INNOVATIONS FOR EQUITY AND INCLUSION IN SMALLHOLDER PAYMENTS FOR ECOSYSTEM SERVICES

A workshop report

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Shaping Sustainable Markets is the flagship research project for the Sustainable Markets Group at IIED.

Can markets be 'governed' to better benefit people and planet? This project explores the individual and combined impact of market governance mechanisms on sustainable development to find out what works where and why. Some of these mechanisms are well established. Others are innovative ideas yet to be tested in the real world.

We want to improve and broaden understanding of how market governance mechanisms can be designed and used to secure livelihoods and protect environments. Find out more about our work at http://shapingsustainablemarkets.iied.org.

This paper represents the view of the authors and not necessarily that of IIED. We welcome your comments on this publication or other aspects of Shaping Sustainable Markets. Please contact emma.blackmore@iied.org.

Acronyms

CCBA	Climate, Community and Biodiversity Alliance
PES	Payments for ecosystem services
REDD+	Reducing emissions from deforestation and forest degradation
SDI	Social development index
VCS	Verified Carbon Standard

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BOXES AND TABLES

SUMMARY

Although payments for ecosystem services (PES) schemes vary, the principle is the same: to reward land owners and users for 'good' land practices – recognising that ecosystem services have economic value. But to date, most community-based, equitable PES schemes have been limited in scale.

This workshop report describes how IIED's Shaping Sustainable Markets (SSM) initiative is seeking to bridge research and practice in the design of pro-poor PES schemes. On 21st March 2014 over 100 practitioners, researchers, journalists and students from over 15 countries met to discuss innovations in equity for smallholder PES. This summary report aims to inform future research and practice for IIED, its partners and other PES stakeholders. It is divided into four parts: an introduction to the issues; understanding the challenges and drivers when designing inclusive PES systems; how to shift from a 'supply-push' to a 'demand-pull' approach to PES; and ways forward for research and practice.

During the workshop, practical experiences from projects in Uganda, Mexico, Costa Rica, Indonesia and Bangladesh countries were presented. Each offered insights into how to design schemes that are inclusive of smallholders and deliver environmental benefits, asking:

- What are the challenges and drivers of an inclusive, pro-poor agenda?
- Which strategies and tools improve project design and generate better social outcomes?
- What channels are there for sustainable funding?

Section 2 discusses issues and challenges related to PES design. Drivers for inclusivity include e.g. the need for political acceptance of a scheme by demonstrating social benefits, while challenges include potential elite capture, the costs of scaling up, a lack of capacity amongst project managers, and the difficulties poorer groups face in engaging, capitalising and benefiting from PES.

The workshop highlighted several important inclusive PES design strategies: the active participation of farmers and local communities in the design process; consultations on participants' preferences using tools such as choice experiments; using experimental auctions to reveal participants' hidden opportunity costs and preferences, and adopting adaptive management strategies with social objectives that react to impacts on the ground.

Section 3 moves on to discuss the other end of the 'value chain' – creating demand that pays – and sustainable funding for smallholders, which is fair, meaningful and long term. Examples of successful strategies in practice include accessing credible standards to increase trust along the market chain; exante crediting, to help projects in poorer countries get off the ground; a stronger focus on programme co-benefits; and 'selling the message' by educating customers and developing relationships between farmers and businesses.

By sharing learning of both successes and failures, researchers, practitioners, programme designers and policy-makers can understand what communities want (in terms of payments and rewards) and what land-use practices they are prepared to change. Section 4 discusses ways forward, including key research needs such as a synthesis of pro-poor PES evidence; stories of change that help us to better understand approaches to scaling up PES, and developing a community of practice. In partnership with others, IIED and Shaping Sustainable Markets will endeavour to fill some of these gaps.

ONE
INTRODUCTION

Payments for ecosystem services (PES) have moved from being purely an idea and a concept to a reality. While PES schemes themselves tend to vary in design and practice, the underlying principle is the same: to reward land owners and users for the ecosystem services provided by 'good' land practices – thereby recognising that these ecosystem services (e.g. carbon sequestration, biodiversity conservation or watershed services) have economic value. Payments, rewards or incentives are passed on to landholders and in some cases resource users (e.g. farmers or community groups) who have engaged in practices that improve and enhance the provision of ecosystem services. Rewards can be provided either as cash or in kind, at regular intervals over time or as a one-off payment. Payments can come from a variety of sources such as governments and the private sector or international agencies such as donor agencies.

IIED has been tracking the emergence and growth of PES schemes over the last two decades.[1] In particular, IIED has been interested in the challenges faced by small-scale farmers and landowners – relative to large-scale owners and land users – in participating meaningfully in these schemes and obtaining appropriate benefits. While social and equity considerations have tended to exist at the margins of PES-related policymaking, these issues are increasingly gaining policy attention, being recognised as an important component of the rationale for PES in developing countries. Working with partners, we continually seek out examples of existing schemes that focus on equity and inclusion of smallholders, generating co-benefits – the additional benefits of policies that are implemented with a primary goal e.g. climate change mitigation – or at the very least avoiding policies that exacerbate inequalities or poverty.

Until now, most of the community-based, equitable PES schemes that do exist and offer inspiration for possible innovations in relation to equity remain project based (e.g. small scale, usually not countrywide), with few established markets (e.g. well matched, competitive demand and supply with multiple players) or national schemes that cover large tracts of land and include large numbers of land owners and users. In short, scale is limited. There is also much uncertainty over 'practical' issues – for example how long to offer payments/incentives for, how much to pay, and who should receive them; how to make these instruments inclusive and pro-poor; and whether PES complements or replaces other instruments for ensuring delivery of ecosystem services. By inclusive PES we mean actions that target disadvantaged or marginalised groups or sections of a community – marginalisation could be driven by, for example, discrimination on the grounds of gender, ethnicity or age, or as a result of a lack of rights to land or forests, or poverty. Inclusive actions – e.g. that help improve access, sharing of benefits and participation in decision making – are expected to help reduce inequalities

1. See http://pubs.iied.org/9066IIED and http://pubs.iied.org/13542IIED. See also www.watershedmarkets.org for up-to-date detailed information on payments for watershed services schemes in developing countries.

in costs and benefits of actions that support the provision of ecosystem services.

With this in mind, IIED and its Shaping Sustainable Markets initiative held an event to explore best practice and innovations in PES scheme design that seek to promote equity and inclusion. The event took place in Edinburgh on 21st March 2014. It brought together over 100 researchers and practitioners from at least 15 different countries – including Uganda, Tanzania, Mexico, Indonesia and Costa Rica – to share insights and lessons from real-life cases. While it is impossible to make generalisations based on this small number of case studies they do provide us with some very relevant insights in relation to some of the innovations (and challenges) that exist in designing and implementing inclusive and equitable PES schemes (see Table 1).[2]

2. Although we focus on a smallholder agenda, we acknowledge that it may be difficult for PES schemes to reach the poorest of the poor. In most PES cases, participants will have small but sufficient land/labour to participate in agroforestry-type contracts. This point was also raised at the event.

