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# SETTING AN ARTICLE 6 LEVY STRUCTURE IN SENEGAL

**A PRACTICAL GUIDE TO ADMINISTRATIVE  
FEES AND BENEFIT-SHARING LEVIES UNDER  
ARTICLE 6 OF THE PARIS AGREEMENT**

Paper prepared under the Climate Finance Innovators Project for the Ministre de l'Environnement et du Développement Durable et de la Transition Ecologique Ministère (MEDDTE) and its Direction du Changement climatique, de la Transition écologique et des Financements verts





## Setting an article 6 levy structure in Senegal

A practical guide to administrative fees and benefit-sharing levies under Article 6 of the Paris Agreement

28 March 2024

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# LIST OF ABBREVIATIONS

<b>A6.4ER</b>	Article 6.4 Emission Reduction units
<b>CDM</b>	Clean Development Mechanism
<b>CORSIA</b>	Carbon Offsetting and Reduction Scheme for International Aviation
<b>CPA</b>	Component Project Activity
<b>IMP</b>	International Mitigation Purposes
<b>ITMOs</b>	Internationally Transferred Mitigation Outcomes
<b>NDCs</b>	Nationally Determined Contributions
<b>OIMP</b>	Other International Mitigation Purposes
<b>PoA</b>	Programme of Activities
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>VCM</b>	Voluntary Carbon Market



# KEY DEFINITIONS

## ARTICLE 6.2 COOPERATIVE APPROACHES

Article 6.2 of the Paris Agreement establishes the framework for voluntary cooperation between countries in their efforts to achieve their nationally determined contributions (NDCs) and promote sustainable development. This involves the use of internationally transferred mitigation outcomes (ITMOs) between two or more parties. Countries can engage in cooperative approaches, such as emission reduction or removal projects, joint implementation, and emissions trading, to collectively enhance their climate action. The article provides guidelines for the accounting of emissions reductions, ensuring environmental integrity and avoiding double counting.

## ARTICLE 6.4 MECHANISM

Article 6.4 establishes a centralised mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development. This mechanism aims to promote the reduction of emissions on a global scale while fostering sustainable development in the host country. It is the successor of Kyoto Protocol's Clean Development Mechanism.

## ARTICLE 6.8

Article 6.8 of the Paris Agreement gives the possibility to Parties to establish Non-Market Approaches for the cooperative implementation of the Paris Agreement.

## ITMO

ITMOs are a key component of the Paris Agreement's Article 6. Parties can transfer and use ITMOs to meet part of their NDCs, facilitating international cooperation. The process involves the authorisation of mitigation outcomes as ITMOs, which can then be transferred and counted towards the mitigation efforts of another country. ITMOs can be used for the following purposes:

- Achievement of NDCs;
- International Mitigation Purposes (IMP) (e.g., compliance under Carbon Offsetting and Reduction Scheme for International Aviation, CORSIA)
- Other mitigation purposes (i.e., voluntary climate commitments).

## CORRESPONDING ADJUSTMENTS

To prevent double counting and maintain the overall mitigation ambition, corresponding adjustments are required when accounting for ITMOs. Parties involved in the transfer and use of ITMOs must make adjustments to their emissions balance to ensure that the same emission reduction is not counted more than once. Parties are required to submit detailed reports on their mitigation activities, including the generation and transfer of ITMOs, to the United Nations Framework Convention on Climate Change (UNFCCC).

## APPROVAL

Approval in the context of carbon markets refers to the formal consent or authorisation granted by a regulatory body or governing authority for a specific project or activity to participate in a carbon market scheme. This approval typically signifies that the project meets the necessary criteria and standards to generate carbon credits or participate in emissions trading.

## REGISTRATION

Registration involves the process of officially enrolling a project or entity in a carbon market program or mechanism. This typically includes submitting relevant documentation and information to the designated regulatory body or registry to establish eligibility and compliance with program requirements.

## ISSUANCE

Issuance refers to the allocation or creation of carbon credits or allowances to a project or entity upon meeting predefined criteria and fulfilling requirements under a carbon market scheme. Once issued, these credits or allowances

can be traded or sold within the market to offset emissions or comply with regulatory obligations.

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**AUTHORISATION**

(ITMO) authorisation pertains to the approval granted for the transfer of carbon credits or emission reductions between parties under Article 6 of the Paris Agreement.

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# PREFACE

Article 6 of the Paris Agreement has the potential to enhance the cost-effectiveness of climate action while promoting sustainable development objectives. Key to the operationalization of Article 6 are levy structures and benefit-sharing mechanisms. These mechanisms are designed to govern financial transactions associated with the transfer of Internationally Transferred Mitigation Outcomes (ITMOs) and ensure the equitable distribution of socio-economic and environmental benefits among participating parties, with special attention to vulnerable and disadvantaged communities.

This document is crafted with a dual purpose: to guide the Government of Senegal in effectively engaging in carbon market transactions and to support its pursuit of national sustainable development goals, climate change mitigation priorities, and adaptation strategies. Through an exploration of levy structures and benefit-sharing arrangements under Article 6, this paper endeavours to offer insight, guidance, and a framework for tailored decision-making.

This paper has been prepared in response to discussions with and at the request of the Government of Senegal, specifically the Ministre de l'Environnement et du Développement Durable et de la Transition Ecologique (MEDDTE) and its Direction du Changement climatique, de la Transition écologique et des Financements verts.

In that aim, this paper, under the umbrella of [Climate Finance Innovators](#), is complementing and is complemented by work under the World Bank's Partnership for Market Implementation program in Senegal, developing an Operational Manual for Article 6. While this paper addresses higher-level considerations for establishing an Article 6 levy structure, the Operational Manual translates these concepts into practical steps and procedures, also thanks to consultations with Senegalese stakeholders. The present paper does not deal with the actual operationalisation of the levies, for which an analysis of procedures and institutional arrangements of Senegal is necessary.

As we navigate the complexities of climate finance and governance, we hope that this paper provides the Government of Senegal with a comprehensive list of considerations for an effective and efficient levy structure, in furtherance of its climate change adaptation and mitigation goals, and its national sustainable development priorities.



# EXECUTIVE SUMMARY

This paper provides an overview of factors to consider when designing and implementing levy structures and benefit-sharing arrangements for their Article 6 framework. It has the purpose of guiding the Government of Senegal in effectively engaging in carbon market transactions, supporting its pursuit of national sustainable development goals, climate change mitigation priorities, and adaptation strategies.

Establishing an optimal Article 6 levy structure to govern transactions related to the transfer of ITMO is crucial for the implementation of Article 6 at a national level. In particular, this structure is relevant for three reasons: (i) managing and covering administrative costs incurred by the host country for participating in Article 6; (ii) determining appropriate benefit-sharing arrangements, which in this context correspond to benefits governments may obtain beyond the compensation for administrative costs incurred; and (iii) contributing to mitigate overselling risks.

To ensure the effectiveness and fairness of the levy structure, policymakers may take into account particular guiding considerations. These considerations aim to align the levies with the national legal framework and international agreements; design a simple, transparent and flexible but predictable structure; and articulate the levy structure with national priorities.

A general Article 6 levy structure is presented in this paper. We propose a simplified approach involving approval, registration, registry (or listing), and ITMO authorisation fees, which should be tailored to Senegal's specific circumstances and legislative framework. Different policy options regarding timing, rate modalities and specific carbon market mechanisms (i.e. Article 6.2, Article 6.4 and VCM) are discussed.

The distribution of socio-economic and environmental benefits arising from climate action could be harnessed by host countries through benefit-sharing arrangements based on levies. This paper discusses different types of levies suitable for Article 6 approaches: taxes, adaptation levy, and OMGE levy. Furthermore, it points out that countries may or may not include these levies, depending on their priorities and the total economic burden on carbon projects.

In order to mitigate overselling risk, host countries may implement diverse approaches including exclusionary strategies (e.g. negative and positive list of activities), strategies based on the sharing of mitigation outcomes (e.g. conservative baselines and conditionality on transfers), and levies. However, a potential levy should be used as a last resort when all other available (and reasonable) options have been exhausted.

The Article 6 levy structure and benefit-sharing levies should be designed and implemented to complement existing climate policies and frameworks, reinforcing synergies, and avoiding duplication of efforts. They should not be considered as a stand-alone component of Article 6 framework.

# Introduction

The Paris Agreement, adopted in December 2015, stands as a landmark in international efforts to combat climate change by fostering global cooperation and collective action. At its heart lies the commitment to limit global warming to well below 2 degrees Celsius above pre-industrial levels, with aspirations to pursue efforts to limit the temperature increase to 1.5 degrees Celsius. Achieving this ambitious goal requires not only mitigation efforts to reduce greenhouse gas emissions but also robust mechanisms for adaptation, resilience-building, and sustainable development.

Article 6 of the Paris Agreement provides a framework for voluntary cooperation between countries to mitigate greenhouse gas emissions. The Article 6 mechanisms are designed to facilitate the achievement of nationally determined contributions (NDCs) by allowing countries to engage in emissions trading and other cooperative activities, thereby enhancing the cost-effectiveness of climate action and promoting sustainable development.

Participating in Article 6 approaches requires significant institutional and economic efforts. Host countries must have in place institutional frameworks for tracking, accounting and reporting ITMO-related activities. Furthermore, countries need to make strategic policy decisions regarding which cooperation approaches to engage and how to operationalise them in accordance with their particular circumstances and priorities.

Central to the implementation of Article 6 at the national level is the establishment of levy structures and benefit-sharing mechanisms. Levy structures govern the financial transactions associated with the transfer of ITMOs. Meanwhile, benefit-sharing mechanisms aim to distribute the socio-economic and environmental benefits arising from climate action equitably among participating parties, particularly focusing on vulnerable and disadvantaged communities.

This paper aims to delve into the complexities surrounding levy structures and benefit-sharing mechanisms under Article 6 of the Paris Agreement to serve as input for the development of the Article 6 framework of a host country. **The paper does not have the ambition to outline every possible option in establishing Article 6 levies but rather aims at:**

- **Providing a general line of reasoning to set up a national levy structure and benefit-sharing arrangements;**
- **Providing an overarching template of elements to be adjusted according to national circumstances;**
- **Exploring a selected set of scenarios and options for illustrative purposes.**

A host country needs to establish a clear system for charging fees and sharing benefits within the framework of Article 6 of the Paris Agreement. There are three primary reasons for defining modalities and rates for fees, and for setting up a benefit-sharing structure:

- **Administrative costs;**
- **Overselling risk;**
- **Sharing of benefits.**

The host country therefore needs to create a well-thought-out system for setting levies, managing administrative costs, and sharing benefits to support its involvement in Article 6 of the Paris Agreement for activities:

- Under **Article 6.2** cooperative approaches;
- Under the **Article 6.4** mechanism;
- Under Article 6.8 non-market approaches;
- Under the **Voluntary Carbon Market (VCM)**.<sup>1</sup>

The system should be clear and predictable, in addition to addressing the above activities, costs, and contributions to policy priorities. This will help ensure the sustainability of a host country's carbon market operations and the fair distribution of benefits among the government and local communities. A clear levy structure will also provide certainty to project developers and (potential) partners in Article 6-related projects and transactions.

