporation that claims it has a benefit sharing plan in place to share its profits with its employees. This corporation instead, however, simply pays its employees their regular salaries, but calls it “benefit sharing”. This example is no different than what occurs when IPLCs receive results-based payments as part of a BSA. It is therefore difficult to qualify such payments as benefit sharing, unless those who receive the benefits from specific results have not directly taken part in the work that has delivered these results. In most cases, payments for results are not – and should not be – considered as “benefit sharing”.

LESSON 4

The absence of standard rules that require BSAs to be in place and opposition from VCM programs are significant barriers to the expansion of high-integrity benefit sharing agreements in the VCM

The study also highlights that most VCM standards have vocally opposed a proposed rule from the ICVCM which would have mandated them to have rules in place to implement BSAs.

The only standard (out of the programmes selected for review in this study) to approve of ICVCM's first-draft BSA text was Plan Vivo. CAR, ACR and VCS rejected mandatory BSAs, primarily arguing that it infringes upon confidential information, and is not something the programmes have the expertise or capacity to manage. Gold Standard did not comment on the subject.

The ICVCM is planning to continue work on this element as part of its work programme, and inclusion of provisions on benefit sharing arrangements should be the goal to work towards in this area.

LESSON 5

Lack of standard definitions of BSAs leads to poor implementation

There is no uniform definition for BSAs amongst VCM actors. The ICVCM, for example, provided a definition in the first draft of the Core Carbon Principles' (CCP) definitions document in 2022. After receiving feedback on this draft document via public consultation, ICVCM dropped this definition from its final version, which no longer includes *any* text on definitions linked to benefit sharing.

The absence of a standard definition has led to a lack of understanding of what a "benefit" *actually* means in this context. Take, for example, co-benefits and how they differ from BSAs. The authors of the study note that it is important to distinguish the two since the co-benefits are thought to "generally relate to sustainable development benefits that accrue directly due to the implementation of a project", rather than benefits – monetary or non-monetary – that come from the sale of carbon credits – the "benefits" outlined in BSAs. This distinction, however, "is not always clear-cut and sometimes the benefits from different sources may overlap [...]". Thus, using these two terms interchangeably could result in confusion and/or improper implementation of BSAs to the potential detriment of IPLCs.

The absence of a universal understanding and oversight of "benefits" in this context may also result in project developers making their own rules without justification by unilaterally deciding what constitutes a "benefit", even if it is of little value to local communities.

RECOMMENDATIONS

- **Accountability:** Standards should require all projects to have robust, clearly-defined benefit sharing arrangements. If such an arrangement is simply not feasible or not applicable, however, the project must be required to explain why it did not deem this possible, with a subsequent assessment to determine whether this justification is acceptable.

- **Separation:** Benefit sharing should be separate from payments for results, such as payment(s) for ecosystem services (PES). The former should be a sharing of revenues that remain after all expenses have been covered, while the latter is akin to a salary for the activities implemented by community members. In other words, benefit sharing should not be a substitute, but rather a complement, to PES. While benefit sharing can vary based on credit sales and revenues, payments for activities that have been implemented should have more certainty.

- **Clear and consistent reporting:** Benefit sharing should be consistently reported in publicly available monitoring reports, with a clear reference to what was initially announced in the PDDs. This should be mandatory for all projects, except where the project provides an accepted justification, verified by the verification and validation body, for why no BSA is in place. This is necessary to confirm evidence of benefit sharing.

- **Implement the rules**: As part of its planned future work on this matter, the Integrity Council for Voluntary Carbon Markets (ICVCM) should adopt clear rules requiring benefit sharing to be regulated by standards, including definitions such as the ones proposed in the early draft of the definitions document accompanying the CCPs.

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