TABLE 1. PES PROJECTS DISCUSSED AT THE EVENT

NAME	DETAIL	PRESENTER
The Costa Rican PES National Programme	Active since 1997 it pays private landowners and indigenous communities to protect and regenerate forests.	Ina Porras, IIED For more information see: www.iied.org/payments-for-ecosystem-services-costa-rica-s-recipe
Scolél Te (Chiapas) Carbon Project in Mexico	Also active since 1997, it works with *ejidos* (communities) and has developed highly participative agroforestry 'plans' that generate local benefits and tradable carbon credits in international voluntary markets.	Richard Tipper, Ecometrica For more information see: www.planvivo.org/projects/registeredprojects/scolel-te-mexico
Chimpanzee Conservation Corridor pilot PES in Uganda	Highly participative design and testing of PES aimed at protecting habitats for chimpanzees in buffer areas.	Paul Hatanga, Chimpanzee Sanctuary and Wildlife Conservation Trust (Chimpanzee Trust) For more information see: www.iied.org/paying-local-communities-for-ecosystem-services-chimpanzee-conservation-corridor
Ongo Community Forest REDD+ pilot project, Uganda	Using low-cost choice experiments and participatory methods, this pilot helps inform the national agenda on REDD+ on generation of social co-benefits.	Gorettie Nabanoga and Justine Namaalwa, Makerere University. For more information see: http://pubs.iied.org/G03453
A compensation scheme to conserve Hilsa fish in Bangladesh	This project tests methods for assessing fishermen's preferences for compensation packages to sustainably manage Hilsa fish.	Essam Yassin Mohammed, IIED For more information see: http://pubs.iied.org/16527IIED.html
Payments for sedimentation reduction schemes in Sumber Jaya, Indonesia (conservation auctions)	Performance-based auctions have been used to reveal farmers' private opportunity costs for soil- and water-conservation activities that result in reduced sediments for downstream users.	Dr Beria Leimona, ICRAF For more information see: http://sites.tufts.edu/kjack/files/2011/08/Jack_Cons-Bio-20091.pdf and www.fao.org/fileadmin/user_upload/pes-project/docs/FAO_RPE-PES_ICRAF-Indonesia_PPT.pdf
Biodiversity Fund in Costa Rica	An example of a trust established to provide long-term funding security for ecosystem services and carbon neutrality, pooling together public/private/donor partnerships.	Virginia Reyes, CEDARENA. For more information see: www.fonafifo.go.cr/proyectos/fbs.html
The Plan Vivo Standard	A presentation on practical guidance on how this international community carbon standard works.	Dhanush Dinesh, Plan Vivo Foundation. For more information see: www.planvivo.org
ZeroMission/ U&We Swedish carbon brokers	Direct insight from buyers' perspectives on community carbon credits.	Mårten Lind, managing director and a leading actor on the voluntary carbon market in Sweden. For more information see: http://uandwe.se/en/om-oss

The event raised several main challenges or 'themes' that will need to be grappled with in order for PES to be socially inclusive, and to move from experiments to a recognised policy instrument with a more centralised role in the transition towards a green economy. These include:

- Challenges and drivers of an inclusive, pro-poor agenda
- Tools for improving the project design and generating better social outcomes, and
- Channels for sustainable funding.

The role for research tools to support the development of inclusive PES was a theme that was maintained throughout all of the discussions. This paper presents an overview of these themes and the presentations and discussions that took place at the event, to inform a possible future agenda for research and practice for IIED, its partners and other PES stakeholders.

TWO
DESIGNING AN 'INCLUSIVE' PES AGENDA

Working with smallholders and communities tends to entail technical and financial challenges, such as how to work with small-scale land users who have informal land tenure, and how to overcome or reduce the high transaction costs incurred when working with large numbers of smaller actors. Using examples of local and national schemes, we discussed a range of strategies that have been employed – and their respective successes and challenges – to improve access for smallholders and communities. This section discusses the drivers for inclusivity, the challenges of working with smallholders, and the tools that can be used to achieve 'inclusive' design.

2.1 UNDERSTANDING WHAT DRIVES INCLUSIVITY

Most projects need to demonstrate awareness of social impacts even if they do not have explicit social aims. Generally growing, the degree of and pressure for PES design that is 'inclusive' of smallholders varies and may include:

- **Geography/nature of the ecosystem:** poor or small landholders often live in areas that are important for the provision of ecosystem services, like buffer zones around national parks, rural areas in developing countries, ecosystems like rainforests or wetlands, or areas facing high levels of deforestation (see for example the Mexican Scolél Te project).
- **Explicit project requirements:** for example as part of REDD+ or for projects aiming to access international 'social' carbon standards (for example the Ugandan Chimpanzee Conservation Corridor Project), or as part of corporate social responsibility (CSR) requirements. For example, according to Peters-Stanley and Yin (2013) 90 per cent of voluntary carbon offset volumes were contracted by the private sector, and CSR was one of the main motivation for purchases.
- **Need for political acceptance:** money for PES may come from public funds and there may consequently be requirements for a demonstration of social benefits – for example the Costa Rican PES Programme.

2.2 CHALLENGES AROUND DESIGNING INCLUSIVE PES

Instruments like PES and REDD+[3] are often judged on their ability to protect ecosystem services and support poverty alleviation. The relationship between these two can be positive but this is not automatic. The cases presented during the workshop highlight some of the major challenges around designing inclusive PES and of working with informality and marginalised groups. Some of these challenges, which we discuss in more detail in the rest of the document, include:

2.2.1 Reaching the poor

According to Paul Van Gardingen, director of the Ecosystem Services for Poverty Alleviation (ESPA) Programme, experience shows that it is often difficult to reach the poor in PES schemes. Their lack of access to key capitals (land, water, natural resources, finance, social and education)

3. Reducing emissions from deforestation and forest degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development. 'REDD+' goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks. Find out more at: www.un-redd.org/aboutredd/tabid/102614/default.aspx

affects the way they can engage, capitalise and benefit from instruments like PES. There is an element of risk-taking also inherent in most PES that very poor farmers may not be able to absorb. For example, managing trees and forests requires capacity to work in the medium to long term, a capacity to deal with potential problems associated with forestry activities and to eventually capitalise on timber markets – this needs adequate financial capital. Engaging in long-term activities like reforestation may divert land and resources that are very important for food security. Insecure or customary land rights and issues like migration (in and out of the community) can affect land ownership and distribution, as well as rights over the ecosystem services – ultimately complicating the design of PES schemes, their potential cost and effectiveness in delivering ecosystem services. It is important to bear in mind that while we refer to the poor in this paper and in PES design, we are rarely talking about the poorest of the poor. In most PES cases, participants will have small but sufficient land/labour to participate in agroforestry-type contracts. But in some cases there may be some benefits from these schemes for those who do not have access to land, for example via increased labour opportunities.

2.2.2 Elite capture

In some worst-case scenarios, projects not grounded in local realities can increase poverty, for example by exacerbating inequalities in access to resources, which can happen as a result of 'elite capture'. Elite capture can limit the benefits accrued via PES schemes to other, less 'elite' community members. However, local elites can also play a key role in demonstrating the possible advantages of participating in schemes by being the first to participate. Indeed, it is sometimes the 'elites' in a community who are most willing to take risks and work with the unknown, and these community members play an important role in paving the way to reach out to other farmers, championing schemes or acting as role models and/or pioneers (an example being the Ugandan Chimpanzee Conservation Corridor Project).

2.2.3 (Dis)economies of scale

Working with small and scattered plots and landholders is costly. Projects that are designed to take into account local characteristics can be expensive to replicate when upscaling from small scale towards national-level strategies. Experiences from the local level Scolél Te project in Mexico are important to feed into national-level programmes like the Costa Rican PES.

