Benefit Sharing in World Bank Operations

Prioritizing Development for Local Communities
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Social Sustainability and Inclusion Global Practice

The World Bank Group

May 2024

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Table of Contents

Foreword ........................................................................................................... 6
Executive Summary ............................................................................................ 7
Understanding Benefit Sharing ......................................................................... 8
Approaches to Benefit Sharing Across Sectors .................................................. 11
Benefit Sharing in the Bank’s Portfolio: Case Studies and Lessons Learned .......... 13
Conclusions ........................................................................................................ 20

1. Introduction .................................................................................................. 21

2. Understanding Benefit Sharing ....................................................................... 23
2.1 Key Factors in Benefit Sharing Mechanisms ................................................. 25
2.2 Benefit Sharing in World Bank Policies and Standards ................................. 30
2.3 Why Benefit Sharing Is Important for the World Bank ................................. 31

3. Sectoral Approaches to Benefit Sharing in WBG Projects .............................. 34
3.1 Resettlement and Rehabilitation Policies ....................................................... 34
3.2 Extractive Industries ....................................................................................... 35
3.3 Hydropower .................................................................................................. 40
3.4 Other Renewables (Solar, Wind, Geothermal) ................................................ 43
3.5 Forestry and Land Use .................................................................................. 45
3.6 Other Sectors ............................................................................................... 48

4. Benefit Sharing in the Bank’s Portfolio: Case Studies and Lessons Learned .... 49
4.1 Case Study Characteristics ........................................................................... 52
4.2 Insights from the Case Studies ...................................................................... 54

5. Conclusions .................................................................................................. 70

References .......................................................................................................... 75
Endnotes ............................................................................................................ 80
ACKNOWLEDGMENTS

Preparation of this report was led by Erik Johnson, Global Lead for Citizen Engagement and Social Accountability in the Social Sustainability and Inclusion (SSI) Global Practice, with Federica Cimato as the main author and Marion Davis as editor. The work was carried out under the guidance of Louise Cord, Global Director of SSI and Ingo Wiederhofer, Practice Manager of SSI.

In conducting case study research, the team is grateful for inputs provided by Carlos Tomas Perez-Brito, Caroline Mary Sage, Maninder S. Gill, Susan Wong, Dmytro Glazkov, Luiza Nora, Bryan Land, Katherine Anne O’Gara, Jemima T. Sy, Fiona J Collin, Kaori Oshima, Janelle Plummer, Morten Larsen, Roger Shotton, Emcet Oktay Tas, Sarah Keener, Gaia Hatzfeldt, Christopher Gilbert Sheldon, Josses Mugabi, Adrian Howard Cutler, Remi Pelon, Gabriela Encalada Romero, Neeta Hooda, Laurencia Karimi Njagi, Norah Kipwola, Moez Cherif, Nadia Taobane, Harika Masud, and Maria V. Arsenova.

The team has also benefited enormously from the discussions with and feedback from our peer reviewers: Pravin Karki, Chaogang Wang, Rachel Perks, as well as additional reviewers, Janmejay Singh and Prem Khanal.
Foreword

Governments, investors, and development partners continue to grapple with the challenge of mobilizing and sustaining community support for large scale infrastructure and natural resource development projects. Historically, such projects have often had disruptive impacts on communities, including displacing people from their homes and livelihoods, disrupting and diminishing access to and availability of natural resources and altering the environment. Such outcomes are not in keeping with sustainable development objectives, and investors and communities are eager to identify new means to collaborate toward mutually beneficial outcomes.

Benefit sharing approaches are one tool available to help align such projects with the interests of communities and improve development outcomes. Since first initiated in the early 2000s, such approaches have evolved with application across many sectors.