## 1.1. Methodology

This paper first defines key concepts, explains the purpose of an Article 6 levy structure, and then outlines guiding principles for the setting of levies. Leveraging existing Article 6 regulatory frameworks, current practices, and existing literature, the following sections list possible levies for three carbon market mechanisms (Article 6.2, Article 6.4, and VCM) in the context of Article 6 of the Paris Agreement, explaining their rationale, timing, and rates.

Detailed reasoning for determining the modalities, rates and timing of levies are described in the relevant sections.

## 1.2. Definitions

Before delving into the core of the paper, it is important to define key concepts.

### Levies, charges, fees, taxes, and prices

A **levy** is, in its most simple definition, an amount levied.<sup>2</sup> The term may have different meanings depending on the country.<sup>3</sup> In this paper, we use “levy” as a general term for an amount payable or withheld, in connection with more specific concepts below.

When concerning the public sector and government functions, a **fee** is generally understood as an amount of monetary contribution collected in exchange for the provision of services and is proportionally based on the expenses incurred in delivering those services. The money raised by fees should not be merged with the general revenue of the state.<sup>4</sup> By contrast, in the context of voluntary carbon markets (the private sector), fees are payments for the delivery of a service

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<sup>1</sup> The fees and charges outlined in this document refer only to operations in the context of Article 6 of the Paris Agreement. Other fees that may be levied onto VCM activities are not discussed.

<sup>2</sup> Merriam-Webster (2023) [Levy](#).

<sup>3</sup> For example, in the [United States](#), a levy is the legal seizure of property to satisfy a tax debt. In the United Kingdom, it is understood as a tax (e.g., [Climate Change Levy](#)).

<sup>4</sup> Bharat Ji Agrawal (2021) [DIFFERENCE BETWEEN TAX & FEE AND GUIDELINES FOR DRAFTING OF FISCAL LEGISLATION](#).

(e.g., account opening, registration, issuance) by carbon standards;<sup>5</sup> such fees may not only cover the expenses incurred for the delivery of the services, but also include a profit margin in the case of for-profit carbon standards.

A **charge** can be generally defined as “the price demanded for something,”<sup>6</sup> but the definition may vary.<sup>7</sup> In this paper, we will use “fee” and “charge” interchangeably.

A **tax** is a compulsory payment whose amount generally does not have any direct relationship to the benefits of government goods and services received, i.e., there is no quid pro quo between the taxpayer and the state.<sup>8</sup> The money collected through taxes goes into the general public treasury unless it is earmarked for specific purposes. While modern-day taxes are generally of a monetary nature, they can also be in-kind.<sup>9</sup>

A **price** is defined as “the amount of money given or set as consideration for the sale of a specified thing,”<sup>10</sup> thus in the context of a transaction between a buyer and a seller.

## Benefit sharing

In the context of carbon markets, **benefit sharing** is a concept with no agreed-upon definition.<sup>11</sup> The term is usually used in the context of nature-based carbon projects. A possible general definition is “the sharing of Monetary and Non-Monetary Benefits with mitigation activity’s Partners,” “beyond a refunding of costs or efforts incurred by project implementer.”<sup>12</sup> This general definition, which is adopted in this paper, requires the additional definition of “benefit” and “mitigation activity’s Partners.”

**Benefits** are the revenues derived from the sale of credits. These benefits may then be shared in the monetary or non-monetary (in-kind) form. Non-monetary benefits could be, for example, infrastructure financed through a share of the revenues<sup>13</sup> or even the sharing of the mitigation outcomes themselves.<sup>14</sup> It is important to distinguish between benefits and **co-benefits**, which are the sustainable development-related benefits indirectly incurred from the implementation of the carbon activity.<sup>15</sup> Such co-benefits are, for example, improvements in air quality and the resultant reduction of smoke-related illnesses and deaths related to clean cooking projects.

The **partner** is the recipient of the benefit, which may be “project developers, project implementers, buyers of carbon credits, carbon crediting programs, and local stakeholders”,<sup>16</sup> in addition to national governments.

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<sup>5</sup> See for example the fee schedules of [Verra](#), [Gold Standard](#), and the [Global Carbon Council](#).

<sup>6</sup> Merriam-Webster (2023) [Charge](#).

<sup>7</sup> For example, in Scotland the terms “fee” and “charge” are [interchangeable](#).

<sup>8</sup> Spitzer (2002) [Taxes vs. fees: A curious confusion](#).

<sup>9</sup> Bearer-Friend (2021) [Tax without cash](#).

<sup>10</sup> Merriam-webster (2023) [Price](#).

<sup>11</sup> See Annex for country and sectoral case studies. The concept is used in various sectors with different definitions and mechanisms. In addition, organisations involved in carbon markets are also engaged in knowledge production on the matter, such as the World Bank ([Country processes and institutional arrangements for Article 6](#)) ([Corresponding adjustments and pricing of mitigation outcomes](#)) and its TCAF programme ([Discussion note on Corresponding Adjustments](#)).

<sup>12</sup> Healy et al. (2023) [Assessing the transparency and integrity of benefit sharing arrangements related to voluntary carbon market projects](#).

<sup>13</sup> Ibid.

<sup>14</sup> Kreibich and Schell (2023) [Sharing mitigation outcomes: How should climate benefits under Article 6 be distributed?](#)

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

Benefit-sharing arrangements may be mandated by carbon standards,<sup>17</sup> national legislation,<sup>18</sup> or by arrangements related to a specific cooperative approach.

## Overselling risk

**Overselling risk** in this paper “refers to a country transferring too many mitigation outcomes internationally, leaving it with insufficient emission reductions to reach its own NDC targets”.<sup>19</sup> This means that the host country would later need to take additional (higher cost) mitigation action to compensate for the overselling, putting at risk the achievement of their NDC targets.

## 1.3. General purposes of an Article 6 levy structure

The Article 6 levy structure may address, regulate, or counterbalance some of the consequences of host party engagement with Article 6. Overall, we divide the consequences of Article 6 engagement for the host country into two components (see Figure 1):

- **Article 6 costs and risks**, which include:
  - **Administrative costs:** The host country is incurring costs related to administrative tasks associated with its participation in Article 6. These costs need to be managed and covered effectively to ensure the smooth operation of carbon market activities.
  - **Overselling risk:** The host country needs to ensure that it can still meet its NDC commitments when selling mitigation outcomes. The host country runs overselling risks when the sale of the authorised mitigation outcomes may undermine the achievement of the NDC targets. The Article 6 levy structure may be used as a tool to address overselling risk, but other strategies are available.
- **Advantages**, which include:
  - **Emission reductions or removals:** The primary objective of carbon market activities.
  - **Co-benefits (contribution to sustainable development):** Projects may also provide other contributions to Sustainable Development Goals, such as adaptation to climate impacts.
  - **Benefits:** Host countries may mandate the sharing of additional benefits gained by the project developers (i.e., revenues) among other stakeholders (including the host country), via setting benefit-sharing requirements.

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<sup>17</sup> See Table 6-1, *ibid.*

<sup>18</sup> *Ibid.*

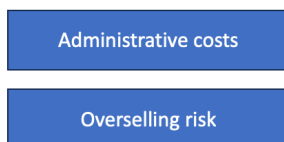
<sup>19</sup> GGGI (2023) [Implementing Article 6 of the Paris Agreement: Options for governance frameworks for host countries](#).



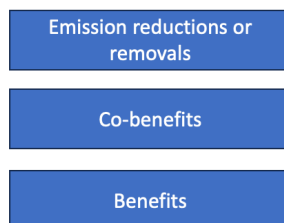
Figure 1 Consequences of Article 6 engagement for the host country

## Consequences of Article 6 engagement for the host country

### Article 6 costs and risks



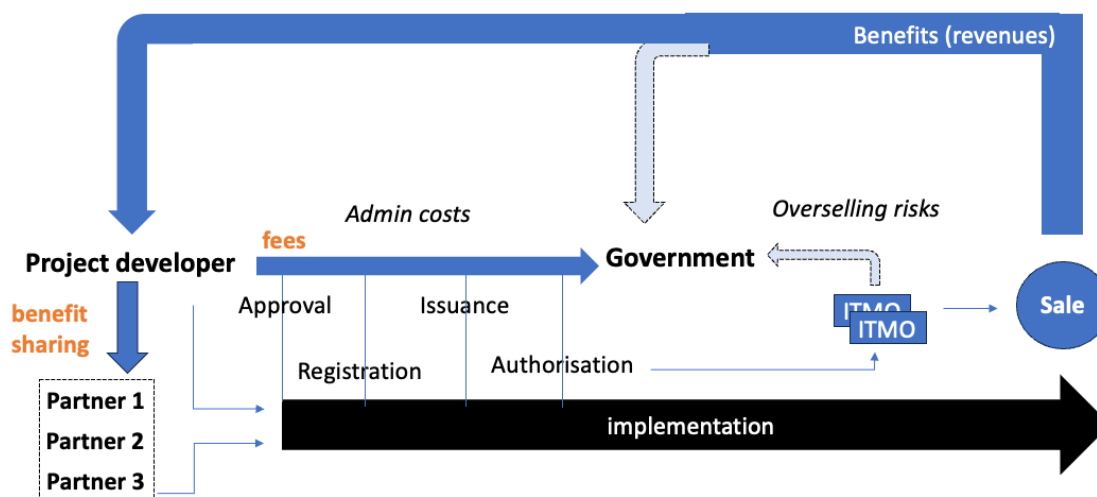
### Advantages



## 1.4. General Article 6 levy structure

Based on the above definitions, it is possible to start delineating a general (simplified) Article 6 levies structure (see Figure 2).

Figure 2 A general simplified Article 6 levy structure. Refer to the glossary for definitions of the phases of the activity cycle



An essential component of the structure is the **(administrative) fee element**, addressing administrative costs. Expenses incurred by the national administration for the management of the carbon market and the provision of services should be completely recovered through the imposition of fees.

The **benefit-sharing component** (i.e., the sharing of benefits *beyond* the compensation for the goods or services provided) has two levels:

- At the project level, benefits are shared among the local project partners, project implementers, local governmental units, communities, and individuals.
- At the national level, the government can be considered a project partner for its provision of ITMO authorisation and therefore *may* receive part of the benefits through levies (including in-kind levies and tax(es)). This paper focuses on benefit sharing at a national level – on what benefits the national government may obtain beyond the compensation for administrative costs incurred.

### BENEFIT SHARING ARRANGEMENTS AT A LOCAL LEVEL

The benefit sharing arrangements at a local level may be determined by the specific standard<sup>20</sup> under which the carbon activity is taking place. They may also be determined by national legislation by setting general rules valid for every type of project, by defining sector-specific rules, or by allowing flexibility.