2.2.4 Limited marketing ability and financial sustainability

In many cases, project managers have limited confidence and capacity to carry out the marketing required to raise funds to develop and maintain long-term initiatives. Accessing carbon markets is difficult, not only fulfilling the criteria to achieve an international standard that buyers may want, but actually making sustained carbon sales. While there is a call for these initiatives to be financially self-sustaining, it is more likely that schemes that incorporate social components will be dependent on donor funds because of the challenges and increased expenses involved in designing and implementing them. Discussions from Mexico, the Plan Vivo Standard and carbon broker ZeroMission, as discussed later, are relevant here.

2.3 DESIGNING INCLUSIVE PES SCHEMES

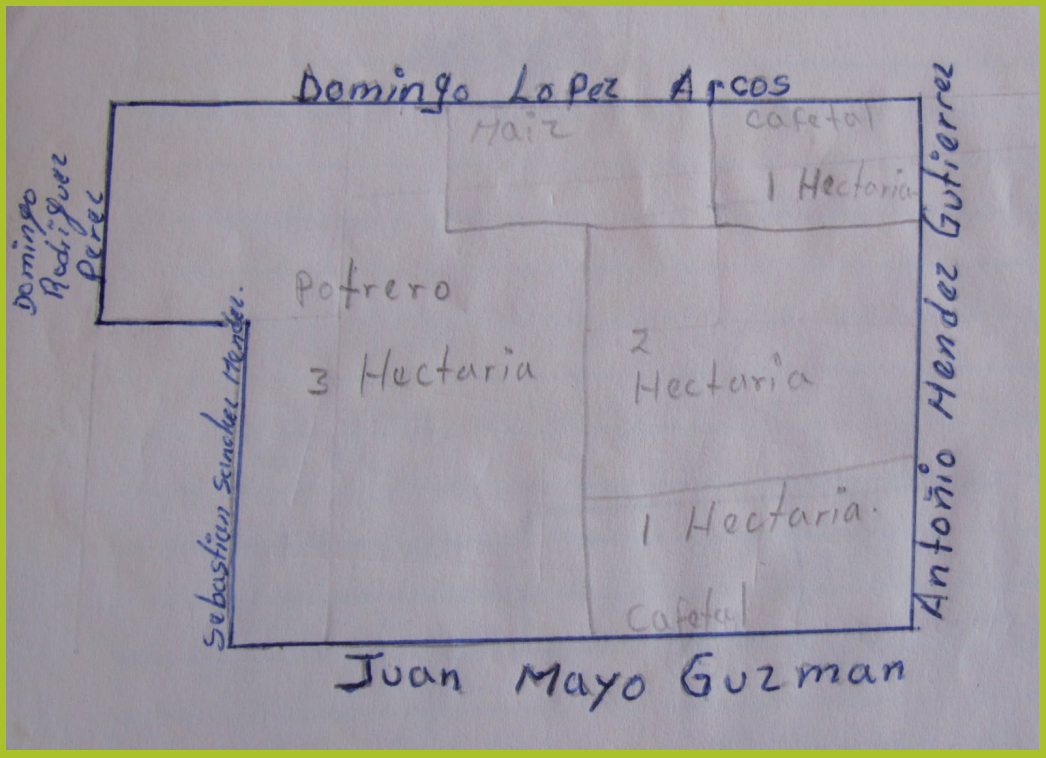
The cases presented in the workshop highlighted several design strategies used to increase inclusivity in PES schemes and support delivery of social co-benefits in smallholder and community projects. These strategies are discussed in detail in the section below, and include:

- **Active participation of farmers and local communities in the (exante) design process,** with a shift towards more localised, bottom-up approaches where project activities and management have a comprehensive understanding of local contexts and what drives the inclusivity agenda – for example Scolél Te in Mexico.
- **Exante consultation studies on participants' preferences.** A variety of tools at the individual and group level can be used to improve programme managers' understanding of farmers' preferences regarding land-management activities, forms of payment/compensation, how variables like gender or age may affect distribution of costs and benefits on the ground, and cost-effective tools to do research in group settings (e.g. participatory research approaches, choice experiments, discourse analysis and narrative analysis). Examples include the Ongo project in Uganda and the Hilsa fish conservation project in Bangladesh.

BOX 1. FULL ENGAGEMENT IN PREPARING 'LIVE PLANS' IN SCOLÉL TE IN MEXICO

One of the first carbon projects in developing countries, the Scolél Te project in Mexico, works directly with smallholders and communities. From the beginning in 1997, farmers were involved in visualising their own landscape – i.e. their plot within their community and activities within their plot – to help them understand how agroforestry activities could be incorporated in their activities, including estimating their own costs in terms of inputs and labour requirements. This exercise helped farmers to get a better understanding of the effort required to obtain carbon payments (in the short/medium term) and the expected timber output in the long term.

Source: Tipper (2014), as presented at the workshop



Large carbon emissions from converting forest in small plots drove the inclusive agenda in the Scolél Te project in Mexico

- **Experimental auctions**, where participants reveal their hidden opportunity costs and preferences by bidding for conservation and rehabilitation contracts – for example in sediment reduction contracts in Indonesia.
- **Ex-post adaptive management**, negotiation processes for project design where managers introduce strategies with social objectives and react to the impacts they have on the ground – e.g. the Costa Rican PES national programme. Ensuring channels are in place for participants to provide feedback and the flexibility to react are important for these strategies to work.

In this section we present examples of different drivers and strategies for inclusive PES projects in developing countries.

2.3.1 Active (exante) participation in locally designed contracts

Richard Tipper (chairman of Ecometrica and co-founder of the Scolél Te project) presented the drivers and strategies for smallholder inclusion in the Mexico Scolél Te project. Because of the location of the project, and the way land is managed in *ejidos*[4] in Mexico, smallholders and communities had to be an integral part of the project's focus on reducing carbon emissions.

Background studies showed the large contribution to carbon emissions from forest conversion. Given the dependencies of people on land for their livelihoods, strict protection (e.g. fencing off the land and excluding land users) was not a viable option. Approaches that embedded activities within the agricultural plot and therefore combined them with agricultural activities were necessary to ensure participation (and therefore the reduction of carbon emissions). In 1997 the project introduced individual 'plans' designed through a highly participatory process aimed at helping the farmer understand the viability of agroforestry activities within their plot, with carbon performance measured in relation to the trees planted (see Box 1). The underlying principle of the scheme was that farmers receive benefits not only from the performance-based payments from carbon sales – distributed during the initial 7–8 years of the project – but also from timber and non-timber forest products generated through a more holistic approach to farm management, reforestation and forest management.

The project managers – Cooperativa Ambio[5] – also act as a hub for other development projects and information flows, promoting other activities like establishing local tree nurseries, the use of energy-saving cooking stoves and collecting seeds and other non-timber forest products, which tend to benefit women in particular.

Scolél Te became the basis for the Plan Vivo Standard, the longest-existing international standard and certification scheme exclusively focusing on smallholder and community carbon projects – discussed more in depth in Section 3.[6] The lessons from the project's long-term experiences have helped inform the design of multiple projects across developing countries – for example, how to introduce the 'carbon' concept to local communities. According to Fernando López Aguilar, a farmer from the first generation of Scolél Te in the Yaluma community, his initial participation was received with great apprehension by other *ejido* members, who thought they would lose the land (and the trees) to 'gringos'. But the benefits (e.g. secured fuelwood, timber for the long term) eventually became clear to the rest of the community and a significant number of farmers now participate. Through careful management, he has had a steady supply

4. *Ejidos* are areas of communal land commonly used for agriculture in Mexico. Here, individual farmers possess a plot or parcel (usually 2–5 hectares) which they farm for their livelihoods.