This paper is the first World Bank report that looks at experiences applying benefit sharing approaches across multiple sectors, providing 12 in-depth case studies including in hydropower, solar power, mining, electricity transmission and forestry over a period of twenty years. This analysis offers a range of lessons on the design and implementation of benefit sharing agreements, notably the importance of (i) aligning the timing of benefit sharing activities to that of project implementation to build confidence among local stakeholders and avoid gaps in the provision of benefits if there are construction delays; (ii) designing appropriate management mechanisms for funds, including building local capacity to enable the effective and transparent use of funds; and (iii) ensuring the scope of benefit sharing mechanisms align with project impacts.

This report is particularly timely given the growing importance of benefit sharing in the context of efforts to respond to climate change, including in large scale renewable energy infrastructure projects such as hydro, solar, geothermal and wind power, but also in the responsible mining of minerals for clean energy technology and the design of new instruments such as social integrity provisions for voluntary carbon credits which aim to rehabilitate and protect forests.

The Social Inclusion Global Practice continues to support sectors across the Bank in engaging with communities to ensure they benefit from development. We hope that this report will connect the lessons from past engagements to the design of new initiatives, to more effectively and sustainably build community support for investments in a changing world.

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Executive Summary

Large infrastructure projects and investments in mining and other extractive industries can transform a country’s economy. However, experience around the world has shown the impacts of such projects are not evenly distributed. While the benefits may accrue to the country as a whole, or to a specific sector or region, negative impacts typically fall disproportionately on local communities, including displacement, loss of access to key resources, and disruption of livelihoods and of traditional practices.

In an effort to mitigate negative impacts, many projects include compensation and livelihood restoration to affected people, as well as investments in local infrastructure and support for new livelihoods. These measures are important, but it has become clear in recent decades that communities deserve more—and that it is in the interest of projects to do better to avoid fueling opposition that drives delays, increased costs, and even conflicts.

The concept of “benefit sharing” emerged from this recognition. Though there is no single definition of the term, in development, it is generally understood as a framework for governments and project proponents to maximize and equitably distribute benefits among stakeholders, with special attention to people who are adversely affected. While impact mitigation efforts try to ensure that projects do no harm, benefit sharing seeks to deliver value to project host communities.

Benefit sharing can help increase social acceptance of projects, enhance their overall socio-economic benefits, help them make a more lasting impact, and help ensure a “just transition” in the context of investments in clean energy and low-carbon development. These aspects are particularly relevant at this moment in history where most economies around the world have made pledges to invest in a green energy transition and economic recovery after the COVID-19 pandemic.

Aiming to advance knowledge of benefit sharing and promote its effective implementation across the World Bank Group (WBG), the Social Sustainability and Inclusion Global Practice conducted an in-depth study in 2021 to assess how benefit sharing is reflected in WBG policies and guidelines and how it contributes to achieving WBG objectives, to distill insights from WBG projects in different sectors and regions, and to provide recommendations for the WBG’s future work.

This report, which also includes detailed case studies, is the first comprehensive review of benefit sharing conducted within the Bank; previous studies have focused on specific sectors only. The goal is to provide a broader perspective, drawing on the experiences and insights of WBG specialists across sectors and countries, and to invite reflection and further discussion on options for the Bank’s future engagement.
Understanding Benefit Sharing

Major projects, no matter how beneficial overall, can dramatically affect the lives and livelihoods of people in the surrounding area. Local communities often rely on the land, bodies of water, forests, and other natural resources. Whether or not they have formal ownership rights, they stand to lose from giving up those resources, and they are generally wary to do so unless they can see clear benefits.

The idea that the benefits of activities should be shared equitably has been advanced in several contexts over the decades. In development projects, benefit sharing mechanisms have three key rationales, which are often interconnected, as shown in Figure ES-1: economic—to provide economic benefits to a broad range of stakeholders; equity—to ensure “no one is left behind,” with particular support for those who might be adversely affected by a project, as well as poor and marginalized households who might otherwise find it difficult to access benefits; and risk management—to obtain local buy-in and thus gain a social license to operate.