**Overselling risks** *may* be mitigated through different approaches, including by charging a levy. These approaches are explored in more detail in the relevant section.

It is important to note that the Article 6 levy structure must not be considered as an isolated block in the national Article 6 framework. Its development and the setting of levies (including fees) is inextricably linked to decisions taken in other parts of the framework. This is particularly relevant to addressing overselling risks, co-benefits, and benefits. In other words, the Article 6 levy structure should not be conceptualised as a stand-alone component of the Article 6 framework, but rather as a puzzle piece fitting neatly within the rest (see Figure 3). This avoids overlaps and gaps.

Depending on the rules and requirements set elsewhere in the Article 6 framework, the levy structure therefore *may or may not* contain other elements alongside administrative fees (see Figure 4).

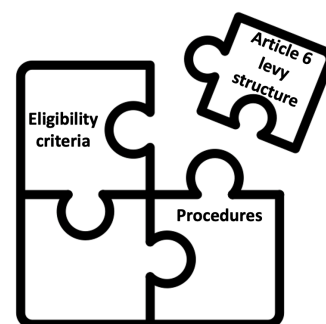
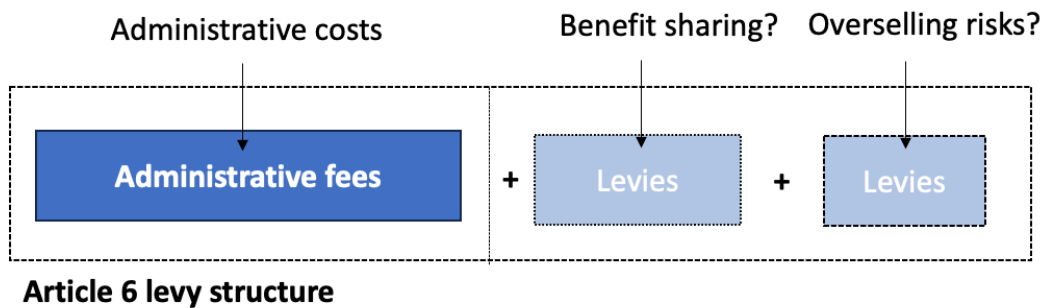


Figure 3 The Article 6 levy structure can be conceptualised as a puzzle piece.

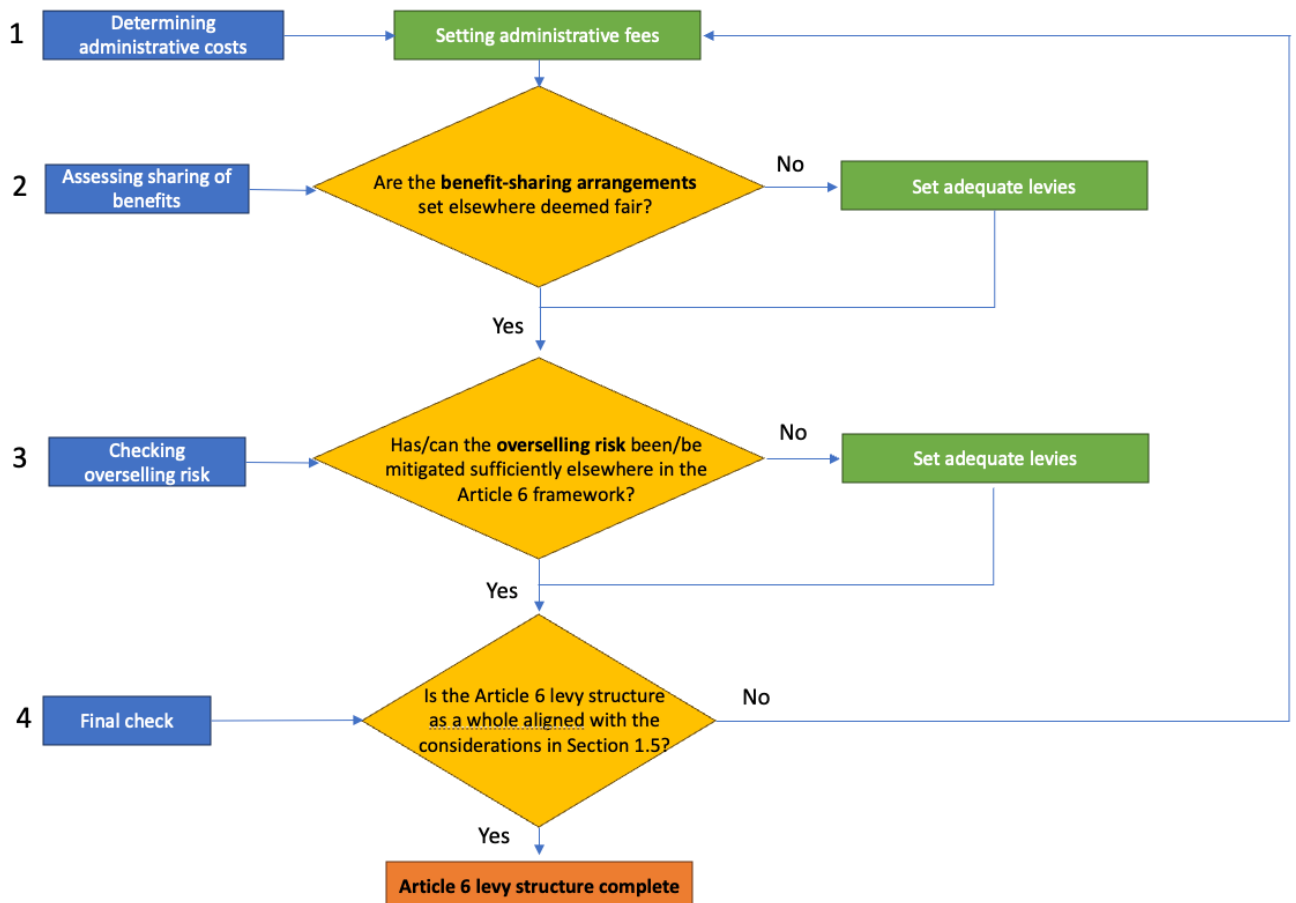
<sup>20</sup> For example, [Plan Vivo](#) is used in sustainable resource management, notably forestry. A core tenet of the Plan Vivo Benefit Sharing Mechanism involves directing 60 percent of the proceeds from each carbon credit directly to participants engaged in land-based projects. These funds can be used to cover various expenses, such as the establishment of educational facilities, places of worship, healthcare facilities, local job opportunities, and the acquisition of necessary equipment, all benefiting the participant communities. Another example would be [Rabobank's Acorn Initiative](#), under which it is mandatory for smallholder farmers to receive substantial financial rewards from agroforestry projects. Specifically, 80 percent of the sales revenue generated from carbon credits must be returned to the producers. This allocation aims to enhance their livelihoods and facilitate further investment in agroforestry endeavours.

Figure 4 The Article 6 levy structure may or may not contain other elements alongside administrative fees.



The flowchart in Figure 5 outlines the process guiding the establishment of an Article 6 levy structure. This paper broadly follows the same steps.

Figure 5 A flowchart outlining the steps for establishing an Article 6 levy structure.



## 1.5. General considerations for setting Article 6 levies

With the aim of ensuring the effectiveness and fairness of the levy system, while simultaneously promoting the country's environmental and development goals we formulate the following considerations.

1. **Alignment with the national legal framework:** Before deciding the types of levies, and their rates and modalities in the context of Article 6, it is critical to assess the legal framework of the country. Some options may turn out difficult (or impossible) to implement, in particular, vis-à-vis the establishment of benefit-sharing arrangements that include the levying of taxes. Some options may require additional legislation (i.e., either new legislation or the amendment of an existing one) on top of a ministerial or government act. Other options are possible only when the national legislation takes a stand on the legal nature of relevant issues.
2. **Simplicity and manageability:** The levy structure should be simple, with the primary objective of not imposing an undue burden on the national administration, project developers, or potential buyers. The simplicity of the levy structure will facilitate efficient implementation and reduce administrative complexities, ultimately contributing to a more streamlined process. The timing of imposing levies should ensure that the financial contributions are aligned with the progression of projects, enabling a smooth and equitable financial burden distribution.
3. **Proportionality and viability:** Administrative fees should be proportional to the amount of administrative effort required to complete the relevant procedure. The total burden of levies should also not undermine the economic viability of the carbon activities and the investment attractiveness of the host country. In other words, project developers should be entitled to a profit margin.
4. **Transparency and accountability:** Transparency should be at the core of the levy structure. This includes transparency in cost calculations, clarifying how levies are set, and providing a clear rationale for the amount charged. It is equally important to make publicly available information on the purposes for which these fees are allocated, enhancing accountability, and fostering trust among stakeholders. Robust mechanisms should be established to track and report on the utilization of income generated through levies. Ensuring that income is directed towards its intended purposes is crucial for maintaining public confidence and demonstrating the commitment to sustainable practices. This principle should first and foremost be applied in the process of naming the specific charge or fee (i.e., the rationale for levying the levy should be clear from the name of the levy itself).
5. **Balance between flexibility and predictability:** To adapt to evolving circumstances, the fee and benefit-sharing structure should incorporate elements that ensure flexibility, e.g., a periodic review and adjustment of the fee system, ensuring its continued

relevance and effectiveness. Flexibility should not be at the expense of predictability, which is needed to foster a good investing environment.

6. **Alignment with national priorities:** The levy structure should be in line with national priorities, adaptation goals, and mitigation objectives. It should actively contribute to the achievement of the country's NDCs, reflecting a clear commitment to addressing climate change domestically.
7. **Alignment with international agreements:** The fee and benefit-sharing structure should be designed in a manner that aligns with international agreements, particularly the principles outlined in the United Nations Framework Convention on Climate Change (UNFCCC), the Paris Agreement, and relevant Article 6 guidance. This alignment not only ensures global consistency but also strengthens the national commitment to these accords.
8. **Equal treatment of carbon market mechanisms:** The types and rates of levies charged should guarantee equal treatment of activities under Article 6 (both) under cooperative approaches and the mechanism) and under the VCM, ensuring that one mechanism is not disproportionately advantaged. This ensures consistency in national carbon market approach, in addition to not prejudicing any option available to it to engage in carbon trading. Any difference in the rate of levies should be properly justified.

# Administrative fees



## 2. TYPES OF ADMINISTRATIVE FEES

There can be a virtually infinite amount of fees levied for any specific task performed by the national administration. However, a simplified approach to administrative fees can limit the bureaucratic burden for both the national administration and project developers. Such a simplified approach can consist of charging:

- An **approval fee**, covering all administrative tasks related to due diligence matters before the mitigation activity takes place.
- A **registration fee**, covering the administrative costs associated with reviewing project documentation necessary to formally enrol the project or entity in the carbon market program.
- A **registry (or listing) fee**, covering the administrative costs associated with maintaining the carbon market infrastructure.
- An **ITMO authorisation fee**, covering the costs of all administrative matters related to ITMO transactions.