5. See http://ambio.org.mx

6. See www.planvivo.org/about-plan-vivo-foundation for more information.

of fuelwood for his household, and timber from their trees will be economically viable in five years. Plans for its use are already in place (e.g. to make furniture, timber for houses).

As project manager, Ambio is careful to drive an inclusive yet realistic agenda. Farmers with very small plots are sometimes advised not to participate if planting trees substantially reduces the area for food crops. Some of Ambio's newer projects on forest conservation and use of non-timber forest products are trying to engage with landless farmers through the REDD+ agenda. However, the transaction costs of monitoring performance-based carbon[7] from very small and often geographically scattered plots can be very high for small organisations like Ambio, who have small operational budgets.

Ultimately, the success of a carbon scheme like Scolél Te is dependent on two key variables. The first is the farmers' ability to capitalise on the short-term carbon payments, diversify their activities beyond a single agricultural product (like maize) and manage the trees appropriately to provide fuelwood and good quality timber. The second is the programme managers' ability to sell carbon credits. The ability and confidence to make regular, sufficiently large carbon sales remains one of the major challenges of this and other Plan Vivo projects.

Newer projects gearing up to be part of the REDD+ portfolio have strong built-in social requirements linking ecosystems and people. With many variations in practice, common approaches include the 'Do no harm' principle and efforts to promote participation of local communities in the search for solutions. By strengthening the social design of projects with primarily environmental objectives (e.g. conservation), some of these projects attempt to achieve third party international certification like CCBA[8], VCS[9] or Plan Vivo to facilitate access to carbon buyers in voluntary markets. In Uganda, for example, chimpanzee habitats are increasingly endangered by habitat loss through conversion of forest to agriculture and human settlements. Of the 5000 wild chimpanzees in the country, 10 per cent are found outside protected areas where the annual deforestation rate is more than twice as high as in protected areas (currently 5.1 per cent). Human–wildlife conflicts arise due to people's concerns that conservation of habitats and chimpanzees is a potential threat to their livelihoods.

After consultation with communities, government and other actors in the area, the Chimpanzee Conservation Corridor Project in the Albertine Rift Forest System has been experimenting with alternative incentive schemes to compensate farmers more effectively and to provide tangible incentives for conservation.

7. 'Performance-based' implies physically measuring the trees to estimate carbon sinks and paying the farmers accordingly. A new project funded by ESPA (Streamlining Monitoring for Smallholder and Community PES or SMS-PES) is currently looking at ways to design scientifically robust yet practicable methodologies for monitoring carbon that satisfies buyers but is also economic and technically viable for project managers. See www.espa.ac.uk/projects/ne-l001578-1

8. See www.climate-standards.org for more information.

9. See www.v-c-s.org for more information.

Through an inclusive agenda, the Chimpanzee Conservation Corridor Project hopes to increase local participation and qualify for international social carbon standards

Designing an inclusive project was difficult. Villages in the area are numerous and scattered. Households are large and plot sizes small, with significant land disputes over boundaries between plots. Project managers and local authorities were hesitant to raise expectations regarding potential cash compensations, yet cash remains one of the preferred compensation forms by farmers. While still at the piloting stage, an experiment involving 'with and without' intervention was put forward, where 70 villages received compensation (PES – see Table 2) and 70 did not.

TABLE 2. THE PES DEAL IN THE CHIMPANZEE CONSERVATION CORRIDOR PROJECT

THE CONTRACT	STRATEGIES TO INVOLVE SMALLHOLDERS	CHALLENGES
Forest management based on agreed interventions e.g.: • Regulated harvesting • Enrichment planting • Reforestation • No new clearing of land for agriculture Compensation package: • Incentive cash payment (about US$35/ha/year) • Sensitise, create awareness, provide training • Monitor and advise PFOs • Provide seedlings for reforestation/ enrichment planting	• **Consultation meetings** at sub-county level, village level – involving village leaders and private forest owners. • **Application and contract process** with ensured consent at household level (not just the household head); verified land ownership with local leaders to minimise land-related conflicts; assessed presence and status of forest included in the application. • **Community-based monitoring** through individuals identified within each community, interviewed jointly with local leaders and trained in project objectives and its structures • **Accessible payment** modality, that minimises bank charges and walking distances, using PFO identity cards and keeping copies of all documentation • **Ensuring constant flow of information** sharing 'frequently asked questions' material with monitors and local leaders	• Takes longer to assess and verify unclear land tenure • Protracted family negotiations are needed to obtain consent • Seasonal priorities vary and delay engagement • Short-term versus long-term benefits • Problem animals • Pressures for hire-purchase agreements

Community consultation was followed by voluntary application and verification of participants, forest assessment baseline studies, contract negotiation and signing (upon which a first payment was made), followed by annual payments upon reports from community-based monitoring. It is too early to fully evaluate the impact of this consultation process. However, non-compliance was very low (7 and 8 per cent in years 1 and 2), and compliance increased from 42 per cent to 54 per cent. Non-compliance was mostly due to low survival of planted seedlings, disagreements with contracted private forest owners (individuals) or the realisation that some plots were too small for other non-agricultural activities. Compliance with the contract was increased by improving trust and confidence in the project. This was achieved through stronger community monitoring and extension support and, for 25 per cent of the cases, a high motivation to obtain the payment that had been withheld (payments were withheld in non-compliant contracts but farmers were given a period of 'grace' to comply).

Despite an active approach to smallholder engagement several challenges have been identified (see Table 2). Experience from the initial two years suggests that unclear landownership is problematic and affects participation. However, confidence and trust in the project (e.g. that payments would take place and that farmers would not lose their land) has increased through working with local leaders to 'champion' the project and community-based monitors to provide feedback channels and control for compliance. The project's ability to secure partnerships of different types (with donors, research and academic groups, and government agencies) has helped in the identification of required capacity for project implementers (ranging from project management to consultation techniques), in leveraging funding for co-benefits, and impact evaluation strategies (e.g. from randomised experiments during the pilot stage as described above).

2.3.2 Exante consultation studies on participants' preferences

The experience of the Ongo Community Forest REDD+ Project, presented by Gorettie Nabanoga and Justine Namaalwa from Makerere University in Uganda, illustrates how experimental economics can help understand communities' preferences for compensation and thereby improve the effectiveness of schemes.

The Ongo Community Project began as a community forest management project back in the early 2000s. In 2011 project coordinators began the process of converting this into a sustainable forest management/REDD+ pilot project, led by the ECOTRUST Foundation. This included a legal process affecting the legal status of the local association managing the project, in order to establish the necessary rules and regulations for enforcement, and transparent and accountable systems to manage funds from the scheme.

In order to understand how to design potential schemes, researchers used a series of methodologies, including focus groups discussions and a low-cost choice experiment (see Table 3) to examine preferences in local communities. A baseline study of socio-economic conditions was carried out to identify the main livelihood activities currently taking place to inform appropriate scheme design. Land clearing for subsistence agriculture and production of cash crops of tobacco, rice and maize, and the extraction of timber poles were identified as the major drivers of deforestation and forest degradation. Some of the results from the discussion and choice experiment include:

The Ongo Community Forest Project seeks information on how REDD can be designed at the national/sub-national level to promote positive development co-benefits

- The type of compensation: rather than a simple 'pay and stop' instrument, any REDD+ activity proposed would have to involve a variety of benefits, for example generating alternative sources of income, other employment opportunities and better social services in the community.
- The level of compensation was perceived to be too small for the limitations imposed (see 'Stop' in Table 3).
- Perceptions of inequality in the distribution of benefits and costs: women in particular felt affected, as the project might endanger their access to forest resources and firewood supply – and they would likely not benefit from any cash distributed unless special measures were taken.

