EQUITABLE BENEFIT SHARING

Lessons learned from REDD+ and other conservation strategies

January 2014

What do we mean by equitable benefit sharing?

Equitable benefit sharing has become a widely used term that, while lacking a single consistent definition, generally refers to the arrangements by which various benefits are distributed among a range of stakeholders. In the context of conservation the concept was first enshrined in the third objective of the Convention on Biological Diversity which seeks "the fair and equitable sharing of the benefits arising out of the utilization of genetic resources".

The concept of what constitutes equitable is also open to interpretation, although it is often used to cover one or more of the following principles[1]:

- Equality – everyone gets an equal amount.
- 'Merit'- or input-based – levels of benefit are based on contributions made.
- Needs-based – distribution is based on beneficiaries' basic needs.
- Rights-based – distribution is linked to stakeholders' rights.
- Pro-poor – distribution aims to improve the well-being of poor, marginalised or otherwise vulnerable people.

Benefits can be categorised in a number of different ways. For example, it is common to distinguish between **monetary and non-monetary benefits**. Monetary benefits are those which can be quantified and valued in financial terms e.g. cash payments (from the sale of timber or non-timber forest products (NTFPs) in community forestry, or carbon credits in REDD+), as well as loans, microfinance and salaries. Non-monetary benefits are those that are difficult to value in financial terms, but which contribute to improved well-being of the beneficiaries, such as improved tenure security, increased market access, technical and institutional capacity building, as well as maintenance or enhancement of ecosystem services e.g. water supply and quality, pollination, and erosion control.

Some people prefer to differentiate between **direct and indirect benefits**. Direct benefits are those arising directly from a REDD+ or other intervention, such as employment, livelihoods support and ecosystem provisioning services such as NTFPs, fuelwood, and fodder (where access to these is not prohibited). In this classification, indirect benefits comprise improved governance, such as increased tenure security, law enforcement and increased participation in decision making. Regulating, cultural and supporting ecosystem services and biodiversity are also considered indirect benefits.

[1] Adapted from Campese, J (2012) *Equitable Benefit Sharing: Exploring Experiences and Lessons for REDD+ in Tanzania*

In the context of REDD+, the main benefits envisaged are those achieved through climate change mitigation derived from reduced emissions i.e. benefits for the global community. The term benefit sharing in this case is commonly used to refer to how financial incentives derived from international REDD+ funds or the sale of emission reduction credits in the carbon markets are shared between different actors – whether communities, private sector, government or non-profit organisations – within recipient countries, in order to reward and incentivise sustained efforts to manage forests sustainably. The actual beneficiaries in each case will depend on the local context.

However, other economic, social and environmental benefits of REDD+, including conservation of biodiversity, often referred to as **co-benefits**, are gaining increasing attention as the global carbon market struggles to provide high financial returns in the absence of a fully functioning compliance market.

Benefit sharing in a REDD+ or other PES initiative may be **vertical** i.e. benefits are distributed between end consumers, intermediaries and producers of the ecosystem service in question, and may include government actors at different levels. It may also be **horizontal** i.e. at the community level between different communities, within communities and within households who are providing the service.

Much of the focus of this paper is horizontal benefit sharing since this is where FFI is likely to have a role at the project level, facilitating design and supporting implementation of benefit sharing amongst local stakeholders. However, vertical benefit sharing is also an important consideration for REDD+/PES projects in which FFI or a local partner plays a facilitation role, as this support function incurs costs. In this context, and especially where the REDD+/PES model is intended to be financially sustainable (i.e. operate without grant funding), it is essential for projects to consider the vertical benefit sharing arrangements to ensure this support function is built into the financial model of the project.

Why is equitable benefit sharing important for conservation?

Conservation interventions, including those undertaken under the auspices of REDD+, are likely to impact different stakeholders in a variety of ways, both positive and negative[2]. There are therefore both strategic and ethical reasons for trying to ensure equitable sharing of risks, costs and benefits of conservation, including:

- **Compensating stakeholders** for opportunity costs or rights forgone as a result of restricted access to natural resources or other behavioural and livelihoods changes that are needed in order to conserve biodiversity (and carbon, in the case of REDD+).
- **Providing incentives** for behaviour that contributes to conservation outcomes e.g. tree planting and community patrolling.
- Building **legitimacy** and **support** for conservation.
- **Reduced risk of non-delivery** of carbon or biodiversity benefits e.g. due to non-permanence and leakage.
- **Fulfilment of obligations** under voluntary standards for REDD+ and other national and international social and environmental safeguards for conservation or development initiatives. In FFI's case, this includes upholding our position statement on conservation, livelihoods and governance, as well as our commitments under the Conservation Initiative on Human Rights.[3]
- **Reducing elite capture** of benefits.