These are the basic fees that a host country may charge,<sup>21</sup> but countries are free to add additional charges to cover specific tasks to be performed, such as post-registration change fees, inclusion fees for Component Project Activities under Programme of Activities, and renewal fees. However, charging several administrative fees entails a trade-off. While it is more likely that the host country recuperates the exact administrative costs, the increase in burden for both national administration and project developers is proportional to the number of fees. Countries may also opt to bundle different fees together, covering more administrative costs with one single levy.

It is also important to note that the rates for these administrative fees, as shown in the Annex, can be significantly different across countries. The rates suggested below and the methods for calculating them are only indicative. Host countries may add elements borne out of nationally specific circumstances in the suggested formulas.

For the sake of simplicity, issuance fees may not be charged since no issuance by the host country takes place except under Article 6.2.<sup>22</sup> In this latter case, host countries may indeed decide to charge issuance fees.

There are significant administrative efforts taking place before setting up a cooperative approach (and before mitigation activities take place), in terms of negotiations with other countries. These costs are difficult to calculate and should be considered as part of the regular administrative work. In any case, even if more effort-laden compared to other Article 6 processes, cooperative approaches guarantee the host country a steady flow of carbon finance. The host country, instead of requesting monetary compensation for these negotiation costs,

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<sup>21</sup> The current approaches for Article 6 administrative fees of host countries vary significantly (see Annex, Selected structures and benefitsharing arrangements). No common or best practices can be recognised. In Ghana, for example, all these fees are bundled into a listing fee, while Kenya distinguishes between them.

<sup>22</sup> For projects under the Article 6.4 mechanism and the VCM it is either the Article 6.4 Supervisory Body or the VCM standard that issue the credits.

may opt for capacity-building arrangements with the buying country. It is also worth mentioning that different cooperative approaches may have different activity cycles and arrangements with buyer countries, which should be taken into account when setting administrative fees.

Under Article 6.4, the bulk of the administrative work for the mitigation activities will be performed by the UNFCCC secretariat. Host Parties are nonetheless required to assess the mitigation activity request registration under the Article 6.4 mechanism and provide an authorisation statement at approval.

For non-market approaches under Article 6.8, activities need to receive approval from the host country and may need to pay the corresponding fee. In case listing in a registry is mandatory, activities may be required to pay the relevant fee.

## Reduced or waived fees

Senegal may consider reducing or waiving fees (or levies) for, among others, the following activities:

- Types of activities that are considered strategic for the achievement of the host country's NDC;
- Small(er)-size activities.

Such decisions should be properly justified and operationalised. It is worth mentioning that any exemptions and their operationalisation will increase the burden on the national administration.

Alternatively, the host country may provide in-kind support to specific categories of activities through the administrative processes, by, for example, prioritising the analysis of the documentation. It is worth noting that activities that, for example, deliver significant co-benefits can easily recuperate the cost of any fee by charging premiums when selling the credits that have been generated. In other words, they may not need additional support.

## 2.1. Approval fee

By “approval fee”, we refer to a fee imposed on activities seeking approval for their carbon offset projects to ensure that they meet specific criteria and are genuinely contributing to emission reduction efforts.

The approval fee covers the costs associated with the assessment processes. These processes ensure that the carbon projects adhere to the established standards and methodologies, and they accurately quantify and verify the emissions reductions achieved.

*Specific considerations for each carbon market mechanism*

- Article 6.2: The host country's administration should approve the activity under the Article 6.2 cooperative approach.

- Article 6.4: Host countries are expected to provide approval to activities that request registration under the Article 6.4 mechanism. At approval, a statement on authorization is also provided.
- Article 6.8: Host countries are expected to approve activities under non-market approaches. The activity may be required to pay a fee.
- VCM:
  - Outside Article 6.2: It is up to the national legislation to require approval or not for every VCM mitigation activity or standard operating in the host country.
  - Under Article 6.2: Approval should in any case be granted before any VCM credits generated by the mitigation activity (under a specific standard) are authorised as ITMOs. Depending on how the VCM activities are integrated into the national Article 6 framework, there may be an additional administrative fee concerning the approval of the VCM standards as a whole under the national framework, which would certify that the VCM credits issued comply with the national carbon market legislation and are eligible for ITMO authorisation. In this process, the VCM standard would need to apply for approval under the national Article 6 framework. The host country would need to review the documentation provided by the standard to ensure that the activities registered under it comply with the national requirements for carbon activities that generate mitigation outcomes eligible for authorisation.

## Timing

At the request of approval.

## Rate

Since approval happens at one point in the project cycle, the approval fee should be a one-time fee.

Total fee: Estimated time required for the task (hours) \* Estimated cost of labour (USD/hour) + other expenses<sup>23</sup>

## 2.2. Registration fee

Registration occurs after a project has been approved and involves formally enrolling the project in the carbon market program. This entails submitting detailed documentation and completing administrative procedures. Once registered, the project can begin generating carbon credits through emissions reductions or carbon removal activities. Registered projects are subject to ongoing monitoring, verification, and reporting requirements to ensure compliance with program rules and standards.

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<sup>23</sup> E.g., share of depreciation of equipment and share of costs for office buildings (maintenance/rent).

### *Specific considerations for each carbon market mechanism*

- Article 6.2: The review of documentation for formal registration under the cooperative approach is carried out by the national administration.
- Article 6.4: Activities already pay a registration fee to the UNFCCC secretariat, which bears the administrative costs.
- VCM: Activities already pay a registration fee to the standard they are registered under. The standard bears the administrative costs.

## Timing

At the request of registration.

## Rate

Since registration happens at one point in the project cycle, the registration fee should be a one-time fee.

Total fee: Estimated time required for the task (hours) \* Estimated cost of labour (USD/hour) + other expenses<sup>24</sup>

## 2.3. Registry fee

The registry (or listing) fee covers the costs associated with managing a registry, including the costs of maintaining the registry and updating information on activities in it.

### *Specific considerations for each carbon market mechanism*

- Article 6.2: The mitigation activities should be listed in the national registry. Payment of the registry fee is expected.
- Article 6.4: The mitigation activities, once approved, will be listed in the Article 6.4 mechanism registry. The host Party may require the mitigation activity to also register in the national registry, especially if the national registry has no connections with the Article 6.4 mechanism registry. The registry fee would be required if the national registry is not connected to the Article 6.4 mechanism registry – in which case all projects would need to be listed in the national registry.
- Article 6.8: The host country may require the non-market approach to be listed in a registry. In this case, the activity may be required to pay a fee.
- VCM: The mitigation activities, once approved by the host Party as activities eligible to generate credits that can be authorised as ITMOs, should be listed in the national registry. Payment of the registry fee is expected in this case. The host country may

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<sup>24</sup> E.g., share of depreciation of equipment and share of costs for office buildings (maintenance/rent).

require registration for all VCM activities. In that case, all VCM activities should pay the registry fee.

## Timing

At the request of registration. If it is an annual fee, the project developer would have to pay it periodically.

## Rate

The registry fee may be set in line with issuance fees of other standards,<sup>25</sup> or could be a fixed annual fee (see Table 1).

*Table 1 Possible options for the registry fee.*

	POSSIBLE OPTIONS FOR THE REGISTRY FEE
<b>Project-size based</b>	0.XX USD/credit * Estimated amount of credits to be issued to the project
<b>Annual</b>	X USD/year

## 2.4. ITMO authorisation fee

This fee should cover the administrative costs related to ITMO transactions, including ITMO tracking, monitoring project performance and related due diligence, and reporting following Article 6.2 guidance. This should also cover the administrative costs of applying corresponding adjustments.

### CORRESPONDING ADJUSTMENTS UNDER NATIONAL LAW

This paper understands corresponding adjustments as an accounting mechanism (see Definitions section). Thus, its administrative costs are covered through the ITMO authorisation fee.

Host countries may assign a different legal nature to corresponding adjustments under their national legislation. For instance, they may consider them state-owned assets, as corresponding adjustments could imply foregoing the right to use mitigation outcomes in

<sup>25</sup> An approximate range is 0.05-0.30 USD per (estimated) number of credits to be issued. The host country should estimate the optimal rate the cover the registry costs. For examples, see Selected structures and benefitsharing arrangements.

their NDCs. In this event, different legal instruments (e.g., taxes or prices) need to be considered for harnessing carbon benefits.

## Timing

Article 6.2 cooperative approaches may differ from each other in terms of activity cycle, depending on the specific agreements signed between the two countries and other bilateral arrangements. This is especially relevant for the levying of the ITMO authorisation fee, as authorisation may happen at different stages. The letter of authorisation may come at different points in the process depending on the cooperative approach. If it comes before the emission reductions are actually verified, this may create problems regarding the payment of fees.<sup>26</sup> Generally speaking, in the absence of clear guidance on the process of ITMO authorisation (and what ITMO authorisation entails in practice), it is best to levy ITMO authorisation fees per unit, when the actual final number of units to be authorised is clear. While the ITMO authorisation fee can be charged at or after the request of authorisation, an optimal alternative under Article 6.2 may be at the request of ITMO transfer.

Under Article 6.4 guidance and related guidelines by the Article 6.4 Supervisory Body,<sup>27</sup> the host country needs to be involved in the ITMO authorisation process and therefore should impose an administrative fee at this stage. The host country can grant authorisation at either the approval stage (before issuance) or after issuance if requested by the project developer. The first case may create issues for the collection of administrative fees (see Footnote 26), and the collection of other levies. It is important to note that as of 2024, the issue of the timing of authorisation in the context of the Article 6.4 mechanism is still under negotiation. The ITMO authorisation fee can be charged at the request of authorisation.

For the VCM, compared to authorisation under Article 6.2 and Article 6.4, authorisation will always take place after issuance (after the emission reductions have already been verified).<sup>28</sup> The ITMO authorisation fee can be charged at the request of authorisation.

## Rate

An estimate of administrative costs could be based on similar tasks performed by the administration.

**Total cost:** Estimated time required for the task (hours) \* Estimated cost of labour (USD/hour)

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<sup>26</sup> For example, according to KliK Foundation's [activity cycle](#) for Article 6.2 cooperative approaches, authorisation comes before monitoring of the emission reductions that have taken place. This could mean that authorisation is provided by the host country for an (estimated) amount of emission reductions which does not match the actual amount of verified emission reductions after monitoring – this is the amount of ITMOs that will be transferred. This can have an impact if administrative fees are charged per unit. Charging the ITMO authorisation fee at ITMO transfer would also align with payment of other levies, if any (see further below).

<sup>27</sup> Article 6.4 Supervisory Body (2023) [Article 6.4 activity cycle procedure for projects](#).

<sup>28</sup> This is unless the host country authorises the VCM activity before issuance, in which case the activity would fall under Article 6.2.