A series of potential packages of activities with different combinations were put to the vote by the community members to gauge preferences (see Table 3 and Box 2).

Results were gender sensitive: the majority of men preferred cash-producing activities, like raising seedlings for income and the use of a revolving fund, while the majority of women preferred activities that involved improving (cash and subsistence) agriculture and activities targeted directly at women. The danger of elite capture was a dominant factor affecting people's responses.

According to Pauline Nantongo, a project manager from ECOTRUST in Uganda and advisor to the Ongo Community Project, low-cost choice experiments are a cost-effective way of obtaining

TABLE 3. COMBINATION PACKAGES USED IN THE ONGO COMMUNITY FOREST PROJECT TO UNDERSTAND PREFERENCES

Stop:	Do:	Incentives
• Stop timber extraction • Regulate for use of poles • Stop charcoal production • Stop clearing land for crops	• Plant trees • Raise seedlings and manage trees • Agroforestry • Improved agriculture	• Interested community members receive inputs in kind (two seasons) • Assistance to raise seedlings and manage trees (members only) • Leaders receive some patrol/enforcement payments for the project period • Revolving fund (members only) to fund alternative livelihoods (e.g. agriculture, beekeeping) • Community benefits (school, school materials and water sources)

Note: Different commitment activities and compensation formats and levels were used to design the packages and adequate visual aids were used to enhance people's ability to understand them. A status quo option was included ('do nothing').

information about farmers' preferences, involving the communities and promoting project outreach. Traditional household surveys are not culturally the best way to obtain information in these contexts – as the respondents tend to be male and female views are obscured. Also, individual responses are affected by what the rest of the group want, and this is better captured in a group setting. Understanding what communities want – not just the donors – once their basic needs are fulfilled is important in project design and for assessing what resources (e.g. financial or technical etc.) are needed to ensure sustainability.

A choice experiment was also designed and used in a similar fashion in Bangladesh, to assess preferences for compensation packages to conserve Hilsa fish (see Box 3). The fisheries context presents a range of different challenges when compared to the forestry sector (where most PES schemes have been implemented to date). In Bangladesh, fisheries are a major source of food and employment (up to 2.5 million people are employed both directly and indirectly in value chains). However, the species is under serious risk of overexploitation and the government has been keen on introducing measures to ensure its long-term sustainability. Traditional regulatory instruments (like 'no take' zones, limited licencing and off-season prohibitions) have not shown to be effective and can have serious economic and social costs, especially on those less able to diversify their livelihoods (Mohammed and Wahab, 2013). The project presented by Essam Mohammed, senior researcher at IIED, showcases the use of PES as an incentive-based management strategy that complements these regulatory measures and mitigates the negative short-term impacts on incomes from fishing restrictions.

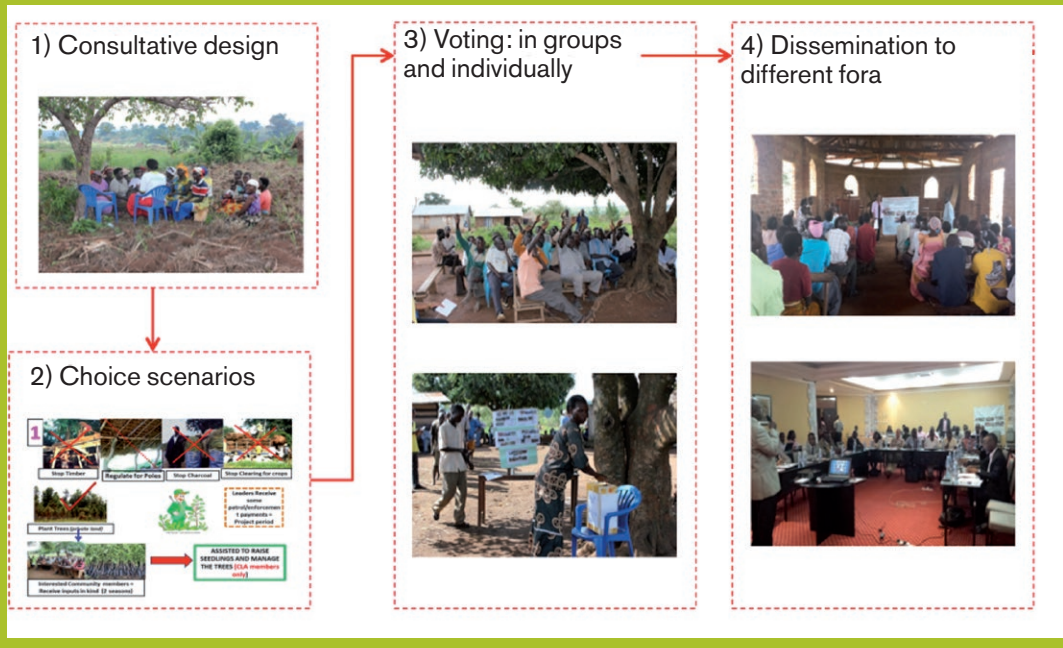
The experiment assesses preferences regarding the use of payments in the form of monthly cash (up to Tk2000/month – roughly equivalent to US$26/month), rice or other in-kind payments like sewing machines (see Box 3). It explores the importance of distributional implications, including the impacts on the most vulnerable, intra-household distribution, small business owners, middlemen and labourers. Distributional implications and usability of these in-kind benefits need to be studied carefully. In the initial focus group discussions held to inform the design of the choice experiment exercise of the study, it was found that some households that were given sewing machines did not know how to use them. Therefore, they sold them at the market (usually for a much lower price than its market value) and consumed the cash. This is a classic example of the discrepancy between conditional hand-outs and community preferences. Focus group discussions revealed some overlooked issues. For instance, some fishermen mentioned that freezing the repayment period during the off-season ('no take' season) could be more effective and valuable than other types of in-kind compensation.

The fishermen who borrow money are obligated to hand all their catch to the money lenders who then decide its price. Even during the fishing ban period, the fishermen are expected to repay their loans so they go fishing regardless of their ban period and zone.

Any real solution to tackle artisanal overfishing needs to understand people's behaviour and preferences in a common resource situation

BOX 2. THE 'LOW-COST' CHOICE EXPERIMENT IN UGANDA

The low-cost choice experiment incorporates participatory focus group techniques with a choice experiment. Typically designed to understand individual choices, this technique is being tested in group settings as a tool to evaluate trade-offs in situations where personal choices are affected by community or group decisions.



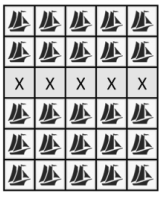
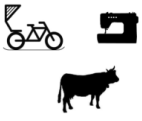
Source: Nabanoga and Namaalwa (2014), as presented at the workshop

BOX 3. A STUDY OF PREFERENCES FOR HILSA FISH CONSERVATION IN BANGLADESH

A large-scale survey with 800 households is currently being carried out. The survey includes a choice experiment exercise where respondents are subjected to a set of options or alternatives that differ in attribute levels (see diagram). Attributes include payment types and level or amount, length of fishing ban period and payment frequency. Each choice card includes two alternatives and the option to opt out.