Figure ES-1. Key Rationales for Benefit Sharing

The World Bank embraced benefit sharing in recognition of serious shortcomings in the resettlement and rehabilitation plans included in many of its projects. From 1986 to 1993, the Bank financed projects that resettled 2 million people. A major study of resettlement projects found that it was more common for affected people’s income to decline—by as much as 40 percent—than to be fully restored, and that best results were achieved when projects enabled resettled people to share in some of the immediate benefits, such as job opportunities.

Over time, the WBG has broadened its perspective on benefit sharing, recognizing it as a way to maximize the sustainable development impact of projects. That, in turn, requires moving beyond mitigation and compensation to pursue more equitable outcomes, working directly with affected communities.
Key factors in benefit sharing mechanisms

There is no one-size-fits-all approach to benefit sharing. The specific design of each mechanism should be tailored to the local context, as well as to the main objectives. Still, there are common elements and some best practices across sectors:

**Geographic reach:** Benefit sharing mechanisms typically target not just individuals directly affected by a project, but the broader project influence area, recognizing that impacts can be far-reaching. For instance, beneficiaries can include people who are losing access to natural resources or forgoing non-priced environmental services (such as biodiversity, or the recreational or cultural value of a particular place). It can also include people who are affected indirectly or through cumulative effects, or who cannot easily access the benefits (e.g. due to gender norms, or to limited literacy).

**Sources and uses of funds:** Benefit sharing can occur at any point in the life cycle of a project, and involve monetary transfers or a wide range of in-kind benefits, such as capacity building, local infrastructure, or preferential hiring. Importantly, benefit sharing can either be a voluntary approach of project developers and investors or prescribed by national laws or regulations. Before a project is operational, funds for benefit sharing may come from the project capital budget or from a corporate social responsibility budget. During operation, they may come from taxes, royalties, and/or project equity participation. In some contexts, special funds may be set up to prepare for a project’s eventual end, aiming to ensure a “just transition”—for example, to diversify a community’s economy in anticipation of a mine’s planned closure.

**Benefit sharing vs. mitigation measures:** While compensation and livelihood restoration focus on offsetting or avoiding negative impacts, benefit sharing aims to make local communities better-off than they used to be. In practice, the two may be intertwined, as benefit sharing programs are sometimes designed as extensions of mitigation measures, but while mitigation measures are typically short-lived and focused on people who are directly affected by a project, benefit sharing can reach a broader population and involve continuous engagement with communities throughout the life of the project.

Figure ES-2. Compensation, Livelihood Restoration, and Benefit Sharing
**Benefit sharing and different project stakeholders:** Through well-designed benefit sharing mechanisms, local communities become partners in a project, with a stake in its timely and effective completion. This means their interests are aligned with those of the government and developers. For governments, benefit sharing provides a framework for embedding social equity, human development, and sustainability objectives into investments and maximizing development benefits. For both the public and private sector, benefit sharing is also important for risk mitigation. For local communities, in turn, it can provide empowerment and agency, strengthen institutions, build capacities, expand opportunities, and improve local infrastructure and services, among other benefits.

**Benefit sharing in World Bank policies and standards**

Citizen engagement and social inclusion are central both to benefit sharing, and to the World Bank’s approach to achieving its strategic goals of poverty reduction and shared prosperity. In particular, the Social Sustainability and Inclusion Global Practice of the World Bank, created in 2019, promotes community empowerment and community-driven development programs that combine agency and economic empowerment. Benefit sharing activities thus fit well with the Bank’s agenda on social sustainability and inclusion.

Benefit sharing is not explicitly mandated by the Bank’s Environmental and Social Framework, launched in 2018, but the framework’s spirit and objectives are consistent with those of benefit sharing. Moreover, activities beyond mitigation, to promote the sustainable development of project-affected communities, are now required. Bank staff are directed to work to not only “do no harm,” but maximize development gains, and in this context, they are asked to consider benefit sharing arrangements. However, this approach is supported mainly in the context of resettlement, and for affected Indigenous Peoples.