### 3. OVERVIEW OF ADMINISTRATIVE FEES

See Table 2 for an overview of the types of administrative fees.

Table 2 Overview of the types of administrative fees imposed by the national administration.

	APPROVAL FEE	REGISTRATION FEE	REGISTRY FEE	ITMO AUTHORISATION FEE
Rate	TBD	TBD	TBD	TBD
<b>Article 6.2</b>	✓ At request of approval	✓ At request of registration	✓ At request of registration	✓ At request of ITMO transfer
<b>Article 6.4</b>	✓ At request of approval	✗	<p>If national registry is not connected to Article 6.4 mechanism registry</p> <p>✓ At or after registration</p> <hr/> <p>If national registry is connected to Article 6.4 mechanism registry</p> <p>✗</p>	✓ At request of authorisation*
<b>Article 6.8</b>	✓ At request of approval	✗	✓ At request of registration	✗
<b>VCM</b>	<b>Approval of standard</b> Option: For all VCM activities ✓ At request of approval	✗	<b>Listing of activity</b> Option: for all VCM activities ✓	✓ At request of authorisation*
	Option: For all VCM activities aiming to be issued credits eligible for ITMO authorisation ✓ At request of approval	✗	Option: for all VCM activities aiming to be issued credits eligible for ITMO authorisation ✓	

\*Generally speaking, in the absence of clear guidance on the process of ITMO authorisation (as of 2024), it is best to levy fees per unit, when the actual final number of units to be authorised is clear (after monitoring and verification).

# Benefit sharing

## 4. TYPES OF BENEFIT-SHARING LEVIES

On top of recovering administrative costs, a host country may decide to establish levies aimed at taking advantage of the benefits generated by the carbon activity since the government can be considered a partner with the right to receive benefits. This section discusses the following possible types of benefit-sharing levies:

- Tax as a common tool employed by host countries to reap benefits from projects developed in their jurisdictions;
- Adaptation levy, which is mandatory under the Article 6.4 mechanism (under a different name) and strongly encouraged under Article 6.2;
- Overall Mitigation in Global Emissions (OMGE), which is mandatory under the Article 6.4 mechanism and strongly encouraged under Article 6.2.

### 4.1. Tax

It is important to conceptualise the purpose of this tax as a levy not aimed at covering either administrative costs or the overselling risk (more on that in the next chapter) but to gain benefits *on top of* the mitigation of negative externalities. Any tax should be considered in this context, i.e., the host country will collect a share of the *benefits* (the revenues coming from the sale of credits).

It is helpful to understand the tax in the same way as a consumption tax.<sup>29</sup> The tax might be standardized for all projects or could vary based on project type and/or sector (with proper justification and the usual caveat on administrative burden). It is, however, not necessary to tie it to either.

It is recommended to levy a tax only if it does not impose a disproportionate tax burden for carbon projects. When assessing whether a tax is necessary, host countries should consider the following:

- Project developers are implementing the country's NDC virtually for free, at no expense to the host country, provided that administrative costs are recovered, and overselling risks are adequately mitigated;
- Project developers may already have project-level benefit-sharing arrangements in place with local communities (either mandated by national legislation or voluntary standards);
- Project developers also pay other taxes (e.g., income tax); in other words, it is critical to consider the total effective tax rate of enterprises in the country. Adding a tax could make the carbon activities not economically viable for the project developer. This would

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<sup>29</sup> A tax for selling ITMOs based on revenue, as opposed to profits (profit understood as income after deducting expenses and costs).

in practice mean limiting the transferring country's ability to compete for carbon finance, as it would elevate the effective price of mitigation outcomes.

These considerations are valid also when discussing the establishment of other benefit-sharing levies.

#### *Specific considerations for each carbon market mechanism*

There are no specific considerations for each carbon market mechanism.

### **ITMOS UNDER NATIONAL LAW**

National legislation may also consider ITMOs as either private or state-owned assets. If (certain categories of) ITMOs are considered as state-owned assets, host countries may use other legal instruments to reap carbon benefits. ITMO pricing or royalties could be such approaches.

Such an intervention on the national level is not possible when ITMOs are considered as private assets. However, it is out of the scope of this paper to consider alternative approaches.

## **Timing**

In general, the tax can be charged at or after the request of authorisation (e.g. After the positive outcome of the request for authorisation). An alternative for transactions under Article 6.2 may be at the request of ITMO transfer.

If the host country opts for a tax as a share of revenues, the operationalisation will require the seller to provide the price of the ITMOs to determine the tax obligation. In case the price is not defined or change after the authorisation stage, seller will need to amend their tax return. In this case, the amount of administrative burden related to tax audits will be considerable.

If the host country opts for a fixed tax per ITMO, the operationalisation is instead simpler, as the amount can always be paid after the positive outcome of the request for authorisation regardless of the final ITMO price.

## **Rate**

Total amount: TBD if necessary; TBD as a percentage of revenues or a fixed levy (see Table 3).

Table 3 Possible options for a tax.

	POSSIBLE OPTIONS FOR A TAX <sup>30</sup>
Share of revenues	X per cent of revenues
Fixed	X USD/ITMO

The tax rate should not be arbitrary, but be determined through specific criteria, for example, benchmarking against a global ITMO price, always taking into consideration the overall tax burden of project developers. For a more detailed discussion on the commercial price of ITMOs, see the box below.

It is recommended to earmark any tax levied coming from the sale of credits to be used for mitigation and/or adaptation activities, other relevant development-related goals (at a national or local level), or even fiscal measures (e.g. debt reduction).<sup>31</sup>

### THE COMMERCIAL PRICE OF AN ITMO

The commercial price of an ITMO is the price agreed between seller and buyer.

The host country should carefully consider the commercial price of ITMOs and its role in influencing it through levies. For reference, “the Intergovernmental Panel on Climate Change’s (IPCC) Working Group III contribution to the Sixth Assessment Report indicates that with a mitigation pathway limiting warming to 2°C the marginal abatement costs of carbon are around USD 90/tCO<sub>2</sub> by 2030 in 2015 terms or USD 115 in 2023 terms.”<sup>32</sup> This means that ITMO pricing levels should reach significantly higher than at any point during the CDM (the peak of CERs was around EUR 25 per tonne of CO<sub>2</sub>).

The pricing realities of the market are, however, not aligned with global policy objectives. For instance, credits that can be used for (future) compliance under CORSIA (i.e., ITMOs) are trading at around 10 USD.<sup>33</sup> This could effectively be considered as a floor price for the present market. Another estimate (in 2019) put the prices of ITMOs between USD 10-50/t CO<sub>2</sub>e: “Bringing together expected ITMO generation costs and buyer’s willingness to pay, and considering our experience with Article 6 pilots to date, we expect a realistic band for actual ITMO transaction prices until 2030 to be 10 – 50 USD/t CO<sub>2</sub>e, with 15 – 30 USD/t CO<sub>2</sub>e as the likely range for most transactions in the next few years.”<sup>34</sup> While a higher price may better reflect the global policy objectives and more fairly compensate the cost of a corresponding adjustment for the host country, buyers (countries and companies) are currently unwilling to pay such high prices, and may turn

<sup>30</sup> Other options are presented in the next section (adaptation levy).

<sup>31</sup> World Bank (2019) [Using Carbon Revenues](#)

<sup>32</sup> World Bank (2023), [State and trends of carbon pricing 2023](#).

<sup>33</sup> ICE Futures Europe, [CORSIA Eligible Emissions Units \(2024-2026\) Futures](#).

<sup>34</sup> Schwieger, Brodmann & Michaelowa (2019).

to host countries with lower prices. At the same time, the seller country must not lose on the transaction, which means a careful balancing between demand and supply dynamics.

It is imperative to conceive a benefit-sharing arrangement that reflects the priorities and interests of the host country *always in the context of the collective interests of developing countries*, since a race to the bottom would not benefit host countries in the long term. Regional arrangements such as the West African Alliance on carbon market and climate finance and the Eastern Africa Alliance on carbon markets and climate finance could provide a basis for engagement with other seller countries for harmonizing national tax strategies, possibly with the establishment of a regional ITMO floor price as the ultimate goal.

## 4.2. Adaptation levy

In this paper we dedicate a section to a possible adaptation levy, even though it is theoretically a form of tax, discussed above. It is worth separating this special case to follow the example of Article 6 guidance<sup>35</sup> (and the previous example of the CDM), which stresses the importance of contributions of resources to adaptation and provides for specific adaptation levies under the Article 6.4 mechanism.

Article 6 guidance mandates or encourages participating Parties to contribute resources to adaptation (see Table 4). The host country can impose a specific levy aimed at collecting revenue for adaptation purposes. Such levies may be defined as intended for general adaptation purposes, or they may also be earmarked for specific national adaptation priority sectors.

Table 4 Dispositions on adaptation contributions under Article 6 guidance.

	ADAPTATION LEVY
Article 6.2	Participating Parties and other stakeholders are strongly encouraged to contribute resources to adaptation <sup>36</sup>
Article 6.4	<ul style="list-style-type: none"><li>In-kind 5 per cent share of ITMOs (for later monetisation) for the UNFCCC Adaptation Fund</li></ul>

<sup>36</sup> "Participating Parties and stakeholders using cooperative approaches are strongly encouraged to commit to contribute resources for adaptation, in particular through contributions to the Adaptation Fund, and to take into account the delivery of resources under Article 6, paragraph 4, to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation." UNFCCC (2021) [Decision 2/CMA.3, Annex, para 37](#).

	<ul style="list-style-type: none"> <li>• Deduction of 3 per cent of the A6.4ER issuance fee paid for each request, transferred to the Adaptation Fund<sup>37</sup></li> </ul>
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### *Specific considerations for each carbon market mechanism*

- Article 6.2: the host country may consider opting for levies aligned with those set by the Article 6.4 mechanism, namely reserving an in-kind 5 per cent share of ITMOs (for later monetisation) for the UNFCCC Adaptation Fund or a national (adaptation) fund and/or 3 per cent of the issuance (listing) fee paid for each request.
- Article 6.4: Under Article 6.4 there is already an in-kind 5 per cent share of issued A6.4ERs and 3 per cent of A6.4ER issuance fee paid for each request, destined to the Adaptation Fund.
- VCM: Senegal may consider opting for charges aligned with those set by the Article 6.4 mechanism (see above).

## Timing

After the positive outcome of the request for authorisation. In case the host country opts for an adaptation levy as a share of revenues, the discussion on the tax on revenues as a share of revenues applies.

## Rate

There are two possible approaches to the adaptation levy:

- Retaining a portion of ITMOs for later monetisation (in-kind). It should be emphasised that this approach may involve significant administrative burden;
- Charging a fixed or proportional monetary levy, as discussed in the previous section on a possible tax.

See Table 5 for the possible options.