While it is too early to draw lessons and conclusions, it is expected that the survey will answer the most fundamental question: who prefers what and why? It is expected that preferences will be mainly affected by socio-economic characteristics of respondents, and attribute levels of each alternative. With this information it may be possible to understand what different segments of society (e.g. women, the elderly, men, fishers and income groups) prefer in terms of a compensation package for changing overfishing behaviour. This will help policy makers tailor compensation packages in line with the wishes and wants of the affected communities.

Source: Mohammed and Wahab (2013)

Attributes	Alternative 1	Alternative 2	Alternative 3
Ban on Jatka fishing	J F M A M J J A S O N D X X X X X X ▶ ▶ ▶ ▶ X X 8 months	J F M A M J J A S O N D X X X X X X ▶ ▶ ▶ ▶ X X 8 months	
Ban on hilsa brood fishing	X X X X X X X X X X X X X X X X X X X X X X X X X X X X X X 30 days (the whole month of Ashvin)	 5 days (2 days before and after the full moon)	
In-kind compensation	 30 kg of rice per household x 4 months	 Alternative income generating activity (only one of the 3 options)	
Cash compensation	 24,000 Taka	 6,000 Taka	
Payment frequency	 Per month	 One off	I would not choose any
Tick your most preferred alternative (✓)	☐	☐	☐

2.3.3 Experimental auctions

Properly designed choice experiments can provide information on preferences, trade-offs, and – if a monetary variable like a payment is included as an attribute – on the willingness of participants to accept the payment and engage in PES. An alternative to choice experiments, though less widely used in developing countries, are auctions. In an auction, participants reveal their hidden opportunity costs by bidding for a given contract. Beria Leimona from the World Agroforestry Centre presented an example of an auction for sediment reduction schemes in the Sumber Jaya watershed in Sumatra, Indonesia.

In theory, by allocating contracts to the lowest bidder, a PES procurement contract auction can increase the efficiency of PES contract allocation. The experiment elicited private information on landowners' willingness to accept different payments in return for soil conservation investments on private coffee farms. Previous studies in the area had suggested that the potential cost of soil interventions in the area substantially exceeded the available budget from buyers' willingness to pay for activities that reduce sediments. Given the large area to cover, the erosion problems from under-investments in soil conservation, and the limited resources available, the auctions system was deemed a reasonable approach to use and evaluate trade-offs in terms of perceived fairness and efficiency in allocation (see Box 4).

The auction is part of a set of three parallel schemes, including: conditional land tenure through a modified government programme on community forestry (a temporary five-year project with an extension of up to 25 years); group contracts for sedimentation reduction (River Care Programme, where the downstream hydropower company is the buyer); and cash payments for individual contracts with farmers for reducing sedimentation on their plots. Among other findings, the experiment suggests that private contracts tend to be more successful than collective contracts where leadership is lacking or a 'champion' among the community members does not exist. The outreach of the project had other impacts, including increased awareness of the hydrological functions associated with improved farm management, and as a reference study location for other watershed management projects in Indonesia and other countries.

The social agenda in the Costa Rican PES is strongly driven by legal requirements, a need for political buy-in and a good reputation

BOX 4. AN AUCTION CONTRACT FOR SOIL CONSERVATION IN INDONESIA

Performance outcomes (soil infiltration pits, vegetation strips and ridging between coffee trees) were selected as scalable and verifiable techniques for improving soil conservation following focus group discussions. The main inputs required are labour and tools already owned by farmers, with few fixed costs.

Of the 82 auction participants bidding on 70 hectares, 34 participants received contracts for soil conservation activities on a total of 25 hectares at an average price of US$171.70. According to the study, this value is lower than the cost of the labour investment needed to implement the contracts in terms of wages (US$300) and on past investments for soil conservation (US$225). This suggests three possibilities: irregularities in the way costs are measured; efficiency gains from better knowledge of farmers' opportunity costs; or that farmers are accepting the contracts at a loss to themselves.

The study, however, did not find a direct relationship between 'willingness to accept' and contract completion (i.e. the less the farmers were willing to accept for the conservation activities, the less likely the farmers were to implement them). Compliance seemed to be more a function of coordination within the group than level of payment.

Source: Beria Leimona (2014) as presented at the workshop.

SOIL CONSERVATION ACTIVITIES	Sediment pits: 300 per hectare, standard dimensions size: 100 x 150 x 40cm, evenly distributed Ridging: 50% of plot Vegetation strips surrounding pits and ridging Maintaining all of the land conservation structures above for a year
PAYMENT SCHEDULE	50% at inception and 50% after one year, contingent on performance
DURATION AND MONITORING	One year with monitoring every three months; termination if 50% of contracted activities not completed by mid-term monitoring date
Cancellation or non-compliance results in: ineligibility for second payment installation friction and conflict among community members, and indication of corruption	
Force majeure provision for contract terms in the event of natural disasters	

2.3.4 Adaptive management

In contrast to the schemes outlined above, the Costa Rican PES Programme was not initially designed to have a social impact, but this is increasingly necessary to justify the use of the resources that finance it.

According to Ina Porras, senior researcher from IIED, PES in Costa Rica was not designed to include a social angle in their approach to conservation at the outset. However, there are at least four reasons why it should:

- Legally, because it depends mostly on public funds and the constitution promotes 'democratic sustainable development' where a notion of fair distribution is implied. A more direct mandate from the law that created the PES programme also promotes participation of 'small and medium producers'.[10]
- To promote political buy-in, with 'rural development' as one of the key reasons put forward by programme managers.[11]
- To promote broader social acceptance, as it is unclear how civil society in the country would react if the PES was geared mostly towards large landowners.
- Because of mutual agreements with specific projects and initiatives, for example an eventual participation in REDD+.

Although there was no concrete social policy in place for the scheme at the outset, programme managers have tested a series of measures to enhance the social impact of the programme since its inception. Indeed, the duration over which this scheme has been operational – having been established by law in 1995 – provides a useful timeframe and number of examples of different policies that have been tested over the years to improve the social impact and inclusivity of the PES scheme. Some policy changes have been more successful than others and no clear solution to dealing with social issues is evident, as context, people and land ownership keeps changing.[12]

For example, group contracts were initially used both with small, private landowners and with indigenous groups, with very different results. Group contracts with private landowners were abandoned relatively quickly. In most of the cases, internal cohesion within these groups was not strong and contracts often lacked capacity for self-enforcement. In contrast, contracts with indigenous groups – which have their own strong, recognised institutional make-up – have worked relatively well and as a result the participation of indigenous communities has increased considerably through the years, providing important cash flows to these areas.

10. What exactly is meant by 'small and medium producers' is open to discussion (what is small? What is a producer?) but implicitly implies a warning against biasing towards large landowners.

11. Although by law a proportion of the government budget should go each year to PES, this money has to be 'defended' in parliament to ensure that the promised funds are allocated in practice.

12. For a full in-depth description of the Costa Rican PES see http://pubs.iied.org/16514IIED.html

Some policies and practices to incorporate a measure of relative poverty into contract allocation have not been very effective at reaching (relatively) poorer farmers, mostly because they do not look at the individual characteristics of the landholder. For example, priority in contract allocation has been given to properties located in areas with a low scoring on the social development index (SDI), and (more recently) for properties of less than 50 hectares. Porras *et al.* (2013) and more recently Porras *et al.* (2014) show how these filters are in fact being used by large (and relatively wealthy) landowners to receive social priority to access PES.