A notable gap that warrants further attention is that, although all WBG projects are appraised ahead of time to assess the economic costs and benefits expected to result from project implementation, conventional cost-benefit analyses typically do not disaggregate the information to determine how different segments of the population might gain or lose. Guidance is needed on how to assess the asymmetric costs borne by people in project host communities relative to those who receive project-generated goods and services (e.g. electricity, water supply, etc.).

**Why benefit sharing is important for the World Bank**

By supporting local development, promoting equitable access to project benefits, and aiding in project risk management, benefit sharing can play an important role in helping the Bank achieve its strategic objectives of poverty reduction and shared prosperity. It can help ensure that private sector activities support sustainable and inclusive economic
development, while reducing the likelihood of project delays and cost overruns. More generally, benefit sharing is a way to expand the inclusiveness of investments. And as the WBG supports countries in a shift to long-term decarbonization, consistent with the Paris Agreement and the Sustainable Development Goals, benefit sharing can help ensure a just transition. Notably, other multilateral banks also increasingly support benefit sharing in the projects they finance.

**Approaches to Benefit Sharing Across Sectors**

Benefit sharing was first mentioned in WBG policies in 1990, in the context of involuntary resettlements. The World Bank has long recognized that people who are forced to move to clear the way for a project bear a disproportionate cost and should at least be made whole, though in most sectors, it is only since the mid-2000s that benefit sharing approaches have gradually been adopted in WBG-supported projects.

**EXTRACTIVE INDUSTRIES**

Extractive projects can disproportionately affect local people, typically well beyond the direct project impact area. Not only may they be displaced and/or lose access to land and assets—which is addressed through mitigation and restoration measures—but they may experience long-term impacts, such as air and water pollution, degraded ecosystems, and noise. However, extractive projects can also generate large benefits, including large numbers of jobs, as well as improved local infrastructure (water and power supply, roads) that is needed by the projects, but can be used by local communities, too.

The WBG has strongly supported benefit sharing in extractive projects for almost two decades. Many countries legally require some form of revenue sharing in extractive projects, which is usually collected by the national government and redistributed to subnational entities or communities. The revenues can be volatile, however, subject to fluctuations in commodity prices, posing challenges for benefit sharing. It is also recognized as crucial to set aside funds to support communities when mines are closed.

**HYDROPOWER**

Along with extractive industries, hydropower is the sector where benefit sharing has received the most attention, yet this has not always translated into effective benefit sharing mechanisms on the ground. In 2000, the World Commission on Dams recommended that adversely affected people be recognized as first among the beneficiaries of the project, and a 2002 World Bank report on benefit sharing proposed that along with compensating local communities for quantifiable losses, projects share profits generated over the long term, providing development benefits that more than offset any nonquantifiable losses.
Since then, the Bank, the International Finance Corporation (IFC), and others have published extensive guidance and case studies to help project funders, governments, and the private sector design effective benefit sharing mechanisms. A key insight is that it is crucial to tailor them to local circumstances.

OTHER RENEWABLES (SOLAR, WIND, GEOTHERMAL)

As solar, wind, and other renewable energy technologies have matured, they have become increasingly attractive options for sustainable development consistent with countries’ climate goals. Yet these projects, too, have unevenly distributed costs and benefits. Thus, as investments in this sector are scaled up around the world, there is a growing recognition of the need to incorporate local benefit sharing.

The IFC has recommended that private developers take a project life-cycle approach to sharing benefits, with support from the outset, through operations, to decommissioning. The Sustainable Renewables Risk Mitigation Initiative, a joint effort by the Bank and international partners, has published guidelines that include key steps governments can take to maximize projects’ socioeconomic benefits, such as local hiring, local content, and economic development. The Bank and the IFC’s experience has highlighted the importance of government involvement to maximize the impact of benefit sharing measures.