It is worth noting that whilst compensation for opportunity costs or rights forgone is often described

[2] See the paper in this series on Social Impact Assessment
[3] FFI's position and approach to conservation, livelihoods and governance is available at http://www.fauna-flora.org/wp-content/uploads/FFIs-position-and-approach-to-conservation-livelihoods-and-governance.pdf. Information on the Conservation Initiative on Human Rights is available at http://www.iied.org/conservation-initiative-human-rights

as a ‘benefit’ - particularly under REDD+ - compensation levels are generally designed to equal but not *exceed* costs. Hence although compensation might help ensure that our interventions contribute to a requirement or commitment to ‘do no harm’, it doesn’t in itself constitute a net positive benefit as required under REDD+ voluntary standards[2]. Similarly, incentives for activities that contribute to biodiversity and/or carbon conservation do not provide net positive benefits unless they are at a level that exceeds the opportunity cost of those activities i.e. the additional benefits from alternative activities that people would have been doing with the time they have devoted to the conservation actions.

In the context of REDD+ voluntary standards, the **Climate, Community and Biodiversity Standards** (version 3) refers to benefit sharing in relation to FPIC[4], recognising that for stakeholders to make “Informed” choices, they need to be provided with “a preliminary assessment of the likely economic, social, cultural and environmental impact, including potential risks, and fair and equitable benefit sharing”. Benefit sharing is also mentioned in relation to grievance procedures[5] in recognition that disputes may arise with respect to benefit sharing if the mechanism or its implementation is not considered equitable by one or more stakeholder group. More stringent requirements are included in the Gold Level optional criterion GL2 ‘Exceptional Community Benefits’. This requires project proponents to describe the design and implementation of a benefit sharing mechanism, including how community members have participated in defining the decision-making process and distribution mechanism. Proponents must demonstrate transparency including on project funding and costs as well as on benefit distribution. Barriers or risks that may prevent benefits accruing to marginalised or vulnerable stakeholders must be identified and addressed. Relevant and adequate information about potential or actual risks, costs and benefits must be communicated to, and demonstrably understood by, community stakeholders.

The **Plan Vivo Standard** (2013) is specific regarding vertical benefit sharing arrangements between the project coordinator and the participating communities and/or smallholders. It states that project coordinators should aim to deliver at least 60% of the proceeds of carbon credit sales to the participating communities in the form of Payments for Ecosystem Services (PES) and that the remaining proceeds can be used to cover project management costs. Projects are required to provide justification if the latter are expected to exceed 40% and hence reduce the proportion of revenue that accrues to the communities.

Regarding horizontal benefit sharing amongst participating communities, the standard also stipulates that benefits are to be performance related and formalised in PES agreements. Detailed guidance is provided about what should be included in the agreements. ‘Equitable’ is defined in this context as representing “a fair and locally appropriate distribution of benefits, taking into consideration the rights, resources, risks and responsibilities of different stakeholders”. The design of the benefit sharing mechanism must include the participation of PES project participants and other stakeholders and must provide for an option for changing the details of PES agreements over time if necessary. The design process must be recorded including any concerns or objections made, and details of the mechanism must be made available in an appropriate format and language.

How do we facilitate equitable benefit sharing in practice?

Identification of beneficiaries is one of the first steps in facilitating the design of an equitable benefit sharing mechanism (BSM). In PES theory, beneficiaries should be those with legally recognised and enforceable rights to the resources affected by an intervention. However, in many of the countries where we work property rights are unclear or insecure because national laws are neither well formulated nor consistently enforced. In addition pluralistic legal systems exist with overlapping claims under formal and customary rights regimes. Rights to carbon in particular are generally not clearly specified or recognised under either formal or informal legal frameworks. The

[4] See the paper in this series on Free, Prior and Informed Consent
[5] See the paper in this series on grievance mechanisms

identification of beneficiaries where rights are unclear therefore needs to be pragmatic. Key steps include[6]:

- Developing a preliminary understanding of what 'legitimacy' means in the local context, linked to whose claims and use of natural resources need to be recognised and addressed, as well as who would need to be incentivised to change their livelihoods strategies or other behaviour.
- Assessment of the legal framework – including any existing laws on benefit sharing - and property rights relevant to natural resources.
- Assessment of perceived rights and interests, including customary rights and actual use and related benefits, taking into account claims that may not have been articulated for some time.
- Classification of potential beneficiaries according to the legal basis of their claims to distinguish between those whose benefits may be determined by formal laws versus those for whom benefits need to be negotiated.