*Table 5 Possible options for the adaptation levy.*

	POSSIBLE OPTIONS FOR THE ADAPTATION LEVY
Share of ITMOs (in-kind)	X per cent of ITMOs

<sup>37</sup> "Further notes that, for the monetary contributions from individual Article 6, paragraph 4, activities to the Adaptation Fund in accordance with the rules, modalities and procedures for the mechanism, the Supervisory Body agreed to deduct 3 per cent of the issuance fee paid for each request for issuance of Article 6, paragraph 4, emission reductions and collectively transfer it annually to the Adaptation Fund." UNFCCC (2022) [Decision 7/CMA.4, para 15](#).

<b>Share of revenues</b>	X per cent of revenues
<b>Share of administrative fee(s)</b>	X per cent of administrative fee(s)
<b>Fixed</b>	X USD(/ITMO)

The levy collected may be destined to:

- A national (or regional) (adaptation) fund;
- The UN Adaptation Fund.

Carbon activities with high adaptation co-benefits could be exempted from paying the adaptation levy. As usual, any exemptions from paying the adaptation levy should be carefully considered due to the administrative burden that this would cause and considering that project developers would be able to sell credits at a premium due to the high co-benefits provided (thus recovering any costs).

## 4.3. OMGE

Under the Article 6 guidance, OMGE refers to the portion of ITMOs that must be cancelled to achieve a reduction in global greenhouse gas emissions (see Table 6). It is a contribution to the global community.

*Table 6 OMGE dispositions under Article 6 guidance.*

	<b>OMGE</b>
<b>Article 6.2</b>	Participating Parties and stakeholders are strongly encouraged to contribute to OMGE by cancelling a share of ITMOs <sup>38</sup>
<b>Article 6.4</b>	Mandatory cancellation of minimum 2 percent of issued A6.4ERs <sup>39</sup>

*Specific considerations for each carbon market mechanism*

<sup>38</sup> "Participating Parties and stakeholders are strongly encouraged to cancel ITMOs that are not counted towards any Party's NDC or for other international mitigation purposes, to deliver overall mitigation in global emissions, and to take into account the delivery of overall mitigation in global emissions under the mechanism established by Article 6, paragraph 4." UNFCCC (2021) [Decision 2/CMA.3, Annex, para 39](#).

<sup>39</sup> "The mechanism registry administrator shall effect a first transfer of a minimum of 2 per cent of the issued A6.4ERs to the cancellation account in the mechanism registry for overall mitigation [...]." UNFCCC(2021) [Decision 3/CMA.3, Annex, para 69](#).



- Article 6.2: An indicative share could be 2 per cent of ITMOs, in line with the Article 6.4 mechanism.
- Article 6.4 Under Article 6.4 there is already a mandatory cancellation of 2 per cent of issued A6.4ERs. It is recommended that the host country does not levy an additional OMGE for Article 6.4-originated ITMOs to keep Article 6.4 activities competitive.
- VCM: For VCM activities, the host country may consider imposing a 2 per cent OMGE charge on authorised VCM credits, aligned with Article 6.4 guidance.

## Timing

After the positive outcome of the request for authorisation.

## Rate

The rate should at least be in line with Article 6.4 mechanism guidance, per Article 6.2 guidance (“Participating Parties and stakeholders are strongly encouraged to [...] deliver [OMGE] and to take into account the delivery of [OMGE] [under the Article 6.4 mechanism]”; see Footnote 38).

Total amount: 2 percent of authorised ITMOs.

# 5. OVERVIEW OF BENEFIT-SHARING LEVIES

See Table 7 for an overview of benefit-sharing levies.

Table 7 Overview of benefit-sharing levies.

	TAX	ADAPTATION LEVY	OMGE
Rate	TBD	TBD	2 per cent of ITMOs
Article 6.2	TBD	TBD <i>After the positive outcome of the request for authorisation</i>	✓ <i>After the positive outcome of the request for authorisation</i>
Article 6.4	TBD	✗	✗
VCM	TBD	TBD <i>After the positive outcome of the request for authorisation</i>	✓ <i>After the positive outcome of the request for authorisation</i>

# Overselling risk

## 6. TYPES OF OVERSELLING RISK

We can distinguish between three types of overselling risks:<sup>40</sup>

1. Selling low-cost mitigation outcomes that should be used to achieve the country's NDC and having to take other, more costly mitigation action to compensate ("selling low-hanging fruit");
2. Selling mitigation outcomes that are not captured by the GHG inventory of the transferring country ("selling uncounted fruit");
3. Selling non-additional mitigation outcomes ("selling fake fruit").

These three types of risks are closely interconnected, as the existence and extent of all depend on the NDC setup, the country's Article 6 strategy, and relevant institutional, governance and regulatory arrangements.

## 7. APPROACHES TO MITIGATING THE OVERSELLING RISK

The Article 6 levy structure *can be* used as a tool to mitigate overselling risk. However, it should be emphasised that *other* strategies should be considered before any strategy through the Article 6 levy structure is adopted.

Various strategies can be employed to mitigate the risk of overselling in Article 6 cooperation (see Table 8).<sup>41</sup>

1. Exclusionary strategies:
  - a. Negative list: One strategy involves establishing a "negative list" based on the NDC package, prohibiting certain activities from Article 6 cooperation. This would direct focus towards mitigation activities that are either unfeasible or too costly for the country to implement independently.
  - b. Positive list: Alternatively, positive lists could be created to identify specific activities eligible for Article 6 cooperation, highlighting emission reduction opportunities beyond the country's capacity without assistance.
  - c. Abatement cost threshold: This method sets a threshold based on the marginal cost required to achieve NDC objectives. Only activities with abatement costs

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<sup>40</sup> Carbon Limits et al. (2020) [Practical strategies to avoid overselling](#).

<sup>41</sup> Ibid.

exceeding this threshold would qualify for Article 6 transfer, ensuring adherence to NDC goals while allowing flexibility.

- d. Baselines derived from the NDC: By incorporating NDC goals as baselines for crediting activities, only those activities surpassing NDC targets would be eligible for transfer.

## 2. Strategies based on the sharing of mitigation outcomes:

- a. Simple sharing: Mitigation outcomes could be shared among project participants based on pre-established fixed proportions or adjusted according to sector or project type.
- b. Limiting crediting periods: Shortening crediting periods can mitigate overselling risks, ensuring timely utilization of mitigation outcomes for NDC attainment, especially with evolving NDC ambitions.
- c. Conservative baselines: Adopting conservative baselines for computing mitigation outcomes retains a portion of the mitigation outcomes within the transferring country, aligning with long-term goals. This could be done by, for example, defining long-term goals in line with the PA's long-term temperature goal.
- d. Conditionality on Article 6 transfers: An alternative approach would be to impose conditions on all transfers of mitigation outcomes, contingent upon the transferring country either achieving its NDC or being on track to do so. Essentially, although various Article 6 cooperation agreements could be agreed upon during the NDC period, no transfers would be sanctioned until the conclusion, or near conclusion, of the period, once the NDC objectives were fulfilled. A variation would involve transferring a fraction of the mitigation outcomes during the NDC period and withholding the remainder until it was evident that the transferring country would attain its goal.

## 3. Strategies based on levies:

- a. Charging a levy: Permitting transfer of mitigation outcomes during the NDC period while imposing a levy establishes a reserve fund to address any NDC shortfalls. The levy could be standardized or varied based on project type, ensuring transparency but potentially limiting the country's competitiveness in carbon finance. Furthermore, this strategy would only mitigate the overselling risk if the levy were sufficiently high to generate ample revenue to bridge any gap between the NDC goal and actual emissions during the NDC period.<sup>42</sup> Considerations on opportunity cost may be taken into account.

In case a country decides to establish a tax as a benefit-sharing mechanism, it would not be recommended to set out an additional tax for mitigating overselling risks. Alternatively, host countries may earmark a share of the tax as a benefit-sharing to finance a reserve fund for addressing overselling risks. The tax would have therefore a dual purpose: benefit sharing and mitigation of overselling risk.

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<sup>42</sup> The authors consider the "two-part pricing for ITMOs to reflect opportunity cost" option as outlined in Carbon Limits et al. (2020) as a sub-option of "charging a levy".

Strategies based on the sharing of mitigation outcomes and the charging of levies, compared to exclusionary strategies and methodology-based sharing strategies (e.g., conservative baselines), can be applied at the level of the Article 6 levy structure. This paper focuses on these two approaches.

*Table 8 Approaches to mitigating overselling risk (adapted from Carbon Limits et al. (2020)).*

TYPE	STRATEGY	OVERSELLING RISK REDUCTION
Exclusionary	Negative list for NDC package	Medium Positive impact
Exclusionary	Focus on “inaccessible” technologies (positive list)	MP
Exclusionary	Abatement cost threshold	Small Positive
Exclusionary	Baselines derived from NDC goals	MP
Sharing of mitigation outcomes	Limit crediting periods	SP
Sharing of mitigation outcomes	Conservative baselines	SP
Sharing of mitigation outcomes	Conditionality of transfers	Large Positive
Sharing of mitigation outcomes	Simple division of mitigation outcomes	SP
Levies	Levy to fund domestic mitigation/future purchases	SP

## 7.1. Sharing mitigation outcomes or charging a levy

All the above strategies could be implemented in conjunction with each other or gradually phased in over time. For instance, a country could integrate both the simple division of mitigation outcomes and conditional transfers, such as transferring only a portion of the mitigation outcomes during the NDC cycle and then transferring the remaining portion at the cycle's end if it becomes evident that the NDC target will be met. Additionally, these strategies could be tailored to specific sectors or technology domains. For instance, a country might prioritise “inaccessible” technologies through a positive list while also limiting the crediting periods for such cooperative programs. Similarly, the country could establish a negative list while also retaining a small portion of mitigation outcomes from any implemented activities not covered by that list to further mitigate risks.

**In principle, if the (a combination of) exclusionary strategies sufficiently addresses the overselling risk, adopting additional strategies based on the sharing of mitigation outcomes and/or levy-based is not needed.** The Article 6 levy structure should be used as a tool to mitigate overselling risk only as a last resort. Safeguards are necessary, but too many requirements lead to undue burdens on national administrations, international partners, and project developers.

# Final considerations

## 8. AN ARTICLE 6 LEVY STRUCTURE FOR SENEGAL

This paper provided an overview of factors for the Government of Senegal to consider when establishing benefit-sharing arrangements and a levy structure for their Article 6 framework. This effort is both a technical necessity and a strategic imperative in Senegal's climate action agenda. It presents an opportunity to align economic incentives with environmental goals, promoting sustainable development while reducing greenhouse gas emissions.

Establishing a well-considered Article 6 levy structure is crucial for three reasons: **managing administrative costs, determining appropriate benefit-sharing arrangements, and contributing to mitigating the risk of overselling.**

Firstly, Senegal will incur administrative costs in Article 6 transactions, which should be covered by levies outlined in its framework. We propose a simplified approach involving **approval, registration, listing (registry), and ITMO authorisation fees**, which should be tailored to Senegal's specific circumstances and legislative framework.