FORESTRY AND LAND USE

While some projects in this sector share benefits by giving communities some of the value that is commercially extracted, others involve performance-based payments to local communities for contributing to objectives such as carbon emission reductions or environmental services.

Many developing countries participate in Reducing Emissions from Deforestation and forest Degradation (REDD+) programs, for instance, which use benefit sharing to incentivize local communities to sustainably manage natural resources and actively protect and/or restore forests. National governments typically receive payments and then provide monetary or non-monetary benefits to various stakeholders who contributed to their achieving the desired goal. Importantly, in these projects, the benefits shared are entirely from carbon finance, and they last only for the duration of project financing.

OTHER SECTORS

The World Bank has also supported benefit sharing in projects in other sectors not discussed above, including some featured in case studies for this report, but there does not appear to be any corresponding sectoral frameworks, policies, or analytical work on benefit sharing.
Benefit Sharing in the Bank’s Portfolio: Case Studies and Lessons Learned

From March through July 2021, World Bank specialists across different sectors, including energy, extractive industries, water management, transport, public-private partnerships, and social development, were asked to help identify suitable case studies for this report. Based on their suggestions, 12 case studies were chosen for review, covering 15 projects (in one case study, involving an electricity transmission line across four countries, each country has its own benefit sharing mechanism). The selection aims to provide a good sample of activities across sectors and geographic areas, but the options were limited by the relatively few operations with benefit sharing activities in the Bank’s portfolio. Table ES-1 summarizes the projects’ key features.