These issues are explored in more detail in the **Tenure and Resource Use Rights** paper in this series. Clarification of rights and improving tenure security is often in itself considered to be an important benefit of REDD+, PES and other conservation initiatives that strengthen community governance such as community forestry or fisheries.

Once potential beneficiaries have been identified, **stakeholder analysis** can then be used to explore the different priorities and constraints of potential beneficiaries in order to determine appropriate levels of both compensation and incentives required to stimulate behaviour change. Participatory tools such as **The 4 Rs: rights, responsibilities, returns and relationships, Stakeholder Mapping** and **Stakeholder Analysis**[7] have been shown to be useful in exploring these issues.

Decisions then need to be made as to whether benefits are to be **performance based** or **input based**. In the former, benefits are distributed on the condition that beneficiaries have achieved predefined, measurable and verifiable targets, such as hectares of forest restored or protected. Input-based arrangements enable beneficiaries to receive benefits upfront in return for certain actions, such as tree planting or patrolling, or refraining from destructive activities, such as setting snares or felling trees for timber. These two categories each have their own advantages and disadvantages. They are however not mutually exclusive and a benefit sharing mechanism may well involve a combination of the two.

Design considerations include whether monetary benefits should be paid **in cash** or **in kind** and whether they should be paid to individuals, to households, to groups or to the community as a whole. In kind payments are often provided in the form of inputs such as seed, seedlings, credit or technical advice to support livelihoods, for example through sustainable forest management (including NTFP extraction where applicable), agroforestry, sustainable agriculture or fisheries management, and associated post-harvest processing, small business development and facilitation of market access.

In the case of payments made to **groups or community level institutions**, stakeholder discussions need to take place to determine how decisions will be made over the use of the income in order to avoid elite capture or financial mismanagement. To maximise the benefits derived from such payments, it is often recommended that investments are made in **productive activities**, such as those mentioned above, and/or to improve the provision of **basic services** at the community level such water supply, health and education. In practice, many communities also chose to make provision for the most vulnerable members by investing in some kind of **social protection fund** to be used in times of particular need. Benefits may be distributed through

[6] See Behr, D et al 2012) *Making Benefit Sharing Arrangements Work for Forest-Dependent Communities* PROFOR http://www.profor.info/node/2010

[7] See http://www.fauna-flora.org/initiatives/livelihoods-and-governance-library/#tools for guidance on using these and other participatory tools

existing community institutions, such as village councils, resource user groups or women's groups, or through newly established ones where necessary[8]. In either case, it is likely that these groups will require capacity-building support to ensure their management and governance are transparent, accountable, inclusive, efficient and effective.

Other issues that need to be negotiated and agreed as part of the development of equitable benefit sharing arrangements include social incentives for **compliance,** as well as **enforcement measures** and **grievance mechanisms** to deal with any disputes. **Monitoring** systems to track progress on agreed activities and performance, as well as on social impacts of benefits, also need to be put in place.

What challenges do we face and how have we tried to overcome them?

There are a number of challenges to be faced in the design and implementation of equitable benefit sharing mechanisms.