'Rough and ready' indicators like these are favoured by policy planners because of their simplicity and data availability but they do not necessarily identify those landholders that are relatively poorer (thus achieving a real social impact). However, the potential increase in transaction costs associated with more locally defined social indicators – like those presented in the Ugandan chimpanzee or Mexican Scolél Te projects – and the subsequent redesign that would be needed in the management and implementation of the scheme is likely too large for a national-scale programme to consider. Trade-offs between social justice (i.e. in access) and cost-effectiveness (i.e. cost to design a programme that responds to local conditions) are key considerations when upscaling from small, local projects to national-level strategies, like national programmes similar to the Costa Rican PES or REDD+ national strategies in other countries.

The cases presented in this section show significant heterogeneity in, and the influence of personal characteristics on, reactions and preferences amongst participants for type and combinations of in-kind and cash payments (for example revolving funds in Uganda or freezes on loan repayments during fishing ban periods in Bangladesh). Gender differences were important in examining preferences: in Uganda a higher number of women than men were interested in the agricultural improvement option. In Bangladesh, men were more interested than women in compensations in the form of rice – as traditionally male members of the households eat rice and women eat *atta* flour-based food. There was also a disparity between what people wanted and what the government had provided: for example the government provided sewing machines to women – but no training on how to use them – and they were just sold in the markets instead.

THREE
THE OTHER END OF THE 'VALUE CHAIN': DEMAND THAT PAYS

Farmers in Costa Rica receive US$60 per hectare per year for conserving land. In Bolivia, they receive beehives and apicultural training. In the Amazon, the Bolsa Floresta Programme[13] gives cash and other rewards to engage in better land practices.

Incentives for landholders to behave differently are not new – governments around the world use subsidies to such effect. What makes PES different is the other end of the equation: the people, governments and businesses willing to pay because they gain from the changes farmers make to their land-use practices. It is their money that makes its way back to the farmers.

In 2012, the forest carbon markets were valued at US$216 million (Peters-Stanley *et al.*, 2013). Funding for biodiversity and ecosystem services in 2010 is estimated to have been over US$50 billion (Parker *et al.*, 2012). Even with reservations and despite volatility there are options for funding if only they can be accessed.

Policies boosting private demand for ecosystem services, like carbon-neutral pledges and international agreements on climate change and biodiversity are also slowly creating funding opportunities but most of the action comes from the bottom up. The following are some examples of successful strategies to help smallholder and community projects reach international carbon markets.

- Accessing creditable standards to increase trust along the market chain and reduce boiler-room scams. Examples include the Plan Vivo Standard, the Verified Carbon Standard (VCS) or the Climate, Community, and Biodiversity Alliance (CCBA) Standard (see Box 5). These certifications, however, need to be accessible to smallholders and pragmatic enough to adapt and allow flexibility to local circumstances, and smallholder groups must balance the expense of achieving carbon certification with the likelihood of these investments leading to carbon sales.
- Exante crediting, which has been instrumental in getting projects off the ground in poorer countries for the Plan Vivo Standard, adequately backed and buffered to reduce risk of non-compliance.
- A stronger focus on the co-benefits of such programmes, to help them fetch better prices in ecosystem-friendly products, through 'responsible' carbon or shade-grown coffee. Bundling carbon with other ecosystem services (like biodiversity conservation or clean water) and social benefits is important.

13. See http://fas-amazonas.org/programa-bolsa-floresta/?lang=en for more information.

Companies and individuals want to support Plan Vivo activities as a way of compensating for their carbon emissions, protecting the environment and supporting communities

- Beyond access to certification and ensuring co-benefits is the ability to pass the message to the final buyers in an 'eye-catching' way, both visually and through narratives with the trust provided by certification and/or labelling and, when possible, inviting customers to visit projects. There is a need to develop transparent and long-term relationships with the private sector as end customers to ensure that they sign long-term contracts that help farmers engage in the long-term battle against drivers of deforestation.

According to Mårten Lind, from the Swedish carbon trading agency ZeroMission, co-benefits are a key factor in carbon sales in the voluntary market. ZeroMission's large portfolio of bottom-up, holistic PES and carbon-offsetting projects and the long-term relationships they have established with customers has allowed them to hold a share in the market with prices that have increased, despite a marked fall of certified emission-reduction spot prices in 2012. According to Lind, the key to this success has been effective marketing and 'educating' the customers. Companies react to market pressure from their customers' demands. A market study for the Swedish market shows that nine out of ten people know about carbon offsetting, and six out of ten consumers prefer to buy products and services from companies that show responsibility by reducing their greenhouse gas emissions.

For farmers already engaged in markets, PES funding (e.g. from carbon sales) can help provide additional resources to strengthen farmers' position in value chains. Bundling carbon and other benefits like food, timber, non-timber forest products or wildlife habitats will maximise and diversify the farmers' investment portfolios and minimise risk. According to Lind, based on his experiences from their portfolio of smallholder carbon projects, the most successful projects are those that have well-developed business plans, a broad customer base, that serve customers proactively with abundant information and communication material, and manage to combine carbon sales with donor funding.

Other PES initiatives have found local ecosystem services markets more suitable to them. Bolivian farmers living in cloud forest by the Los Negros watershed and downstream farmers worried about water supply for their crops developed a reciprocal agreement to protect the watershed in 2003, through the Fundación Natura.[14] Since that initial agreement the foundation has successfully promoted reciprocal agreements for watershed management involving upstream farmers and local municipalities and water utilities in Bolivia and Peru.

14. See www.naturabolivia.org for more information.

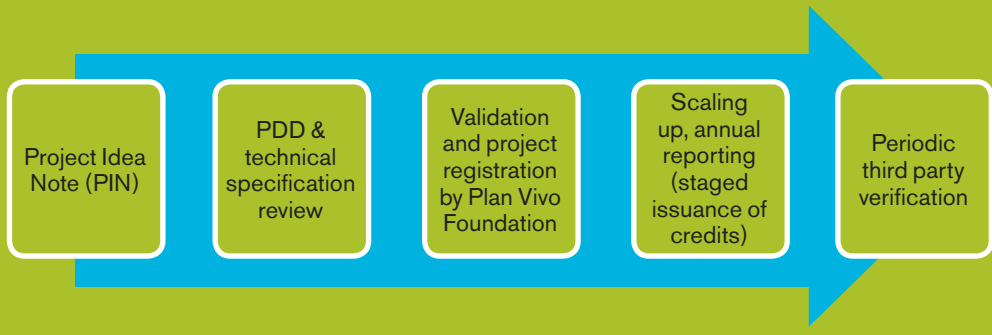
BOX 5. THE PLAN VIVO STANDARD AS AN OPTION FOR ACCESSING CARBON MARKETS

Plan Vivo is a certification standard for community-based climate and ecosystem services programmes. First introduced by the Scolél Te in Mexico (see Box 1) it has evolved to focus on climate, livelihoods and ecosystems, and provides flexible requirements to fit different legal, ecological and socioeconomic contexts. Following a clear certification pattern (illustrated below), the standard promotes smallholder projects involving ecosystem restoration (e.g. assisted natural regeneration), rehabilitation (e.g. inter-planting naturalised tree species), prevention of ecosystem conversion (e.g. REDD+) and improved land-use management (e.g. no/minimum till agriculture). It is designed to send a clear signal to potential buyers that the scheme has included local communities and considered livelihoods and the potential for poverty alleviation. The hope is that buyers will seek out these credits in the marketplace – either preferring to buy them relative to a non-certified credit or paying a premium.