Table ES-1. Case Studies and Approaches to Benefit Sharing

<table>
<thead>
<tr>
<th>Case study</th>
<th>Description</th>
<th>Approach to benefit sharing</th>
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</thead>
<tbody>
<tr>
<td>Energy (electricity transmission)</td>
<td>1. Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000) and four associated community support projects (CSPs) in Afghanistan, Pakistan, Kyrgyz Republic and Tajikistan</td>
<td>Benefit sharing before/during construction and during operations Rural electrification Subgrants for local projects Capacity building and mobilization Community-driven development approach Beneficiary communities within corridor of impact but the coverage varies by country</td>
</tr>
<tr>
<td>Energy (electricity transmission)</td>
<td>2. Mining and the PNG Sustainable Development Program, Papua New Guinea (PNGSDP)</td>
<td>Benefit sharing during operation and beyond Two separate endowment funds: one during operations and one long-term, post-mine closure. After change, only long-term fund is available to PNGSDP. Funds projects in the Western Province (where the operation is located) and beyond</td>
</tr>
<tr>
<td>Energy and extractive industries</td>
<td>3. Technical Assistance for Capacity Development in Hydropower and Mining Sector, Lao PDR</td>
<td>TA with subcomponent to support the drafting of guidelines for the implementation of a benefit sharing type mechanism—the Community Development Fund—and the Model Mineral Development Agreement; however, these were not formally adopted by the government TA to strengthen existing regulation on benefit sharing and improve the enabling environment for private sector investment</td>
</tr>
<tr>
<td>Case study</td>
<td>Description</td>
<td>Approach to benefit sharing</td>
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<tr>
<td>Extractive industries 4. Growth with Governance in the Mineral Sector Project, Democratic Republic of Congo</td>
<td>TA with subcomponent to improve the socioeconomic benefits from artisanal and industrial mining for communities</td>
<td>TA to support revenue sharing during operation &lt;br&gt;Local capacity strengthening (at appraisal, but not implemented)</td>
</tr>
<tr>
<td>Extractive industries 5. Village Community Support Projects, and Support to Local Governance Project (PACV3), Guinea</td>
<td>TA to help establish the national funding mechanism for mining revenue sharing (the National Local Development Fund) &lt;br&gt;TA support to strengthen local communities’ capacity to use funds received from the National Local Development Fund &lt;br&gt;Support to community-driven development mechanism to channel mining royalties to support local development plan</td>
<td>Benefit sharing during project operation of mining projects &lt;br&gt;Help set up and operationalize two key institutions introduced by the 2013 Mining Code provisions on revenue sharing &lt;br&gt;Strengthen the local government financing system and improve local service delivery in rural communes</td>
</tr>
<tr>
<td>Forestry 6. The Chile Carbon Finance Project (Forest Carbon Partnership Facility)</td>
<td>Benefit sharing plans required for the disbursement of results-based finance</td>
<td>Benefit sharing during “operation”/project requirement in the context of REDD+ &lt;br&gt;Mixed approach (funds flow to communities and national stakeholders too)</td>
</tr>
<tr>
<td>Forestry 7. The Ghana Emission Reductions Program (Forest Carbon Partnership Facility)</td>
<td>Benefit sharing plans required for the disbursement of results-based finance</td>
<td>Benefit sharing during “operation”/project requirement in the context of REDD+ &lt;br&gt;Mixed approach (funds flow to communities and national stakeholders too)</td>
</tr>
<tr>
<td>Energy (hydropower) 8. Nam Theun 2 Hydroelectric Project, Lao PDR</td>
<td>Hydropower project (1,070 MW) &lt;br&gt;The Bank contributed by partially funding the Government of Laos equity, an IDA risk guarantee, and a social and environment project to ensure the project would apply high environmental and social safeguards. &lt;br&gt;The government committed to redistributing some of the revenues toward poverty reduction. The World Bank’s Revenue Management Program was created to oversee the commitment of the Government of Lao PDR</td>
<td>Project revenue streams to national coffer agreed to fund poverty-focused investment/programs &lt;br&gt;Eligible programs include poverty programs such as School Block Grants, Free Maternal and Child Health Scheme, Poverty Reduction Fund, and Health Equity Fund, which are under the oversight of the Ministry of Finance, Ministry of Health, and Ministry of Education and Sports</td>
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<tr>
<td>Case study</td>
<td>Description</td>
<td>Approach to benefit sharing</td>
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<tr>
<td>9. Tina River Hydropower Project, Solomon Islands</td>
<td>15 MW hydropower project, with the Bank funding part of total project costs; a grant funded by the Japan Social Development Fund and administered by the Bank supported the Solomon Islands Community Benefit sharing Pilot Project (CBSP)</td>
<td>Benefit sharing before and during construction, and during operation Preferential hiring policy and skills training for local labor before construction Rural electrification and water, sanitation and hygiene projects funded before and during construction (under CBSP) Mechanism for revenue-sharing set up with support from the World Bank and Japan Social Development Fund</td>
</tr>
<tr>
<td>10. Regional Rusumo Falls Hydroelectric Project, Rwanda, Burundi, and Tanzania</td>
<td>80 MW transboundary hydropower project with subcomponent to support a local area development plan aimed at targeting broader impact areas in the four countries</td>
<td>Benefit sharing before/during construction Local infrastructure Youth training centers</td>
</tr>
<tr>
<td>11. Coastal Region Water Security and Climate Resilience Project (KWSCR-2), Kenya</td>
<td>Dam construction in Kwale County for the supply of water to Mombasa; subcomponent on benefit sharing targeting multiple communities (catchment, and rural in Kwale)</td>
<td>Benefit sharing before/during construction Benefit sharing in catchment area (to reduce erosion) Water supply and sanitation investments in rural areas Subgrants to microprojects Capacity building Irrigation demonstration scheme</td>
</tr>
<tr>
<td>12. Noor I Solar Power Project, Morocco</td>
<td>The Bank funded 160 MW of the Noor-Ouarzazate complex</td>
<td>No benefit sharing component in the Bank’s project National legislative framework supports benefit sharing Corporate social responsibility strategy of the borrower and sponsors to generate local employment and development</td>
</tr>
</tbody>
</table>

Source: Egré et al.
Insights from the case studies

The case studies show how widely benefit sharing can vary across projects in the Bank’s portfolio—reflecting differences across countries and across sectors. Still, there are many commonalities, and several lessons emerged from the analysis about how the WBG could better support benefit sharing.