- **Uncertainty about types and levels of costs and of benefits**: the wide range of costs and benefits makes determining their respective values difficult, particularly for non-monetary or more intangible values. In the real world, opportunity costs are notoriously difficult to calculate[9] and comparisons between monetary and non-monetary costs and benefits is problematic. For REDD+ in particular, the value of carbon credits varies according to the market and other factors. Where payments are performance based, communities also need to understand the financial or other consequences of not meeting performance targets. These factors make it particularly challenging to fulfil the 'prior and informed' elements of the right to FPIC. Good practice suggests that project teams are open with stakeholders about these uncertainties so as not to raise unrealistic expectations or unintentionally mislead people. Teams have also found that putting emphasis on potential 'co-benefits' early on can be a good way to manage expectations of financial benefits and that community members often highly value capacity building, maintenance or revitalisation of cultural practices and customary institutions, and support to improve tenure security.
- **Complexity in the unequal distribution of costs**: resource management roles vary between different resource users. These roles are often gender differentiated so there is a danger that, for example, restrictions on fuelwood collection may constitute a cost to women but cash paid in compensation or as an incentive for traditionally male-dominated activities such as patrolling may only be made to and controlled by men. Understanding these differences is therefore important and can be achieved through the same participatory processes undertaken for **Social Impact Assessment** and **FPIC,**[10] including involving a range of stakeholder groups in identification of costs and benefits and in devising an appropriate benefit sharing mechanism.
- **Differences in stakeholder preferences** for how and in what form benefits should be distributed. Both benefits and the means by which they are distributed can potentially take many forms as described in previous sections. Preferences may vary within and between communities, making consensus difficult and increasing complexity when working with different communities. Discussions and negotiation with the range of stakeholders incorporating principles of good governance, including transparency and inclusion, are key to achieving consensus.
- **Scheduling of benefits**: Often costs are incurred before benefits are felt, particularly where benefits are linked to performance or take the form of long-term benefits such as ecosystem service provision or take some time to achieve, such as tenure security or returns from woodlots or other support to livelihoods. Therefore some payments – whether in cash or in kind - may need to be paid in advance to compensate for income foregone and/or to incentivise

[8] For a good summary of the pros and cons of existing versus new institutions see page 25 of Bruce, J (2012) *Identifying and Working with Beneficiaries When Rights Are Unclear: Insights for REDD+ Initiatives* PROFOR http://www.profor.info/node/2010
[9] See the paper in this series on Opportunity Cost Analysis
[10] See the relevant papers in this series

behaviour change. While this may weaken the links between performance and payment, in practice project teams have found that it is necessary to maintain momentum and community engagement. In Indonesia for example, the Plan Vivo project team in Jambi has secured grant funding to run test PES agreements prior to validation of the REDD+ project. This enables finance to start flowing to the community more quickly. It also enables the community and project coordinator to test and improve the cycle of project implementation, monitoring and reporting, disbursement of PES finance and distribution of benefits at the community level according to the community-defined benefit sharing plan.

- **Lack of clarity on equity**: as discussed, there are many different elements to the concept of equity. In the context of equitable benefit sharing and its links to conservation, what is important is that the primary stakeholders themselves consider the process and the outcomes to be fair. This inevitably means that the BSM design process needs to be participatory.
- **The need for flexibility**: costs and benefits, and preferences over how they are distributed, may change over time. The concept of benefit sharing, particularly with regard to financial benefits or revenue, is likely to be a new one for many affected community members. For example individual cash-based payments may initially appear to beneficiaries to be the most attractive option in theory. However in practice, if the payments prove to be very small, transaction costs high and/or the consequences of cash injections negative for social cohesion, stakeholders may decide that other formats are preferable. To address this issue FFI teams in Indonesia have built into PES agreements opportunities for periodic review and renegotiation of the details of the BSM.
- **REDD+, PES or conservation stewardship agreements**: in cases where rights are unclear, the main tool for creating and realising expectations of benefits is through the development of a carefully negotiated and clearly understood agreement between project implementers and other stakeholders. Such agreements are usually needed even where the law is clear, in order that all parties share clear expectations on both the process and the benefits. They should identify the interests to be recognised, specify which types of resource use are permitted and which not, and specify agreed compensation and incentives. Such ‘contracts’ cannot change the law and must comply with it. As in all legally binding agreements, stakeholders may require third-party advice on the terms and implications of signing. Since such agreements are only applicable to the signatories, all relevant stakeholder groups need to be represented in contract negotiations. Whilst some PES schemes use individual contracts with landholders, this arrangement has high transaction costs. Hence agreements are often made with one or more community-level institutions in order to simplify administration processes and reduce transaction costs.
- **Financial capacity and transparency** at the community level is needed in order for stakeholders to have confidence in the BSM. A PES project in Bolivia has reported success implementing regular audits of community benefit sharing processes, which facilitated adaptive management and improvement over time, but also ensured transparency that built community confidence in the process. Financial management training needs and resources therefore need to be considered in project planning and implementation.