Their performance-based approach requires that at least 60 per cent of the payments stay in the community. For example, a US$6.5/$tCO_2$ could be expected to be divided into US$3.90 for stage payment for communities; US$1.70 for local administration and monitoring; US$0.50 for verification and marketing and US$0.40 for certification costs. Plan Vivo certificates are traded on the Markit Environmental Registry[15] and sold directly to international buyers or to specialised intermediaries like ZeroMission (see Table 1).

Their five key lessons for community projects are as follows:

- Principle of aggregation – allow projects to start small and scale up over time
- Enable continuous improvement – interventions take time, so expect mistakes
- Ensure transparency and benefit sharing
- Communicating non-carbon benefits is key to long-term success, and
- Be pragmatic and simple where possible.



Source: Dinesh (2014) as presented at the workshop

15. See www.markit.com/Product/Registry

National programmes in Costa Rica and Mexico have earmarked revenues from water or fuel taxes to fund their efforts to protect watersheds, biodiversity and lock carbon away in trees to limit climate change. Public/private/donor partnerships and trust funds, like the Sustainable Biodiversity Fund[16] in Costa Rica and the FONAG Fund[17] in Quito Ecuador, are proving to be a popular approach as they allow these programmes to pool resources at different times and scales.

Sustainable funding for smallholders will always be difficult to achieve in PES negotiations. While some exciting examples show how finance can be tapped, care needs to be in place. Deals must be fair, with meaningful incentives to farmers for changing their land practices. Upfront commitments from farmers need to be backed with longer-term funding. Reassurances on the provision of the ecosystem services along the value chain need to exist but the uncertainty farmers face and the flexibility they need to overcome this – critical for smallholders' livelihoods – must equally be acknowledged.

16. See http://blog.conservation.org/2012/03/costa-rica-leading-the-way-in-incentivizing-protection-of-nature/ for more information.

17. See www.unep.org/greeneconomy/SuccessStories/EcosystemServicesinEcuador/tabid/29870/Default.aspx for more information.

FOUR
LOOKING FORWARD

This event showed that much is being implemented, experimented with and achieved in terms of PES schemes that promote inclusivity, smallholder participation and equity. Localised and bottom-up approaches to PES design are increasingly being used – these seek to maximise the effectiveness of PES in terms of the provision of ecosystem services **and** social and economic co-benefits for land owners and users. Importantly, the drivers for adopting pro-poor, socially acceptable approaches to PES design are strengthening – driven, for example, by the need for schemes to be politically acceptable e.g. in establishing an inclusive green economy.

4.1 WHAT WE LEARNT

Despite many innovations, most inclusive PES schemes (and indeed PES schemes in general) are still project based (i.e. small scale, short term and donor reliant), with little sign either of large-scale or national PES systems and markets becoming established – bar a few exceptions. Many challenges still remain in developing and mainstreaming equitable PES. These include the high transaction costs faced when working with a large number of small landowners and users, the lack of financial and technical capacity and confidence of smallholders to implement the necessary changes required by PES schemes, as well as high sensitivity and vulnerability to risk. A number of strategies have been used to minimise these factors, including the use of group contracts – though these seem to work best where internal group cohesion is strong and where leadership or a 'champion' exists among community members. In addition, champions or indeed community elites can lead the way in participating in PES schemes, and thereby instil confidence in the project and encourage other community members to participate despite any perceptions of risk that may exist. Certification schemes like Plan Vivo can help differentiate projects that are likely to deliver social co-benefits in the market and thereby help to improve the volume of sales or prices achieved.

The development of effective inclusive PES necessitates a comprehensive understanding of how and what ecosystem services could look like in each context, taking into account cultural and gender views, livelihoods, socio-economic characteristics of communities and social structures, without being so complex as to hinder its implementation. Ultimately, addressing these challenges requires tailored approaches and responses which means additional resources and investments are needed. Scaling up PES is going to require effective management of the trade-offs between social justice and cost effectiveness. Much learning and knowledge sharing is needed on how to manage and avoid these trade-offs.

Research tools and techniques have an important role to play in supporting efforts for inclusivity and participatory design – helping practitioners, programme designers and policy-makers to understand, for example, what communities want (in terms of payments and rewards) and what they are prepared to do in relation to behavioural and land-management changes. Examples of possible research techniques that can be used to understand community preferences include focus group discussions, choice experiments, auctions and surveys – the relevance of each of these will depend on the specific characteristics of the communities and the purpose of the research.

Researchers have much to learn from practice and practitioners: this feedback plays an important role in helping to refine and redesign research techniques by demonstrating what does and does not work and to what extent reality mirrors the predictions made through research techniques. Despite the need for context-specific approaches we can still benefit from sharing learning between schemes and places – as the event demonstrated. Learning from the schemes that have failed is as important as learning from those that have succeeded.

We also cannot forget the market. The business case for inclusive PES needs more attention, particularly if we want to move away from grants and achieve sales on the carbon markets. Sales capacity and knowledge (among local communities and project proponents and administrators) needs to be improved – so that we are thinking more effectively about the other side of the ecosystem services 'value chain'. We need to shift from a **supply-push** approach to a **demand-pull** discussion: demand in relation to poor groups and smallholders – what ecosystem services they want to have and produce; demand in relation to public bodies, for example regarding management of the commons; and markets for payments to manage externalities (e.g. those of big businesses). But we also need to develop markets for ecosystem services other than carbon because a fixation on carbon will distort lives and landscapes.

4.2 WHAT NOW FOR RESEARCH AND PRACTICE?

The event identified some key research needs. These include:

- A synthesis of pro-poor PES evidence – notably on the circumstances under which PES is effective for local communities and poor groups, in relation to specific types of poverty (income, relative or non-financial deprivations etc.).
- Stories of change that help us to understand PES scale-up approaches better – such information is needed for those who need to make decisions about PES in relation to alternative investments for poverty reduction.
- A community of practice that offers a space for researchers, practitioners and others interested in PES and sustainable development to come together. This community of practice should also seek to attract members who do not work with PES directly – much can be learnt and shared with those who work on subsidies and taxes, for example.

IIED and Shaping Sustainable Markets will endeavour – in partnership with others – to fill some of these gaps. Please get in touch if you would like to collaborate on research or practice, join a community of practice, or publish your research in the Shaping Sustainable Markets series. We'd love to hear from you!

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INNOVATIONS FOR EQUITY AND INCLUSION IN SMALLHOLDER PAYMENTS FOR ECOSYSTEM SERVICES

A WORKSHOP REPORT

This workshop report describes how IIED's Shaping Sustainable Markets (SSM) initiative is seeking to bridge research and practice in the design of pro-poor PES schemes. On 21st March 2014 over 100 practitioners, researchers, journalists and students from over 15 countries met to discuss innovations in equity for smallholder PES. This summary report aims to inform future research and practice for IIED, its partners and other PES stakeholders. It is divided into four parts: an introduction to the issues; understanding the challenges and drivers when designing inclusive PES systems; how to shift from a 'supply-push' to a 'demand-pull' approach to PES; and ways forward for research and practice.

During the workshop, practical experiences from projects in Uganda, Mexico, Costa Rica, Indonesia and Bangladesh countries were presented. Each offered insights into how to design schemes that are inclusive of smallholders and deliver environmental benefits, asking:

- What are the challenges and drivers of an inclusive, pro-poor agenda?
- Which strategies and tools improve project design and generate better social outcomes?
- What channels are there for sustainable funding?

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