Secondly, we clarify the concept of benefit-sharing, involving revenue use from credit sales, whether monetary or non-monetary. We consider three levies: **a tax, an adaptation levy, and contributions to OMGE**, aligning with Senegal's priorities and international best practices.

Thirdly, **addressing overselling risk** is crucial to avoid Senegal having to take additional and more costly mitigation action to achieve its NDC goal. Senegal's chosen levy structure can mitigate this, but other strategies should first be explored.

Crucially, the Article 6 structure **should be designed to complement existing climate policies and frameworks**, reinforcing synergies, and avoiding duplication of efforts. This requires close collaboration across government agencies, private sector actors, civil society organizations, and international partners. We can consider the Article 6 levy and benefit-sharing structure as the capstone of an Article 6 framework. All considerations on overarching national climate policy priorities, overselling risks and eligibility criteria, and benefit-sharing arrangements feed into decisions on such a structure. Looking ahead, Senegal should reflect on these key points and start elaboration of the structure, while being open to adapting to the evolving carbon market landscape.

The following page includes a quick checklist (Table 9) summarizing the areas and questions that need to be considered by the Government of Senegal for setting up an Article 6 levy structure (Table 10). Finally, the Annex contains real-life examples of Article 6 and carbon market levy structures from selected countries.



Table 9 Checklist for establishing an Article 6 levy structure.

Topic	Considerations	Yes	No
<b>Addressing administrative costs</b>	Determined the types of fees needed in the national system?	<input type="checkbox"/>	<input type="checkbox"/>
	Determined the timing of fees?	<input type="checkbox"/>	<input type="checkbox"/>
	Determined appropriate rates for administrative fees?	<input type="checkbox"/>	<input type="checkbox"/>
	Considered factors specific to different carbon market mechanisms?	<input type="checkbox"/>	<input type="checkbox"/>
	Considered specific institutional structure, responsible authority?	<input type="checkbox"/>	<input type="checkbox"/>
<b>Benefit-sharing arrangements</b>	Considered national priorities?	<input type="checkbox"/>	<input type="checkbox"/>
	Determined the types of benefit-sharing levies?	<input type="checkbox"/>	<input type="checkbox"/>
	Determined the timing of benefit-sharing levies?	<input type="checkbox"/>	<input type="checkbox"/>
	Determined appropriate rates for benefit-sharing levies?	<input type="checkbox"/>	<input type="checkbox"/>
	Determined appropriate institutional arrangements, responsible authority?	<input type="checkbox"/>	<input type="checkbox"/>
	Determined the purpose of benefit-sharing levies (earmarking)?	<input type="checkbox"/>	<input type="checkbox"/>
<b>Overselling risk</b>	Considered factors specific to different carbon market mechanisms?	<input type="checkbox"/>	<input type="checkbox"/>
	Considered the overselling risk in light of NDC?	<input type="checkbox"/>	<input type="checkbox"/>
	Considered what measures already exist to mitigate the overselling risk (if any)?	<input type="checkbox"/>	<input type="checkbox"/>
	Is the overselling risk sufficiently mitigated (i.e., is it low)?	<input type="checkbox"/>	<input type="checkbox"/>
	If it is high or medium, have measures outside the scope of the Article 6 levy structure been considered and put in place?	<input type="checkbox"/>	<input type="checkbox"/>
	If not, has the level of the solution under the Article 6 levy structure been set appropriately?	<input type="checkbox"/>	<input type="checkbox"/>

Table 10 Overview of an Article 6 levy structure

ARTICLE 6 LEVY STRUCTURE					
Administrative fees		Optional		Optional	
		Benefit sharing levies		Measures to mitigate overselling risk	
Approval fee		Tax		Levy to fund additional domestic mitigation	
Registration fee		Adaptation levy		Sharing of mitigation outcomes	
Registry fee		OMGE			
ITMO authorisation fee		(Other levies)			
(Other fees)					

**General consideration for setting Article 6 levies**

Alignment with the national legal framework  
Simplicity and manageability  
Proportionality and viability  
Transparency and accountability  
Balance between flexibility and predictability  
Alignment with national priorities  
Alignment with international agreements  
Equal treatment of carbon market mechanisms

# Annex

## 9. SELECTED LEVY STRUCTURES AND BENEFIT-SHARING ARRANGEMENTS

### 9.1. Ghana

FEE TYPE	FEE LEVEL (USD)	FEE JUSTIFICATION
Mitigation Activity Participant or Entity Application Fee	Grant-based small-scale mitigation activity - 300 Small-scale mitigation activity - 500 Large-scale non-forestry project - 1000 Forestry project - 500	Introducing the mitigation activity participant or entity application fees is to pay for administrative and management expenses incurred by Carbon Market Office and minimise redundancy in account creation
Mitigation Activity Identification (MID) Fee	Grant-based small-scale mitigation activity - 200 Small-scale mitigation activity - 300 Large-scale non-forestry project - 500 Forestry project -300	
Unique Identification Number (UIN)	400	
Corresponding Adjustment Fee	Grant-based small-scale mitigation activity - 3/unit Small-scale mitigation activity – 5/unit Large-scale non-forestry project – 5/unit Forestry project - 5/unit	Proceeds from the corresponding adjustment fee shall be directed into the mitigation ambition fund to finance the implementation of the additional mitigation activities in Ghana and pay for the cost authorisation, transfer, and reporting of ITMOs
Listing Fee	All mitigation activities seeking to generate ITMOs for authorisation and transfer - 0.2/unit  VCM 0.01/unit	The listing fee shall cover the administrative expenses of the Carbon Market Office for delivering registration, issuance and transfer services and the maintenance cost for effectively running the registry system
The administrative fee for LEA	500	Administrative expenses incurred by the DNA of the mechanism to produce the LEA.
Administrative fee A6.4 LOA	1000	Administrative expenses incurred by the DNA of the mechanism for preparing A6.4 LOA

Source: [Ghana's framework on international carbon markets and non-market approaches](#)

## 9.2. Tanzania

The fees, charges, and benefit-sharing arrangements cover all carbon market operations. No specific mention is made of Article 6.

### Fees and charges

TYPE OF FEE	AMOUNT CHARGED
Application fee (Non-citizen)	500 USD
Application fee (citizen)	250 USD
Project registration fee	1% of the expected CER from the project

TYPE OF CHARGE	AMOUNT CHARGED
Annual Administrative charges	3% of the income accrued from sold CER
Annual project charges	5% of the income accrued from sold CER

## Benefit sharing for land-based projects

ENTITY	SHARE OF THE GROSS REVENUE FROM THE SALE OF CERTIFIED EMISSION REDUCTIONS
<b>Managing Authority</b>	<b>61%</b>
If Managing Authority is under the Local Government Authority <b>Local Government Authorities</b> for conservation activities <b>Ministry responsible for Regional Administration and Local Government</b> <b>Regional Secretariat</b> to facilitate coordination of carbon trading mechanisms and other environmental conservation initiatives <b>Village government or mtaa</b> for community development and conservation activities at the village or mtaa level	L 8% L 1% L 1% L 51%
If Managing Authority is under the Local Government Authority <b>Managing Authority</b> <b>Adjacent villages or mtaa</b> for conservation activities <b>Local Government Authorities</b> for conservation activities	L 51% L 4% L 6%
<b>Proponent</b>	<b>39%</b>
To be paid to <b>Designated National Authority or National Focal Point</b> <b>National Environmental Trust Fund</b> <b>Agency responsible for energy for the purpose of subsidizing costs of cooking energy</b>	L 8% L 3% L 1%

In respect of other projects whereby the level of initial investment costs is high, the costs and benefits sharing arrangements shall be determined and negotiated between the Managing Authority and the Project Proponent.

The designated National Authority or National Focal Point shall provide guidance in facilitating fair and equitable costs and benefit-sharing arrangements for carbon trading projects.

Sources: [THE ENVIRONMENTAL MANAGEMENT \(CONTROL AND MANAGEMENT OF CARBON TRADING\) REGULATIONS, 2022](#) and [Amendments \(2023\)](#)

## 9.3. Zimbabwe

### Fees

The following fees and levies shall apply to all carbon credit generating projects in Zimbabwe.

Participation in Carbon Trading Application Fee	00 USD [sic]
Submission of Project Design Document Fee	5000 USD
Change of Project Scope Fee	5000 USD
Registration Certificate Fees	0.10 USD per credit, with a cap of 10000 USD
Amendment Fee	500 USD
Renewal of Registration Certificate Fees	20% of the initial registration fees

Source: [Carbon Credits Trading \(General\) Regulations, 2023](#)

### Share of revenues

ENTITY	PERCENTAGE OF SHARE OF REVENUES
<b>Project developers</b>	70%
<b>Environmental levy</b> for climate change adaptation and low carbon initiatives, loss and damage relief, local authority levies, admin costs, and the Treasury.	30%

Source: [Zimbabwe Allows Developers to Keep More Profits from Carbon Credits, 2023](#)

## 9.4. Rwanda

Details of the deal between the Rwandan government and DelAgua for the generation of correspondingly adjusted credits.

ENTITY	SHARE
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<b>Government</b> for achievement of NDC	10% of credits generated
<b>OMGE</b> cancelled by DelAgua	2% of credits generated
<b>DelAgua</b>	88% of credits generated
<b>UN Adaptation Fund</b>	5% of the proceeds from the sale of the credits (from remaining 88%)

Source: [Rwanda to take share of adjusted carbon credits from projects, rather than proceeds](#)

## 9.5. Kenya

TYPE OF FEE <sup>43</sup>	AMOUNT CHARGED (KSHS)
Project Application fee (Citizen)	50,000
Project Application fee (Non-Citizen)	100,000
Project Registration Fees	200,000
Administrative Fee	1% of the expected CER from the project

Source: [Carbon Market – Second Schedule - Fees](#)

### Benefit sharing

ENTITY <sup>44</sup>	SHARE
<b>To be defined<sup>45</sup></b>	At least 25% of the aggregate earnings of the previous year for non-land based carbon market projects (annual social contribution).

<sup>43</sup> Based on the draft of Carbon Market Regulations, as of January 9, 2024.

<sup>44</sup> The Climate Change (Amendment) Act, 2033 states that those resource “are managed and disbursed for the benefit of the community” but does not specify which entity will receive, manage and disburse them.

<sup>45</sup> On this regard, the draft of Carbon Market Regulations (January 9, 2024) indicates that benefit sharing will be paid to a consolidated fund.