TIMING AND DESIGN OF BENEFIT SHARING MECHANISMS:

- Bank staff still have important questions about benefit sharing, including what activities and beneficiaries it involves, suggesting that more clarity and guidance would be helpful.
- To date, the Bank’s support to benefit sharing in infrastructure projects has been mainly before and during the construction phases, with limited support in the operation phase.
- In general, benefit sharing activities present several implementation challenges that cut across sectors—requiring, for example, understanding of governance issues and knowledge of national fiscal policies and legislation.
- A key challenge in infrastructure projects is to address benefit sharing early on, during project design, and empower local communities to actively participate in shaping it.
- It is crucial to communicate clearly with community members from the start and set realistic expectations, to avoid creating discontent and confusion.
- Consultations and engagement activities during project design need to be planned and resourced in a timely manner, as they may require work and consultations over several years. Some aspects of benefit sharing can also be highly political, such as choosing the right implementing agency, or defining the benefit sharing target area.
- Benefit sharing in the pre-construction phase of projects involves particular risks, including challenges aligning the timing with the parent project that may delay key activities and disbursements.
- Effective benefit sharing in the construction phase requires good preparation, especially to provide training and capacity building to enable local people and businesses to seize opportunities.
- The Bank has not supported much benefit sharing during project operation, but it could do more in future, including by helping governments set up or improve revenue-sharing mechanisms, or help policy and regulatory reforms in this area.
- In none of the case studies has the Bank explicitly addressed the issue of benefit sharing beyond the end of the project or concession, even though communities clearly need support to make the transition, as they may lose jobs and crucial revenue-sharing flows at the same time.
DIFFERENCES IN FINANCING FOR BENEFIT SHARING:

- In negotiating financing arrangements, some governments are less inclined to borrow for benefit sharing operations than others, which can limit the availability of funds. In general, when countries do not have benefit sharing principles enshrined in their national law, it makes it more challenging for the Bank to promote it.
- It is important to ensure that the amounts transferred to communities are meaningful and sufficient to meet their needs, and that the rationale for decisions around finance sources and amounts are clearly and transparently articulated, particularly in transboundary projects—both as a matter of fairness, and to help avoid political and reputational risks or diplomatic disputes.

THE DIFFICULT TASK OF DETERMINING WHO WILL RECEIVE BENEFITS:

- Defining the target area for benefit sharing is challenging; it requires careful work on the ground to determine who should qualify, as there is no “one-size-fits-all” approach. In the projects reviewed, participatory consultations proved useful and encouraged people to self-identify as beneficiaries—though other aspects also need to be considered, such as conflict risks. Notably, several projects have extended benefit sharing well beyond the directly affected population.
- Some benefit sharing mechanisms include a redistribution of benefits to other government entities (national, federal, provincial), not just local people, but it is not known yet how effective different approaches are.

WORKING WITH THE PRIVATE AND PUBLIC SECTORS:

- The Bank may have limited direct influence to advocate for benefit sharing during operations, but it can still make a real impact on the policy environment and promote good governance.
The Bank also has even more limited leverage when benefit sharing is funded through corporate social responsibility budgets, but it can help governments introduce regulatory reforms which promote a harmonised approach to benefit sharing, or encourage them to include benefit sharing in legal agreements, bidding documents, etc.

In countries where the benefit sharing concept is new, governments can be skeptical—especially when it comes to publicly owned projects; they can also worry about raising expectations for future projects. Some governments have even withdrawn their commitments, but opposition to projects can also change their perspective.