Project teams often ask when the most appropriate time is to start discussing benefit sharing with community stakeholders, fearing raising expectations before levels of monetary benefits are clear. However, risks, costs and benefits need to be discussed at least in broad terms early on in project planning and community engagement, as an understanding of these issues is fundamental to ensuring appropriate project design, FPIC processes and Social Impact Assessment. As project planning progresses and the forms and potential levels of benefits start to become clearer, mechanisms for benefit sharing can be discussed and negotiated in more detail. For example, some FFI project teams in Indonesia have found it useful to discuss benefit sharing arrangements as part of a participatory project planning process, based on Forest Trends *Social and Biodiversity Impact Assessment Manual for REDD+*[11]. Community facilitators report that the participatory development of a Theory of Change has enabled community and other stakeholders to design a

[11] Available at http://www.forest-trends.org/publication_details.php?publicationID=2981

draft BSM that clearly links the distribution of benefits to the means of addressing threats to biodiversity, planned interventions and their desired visions for the future. This approach also helped avoid the BSM design process resulting in a long and unrealistic 'shopping list' of all the community's development needs and desires. Interestingly, community members concern for more vulnerable members has led to inclusion of provision of support for women's enterprise groups and small social protection funds in several projects.

As this example illustrates, many of the stages in the design of an equitable benefit sharing mechanisms can be integrated into other participatory processes that represent good practice in the design and implementation of a conservation or REDD+ project. As in any community engagement, the importance of mutual trust and respect cannot be overestimated and can only be achieved by working closely together with stakeholders on a regular basis, and demonstrating good governance principles of transparency, accountability and inclusion.

In the context of REDD+ and other PES projects in particular, these principles also apply to being transparent about the use of a proportion of the revenues from carbon credit sales and investor or other funds that are needed to cover project costs. In Tanzania, FFI partners originally proposed to pass on profits from carbon credit sales to the community after deduction of project implementation costs. However, community members did not consider this to be fair so project proponents negotiated a percentage arrangement instead. In FFI's experience donor funding has generally been used to cover project *development* costs such as initial stakeholder engagement for FPIC, participatory project planning, securing tenure, Social Impact Assessment design and establishment of grievance mechanisms[12]. However, there are also a range of ongoing *implementation* costs, such as those associated with monitoring and reporting project impacts and ongoing community engagement and facilitation including management of grievance mechanisms. For REDD+ projects additional costs include project verification audits (in order to qualify for issue of carbon credits) plus carbon credit transaction costs, such as marketing the project and negotiating contracts with buyers/brokers, and credit issuance fees. For conservation organisations such as FFI, there are also additional costs associated with biodiversity monitoring and protection for which REDD+ might be seen as a sustainable financing mechanism. Finally, if a private investor is involved in the development of the project, a percentage of the revenues from the sale of the carbon credits may be expected in the form of return on investment.

Key References

Campese, J (2012) *Equitable Benefit Sharing: Exploring Experiences and Lessons for REDD+ in Tanzania*
http://theredddesk.org/resources/equitable-benefit-sharing-exploring-experiences-and-lessons-redd-tanzania

Katoomba Group and CARE International (n.d.) *PES Contract Toolkit*
http://www.katoombagroup.org/regions/international/legal_contracts.php

Luttrell, C et al Who should benefit and why? Discourses on REDD+ benefit sharing in Angelsen, A et al (2012) *Analysing REDD+: challenges and choices* CIFOR
http://www.cifor.org/online-library/browse/view-publication/publication/3805.html

Peskett, L (2011) *REDD+ benefit sharing: policy note* World Bank and REDD-net
http://www.forestcarbonasia.org/other-publications/redd-benefit-sharing-policy-note

[12] See the relevant papers in this series

This document is one of a series of outputs from a learning event held in Cambridge in April 2013 to share experience, tools and lessons learned on the social aspects of REDD+ and other conservation strategies.

Topics discussed included: equitable benefit sharing; Free, Prior and Informed Consent; gender; grievance mechanisms; Opportunity Cost Analysis; Social Impact Assessment; sustainable livelihoods; and tenure and resource use rights.

All outputs are available to download from FFI's Livelihoods and Governance library: http://www.fauna-flora.org/initiatives/livelihoods-and-governance-library/#learning

FFI's Conservation, Livelihoods and Governance programme is financially supported by Anglo American.

Fauna & Flora International, 4th Floor, Jupiter House, Station Road, Cambridge, CB1 2JD
Telephone +44 (0) 1223 571000
Fax +44 (0) 1223 461481
Email info@fauna-flora.org