<b>To be defined</b>	At least 40% of the aggregate earnings of the previous year for land-based carbon market projects (annual social contribution).
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Source: [The Climate Change \(Amendment\) Act, 2013](#)

## 9.6. Article 6.4 Mechanism

### Share of proceeds for administrative expenses

Size (t of CO <sub>2</sub> e)	Registration fee
Up to 15,000	1500 USD
Between 15,001 and 50,000	5000 USD
Over 50,000	10000 USD

<b>Issuance fee</b>	0.15 USD per A6.4ER
<b>Renewal fee</b>	Same as registration fee
<b>Post-registration change fee</b>	1500 USD

### Benefit sharing

SHARE OF PROCEEDS FOR ADAPTATION	
<b>In-kind</b>	5 per cent of A6.4ER issuance
<b>Monetary</b>	3 per cent of A6.4ER issuance fee paid for each request

OVERALL MITIGATION IN GLOBAL EMISSIONS	
<b>Mandatory cancellation</b>	2 per cent of issued A6.4ERs
Additional mandatory cancellation if requested by activity participants	

Source: [Article 6.4 activity cycle procedure for projects](#) and [Decision 3/CMA.3](#)

## 9.7. Gold Standard

Gold Standard has a complex set of fees including:

- Registry Fees
- Project Certification Fees
- Microscale Validation and Verification Fund Fees
- Methodology development fees
- Conversion Fees<sup>46</sup>

## 9.8. Sectoral case studies

### Mining

The African case studies include Botswana, the Democratic Republic of Congo (DRC), Ghana, Kenya, Mozambique, Namibia, Nigeria, South Africa, Tanzania, Uganda, and Zambia.<sup>47</sup>

The recommendations of the report on benefit sharing in Africa place emphasis on measures on: 1) identifying beneficiaries; 2) identifying the impact of mining projects and the effect on communities before the project start; 3) establishing concrete grievance processes; 4) establishing appropriate reporting and review mechanism; 5) defining benefit sharing on the policy level, including the social, economic, cultural, geographical and environmental context; 6) establishing relevant institutional structure and processes to support benefit sharing; and 7) mandating local representation in decision-making, including considerations of land ownership, community-level issues and gender issues.

#### Ghana

Ghana has established the Mineral Development Fund, the primary aim of which is to allocate financial resources to support mining communities. Out of the total royalties collected by Ghana's revenue authority from mining leases, 20% is allocated to this fund. From the fund, approx. 20% is allocated for activities such as stimulating the local economy, initiating alternative livelihood projects, and mitigating the adverse impacts of mining on affected communities. These are facilitated through a program known as the "Mining Community Development Scheme." The remaining funds are used for administration and promoting the mining sector. 5% of the fund also goes to research, training and projects which promote sustainable development through mining. Finally, the governing board of the Fund is required to establish a local management committee for each community impacted by mining. This committee must include traditional leaders from the affected community, a representative from a recognized women's group, and a representative from a recognized youth group within the community (in addition to other officials).

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<sup>46</sup> Gold Standard (2023) [Gold Standard Fee Schedule](#).

<sup>47</sup> Vikrant Wankhede (2020) Benefit sharing in the mining sector in Africa.

Main points:

- Fund to support local community
- Benefit sharing aimed at economic wellbeing and mitigating harms from mining projects
- Mandatory local consultations

## **Kenya**

Under the 2016 Mining Act, mineral rights holders are obligated to remit royalties to the state. Out of these royalties, 10% are allocated to communities situated in areas impacted by mining. It is also the responsibility of mineral rights holders to prioritize affected communities for employment opportunities in mining-related activities. Mining rights holders are also required to, whenever relevant and necessary, support and engage in socially responsible investments for local communities, and implement a 'community development agreement'. Mineral rights holders must also prioritize the use of goods and services provided by members of impacted communities; and, where the planned investment surpasses \$500 million, the Cabinet Secretary is required to negotiate an agreement with them which, among others, should include provisions for community development plans and insurance agreements.

Main points:

- 10% of royalties to local (mining-affected) communities
- Priority access to employment, preferential treatment of community goods and services
- Socially responsible investments for local communities, community development plans

## **Nigeria**

The Minerals and Mining Act (2007) provides for provisions on environmental protection and community rights. On benefit sharing, these provisions include compensating host communities for the effects of certain types of mining activities, community development agreements (CDAs), and providing for the participation of miners and community members in environmental protection and rehabilitation programs.

The Act specifies that CDAs should be structured to guarantee the transfer of both social and economic advantages to local communities. However, for CDAs to be successful, they need to be tailored to the specific circumstances of the local community. This implies that there is not a one-size-fits-all model of agreement or procedure that would be suitable for every situation, as each region possesses its own distinct geographical and socio-economic characteristics. Also, it needs to be noted that the implementation of these provisions has been inadequate, especially since the CDA policy does not clearly state the required representation of community members.

Main points:

- Need to provide for explicit participatory rights for communities in decision-making
- Community-specific provisions

## Peru

Another report<sup>48</sup> considers mineral revenue sharing in Peru. It focuses on “the revenue that the Peruvian national government earns from extraction and then redistributes to subnational governments”, mainly municipal governments. Some of the revenue is to be allocated to universities.

Revenue sharing transfers to subnational governments are earmarked for investments for the benefit of the local community. There is criticism of this system, mostly that the earmarks do not appear to have resulted in improved use and positive impacts in extraction areas. Limited research indicates that the transferred revenue is not being fully used, and that there has been an increase in conflicts as a consequence of these transfers.

The arrangements for revenue sharing mostly follow the principle of derivation – the revenues generated from taxing mining operations are directed towards provinces and districts in which mines are located. While population levels and their basic needs are taken into account, this is only done within the regions that produce minerals. To compensate, the government transfers a larger share of other finance to regions with little to no mining activity.

Main points:

- Earmarking for specific purposes
- Transparency in the use of funds

## India

Another discussion paper<sup>49</sup> focuses on benefit sharing in the mining sector in India, specifically the role of District Mineral Foundations (DMFs) – “local institutions established in mining regions across the country for the socio-economic development of communities affected by mining operations.” Its key issues and recommendations are the following:

- Stakeholder participation: In several states, the inclusion of stakeholders is up to the discretion of the chairperson, which resulted in members of affected communities, elected representatives and mining lease holders being left out of DMFs committees. Stakeholder participation should be specified by guidelines or the law.
- Role of local representative institutions: The approval of local representative institutions for projects (including the identification of beneficiaries and benefit sharing arrangements) is not always a requirement, and greater clarity is needed.
- Amount allocated to DMFs: Currently, about 10% of mining royalties for mines which are auctioned are allocated specifically to communities affected by mining, which is a rather small part. Alternative mechanisms are possible: creating a permanent fund for mining revenues’ allocating an amount equal to royalty for DMFs; and allocating part of the royalty payment to DMFs.
- Project planning and implementation: Better processes and mechanisms are needed to ensure participation.
- Transparency: Individual websites are needed for each DMF, containing details such as ongoing projects, their progress, yearly plans, the makeup of DMF committees, and the

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<sup>48</sup> María Lasa Aresti (2016) [Mineral revenue sharing in Peru](#).

<sup>49</sup> Joyita Ghose (2018) [Benefit sharing in the mining sector](#).

beneficiaries. Due to limited literacy and technological access in some communities, it is crucial to develop alternative approaches for disseminating information.

- **Accountability:** Currently, projects are monitored by the DMF in some states – an independent monitoring body is needed.
- **Sustainability:** While DMFs enable affected mining communities to address their immediate development needs, endowment funds should be established, which would serve the purpose of preventing project disruptions due to insufficient funding during periods of low production for a specific mineral, or when mining companies withdraw from an area.
- **Benefit sharing beyond DMFs:** State governments should consider developing a holistic framework for benefit sharing that goes beyond DMFs, including employment to local community members and preferring local companies in procurement.

### **What do mining case studies tell us about benefit sharing?**

For benefit-sharing arrangements to work efficiently, transparently, and with fair arrangements towards the local communities, the following should be taken into account:

#### *Pre-project:*

- Identify beneficiaries
- Identify the manner and extent of benefit sharing
- Define specific rules on participation and representation, mandate the participation of relevant local beneficiaries
- Identify how the project impacts local communities and how to address these impacts (incl. sustainable development considerations and co-benefits)
- Robust institutional arrangements for benefit sharing
- Setting up a fund and earmarking rules could ensure that benefit sharing goes beyond specific projects
- Rules/principles/specific aims of benefit sharing
- Participation of local stakeholders in project planning and implementation
- Transparent, effective, and tailored communications towards local stakeholders, including materials adapted to local needs (languages, literacy considerations, etc.)

#### *During/post-project:*

- Ensure transparency on project progress, how benefits are shared, and decisions made on them
- Set monitoring and reporting requirements. An independent body is needed to review them, one that is not connected to the one administering the distribution of benefits.

## Clean cooking

Several ongoing initiatives aim to ensure that projects receive fair prices and that communities get a fair benefit-sharing scheme, which can be categorized as:

- Carbon standards: e.g., Fairtrade Climate Standard, Fair Climate Fund, Plan Vivo.
- National regulation: e.g., Kenya, Tanzania.
- Market initiatives and alliances: e.g., Africa Carbon Markets Initiative (ACMI), Clean Cooking Alliance.

As an example, the Clean Cooking Alliance (CCA) works with a global network of partners towards a dynamic and economically viable sector aiming to attain universal access to clean cooking by 2030. This objective aims to bring about better health outcomes, mitigate climate change and environmental effects, empower women, and enhance livelihoods.<sup>50</sup> One of the recent outputs of the CCA is a report titled “A Call to Action: Delivering Responsible Carbon Finance”, which outlines a series of principles for carbon finance and benefit sharing in the clean cooking sector:<sup>51</sup>

- Integrity: This principle concerns the climate integrity of carbon credits produced by clean and enhanced cooking carbon projects, the lack of which may deter investors from expanding their investments in such projects.
- Transparency: The report suggests a series of principles to enhance transparency in the clean cooking sector, including, for instance, transparency from market actors about the portion of carbon revenue that reaches actors further down the value chain, or transparency about benefit sharing arrangements.
- Fairness: When it comes to fairness, the report recommends measures such as actively engaging end users in the design of clean cooking technologies and projects, ensuring that end users and communities make informed decisions about their participation in a given carbon project, and revenue sharing according to the value each actor brings into the process of generating carbon credits.
- Sustainability: Considerations under this principle aim to ensure sustainable growth in the clean cooking sector, and concern issues such as complementarity between carbon finance and other forms of funding, and an enabling regulatory environment from relevant governments.

Benefit sharing arrangements in this report are mostly concerned with project-level considerations. However, the CCA report includes relevant issues such as the above-mentioned fairness component of sharing carbon revenue with the end users of clean cooking technologies, in recognition of their essential role in generating high-quality carbon credits through the proper use of a clean cooking technology.<sup>52</sup>

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<sup>50</sup> See more on the CCA's mission and approach at <https://cleancooking.org/our-approach/>.

<sup>51</sup> Clean Cooking Alliance (2023), “A Call to Action: Delivering Responsible Carbon Finance”, p. 10 & p. 17.

<sup>52</sup> Clean Cooking Alliance (2023), p. 28.