In the Ok Tedi mine project, the government tried to seize the endowment fund for benefit sharing, but the fund was held in Singapore and protected by the High Court there. This shows that when significant funds are set aside, the risk of political interference can be very high—but also that with the right precautions, benefit sharing mechanisms can be protected effectively.

Building the capacity of local governments and community-based organizations ensures local communities and institutions are empowered to play an active role in managing the shared benefits. This is important for the success and long-term sustainability of benefit sharing mechanisms.

**Additional considerations for project design and implementation:**

- Benefit sharing can be mainstreamed into project components, or set up as a separate subcomponent or a standalone project—and each option has its pros and cons (see Table ES-2).

- Benefit sharing plans in the land use and forestry sector, in the context of emission reductions programs, offer lessons and examples of good practice that could be applied to other sectors.

- It is important to monitor and evaluate the effectiveness of benefit sharing activities, using indicators for each of the three main goals: economic development, equity, and risk mitigation.
<table>
<thead>
<tr>
<th>Benefit sharing as:</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project subcomponent</td>
<td>Lower transaction costs (e.g. for approval, safeguards, reporting)</td>
<td>In case of investment project financing, it risks being opposed by Client (generally less inclined to borrow for benefit sharing)</td>
</tr>
<tr>
<td></td>
<td>Benefit sharing objectives clearly linked to those of the parent project</td>
<td>PIU needs sufficient capacity to support the parallel progress of the various components and subcomponents</td>
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<td>Risks being downsized as project goes through financial restructuring to cover cost overruns in other project components</td>
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<td>Different timing and different risks of subcomponents activities can add complexity</td>
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<tr>
<td>Part of ESF arrangements</td>
<td>Clients support benefit sharing as a mechanism to specifically manage social risks</td>
<td>No clear distinction with risk mitigation/livelihood enhancement activities</td>
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<td>No duplication of effort for e.g. indigenous people plan adopts benefit sharing approach</td>
<td>Limited and uncertain budget and staffing resources</td>
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<td>Less visibility and measurability as an area of outcomes contributing to local development</td>
</tr>
<tr>
<td>Standalone project</td>
<td>More concentrated expertise in social development (e.g. TTL or co-TTL for multi-sector management)</td>
<td>Time alignment with parent project may vary and need to be managed</td>
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<td></td>
<td>Implementing agency with experience and incentives to support local development and poverty reduction</td>
<td>Poor/difficult communication with parent project team due to different objectives (potentially perceived as de-linked)</td>
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<td>Greater flexibility on financial arrangements</td>
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<td>Monitoring through a high(er) number of socio-developmental indicators</td>
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<td>Part of CSR strategy of borrower and implementing agency</td>
<td>If successful, stronger developer’s branding (and stronger social license)</td>
<td>Limited Bank or even government capacity to promote best practice on methods, contents, timing, and objectives of benefit sharing (e.g. CDD, inclusiveness, etc.)</td>
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<td></td>
<td>National/state-owned enterprises’ CSR can set high bar for private companies</td>
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CONCLUSIONS

The literature and case studies presented in this report show that benefit sharing can be a valuable tool for enhancing the Bank’s impact around the world, by seizing opportunities to support broader sustainable development and poverty reduction in the context of infrastructure, forestry, mining, and other projects.

The analysis also found key challenges in promoting benefit sharing in WBG operations, however. It is clear that Bank staff still have many questions about benefit sharing activities and approaches, and the operationalization of benefit sharing has not been systematic or consistent across the portfolio. The rationale for including benefit sharing mechanisms in projects is not always clear to task team leaders or sector specialists. In addition, Bank staff are oftentimes not aware of governments’ regulatory framework on benefit sharing—a limitation which country lawyers, if involved more systematically, could help address. Moreover, as noted above, the design of benefit sharing requires extra time and resources, from preparation through to implementation, which needs to be planned in the project cycle. Finally, though the Bank’s Environmental and Social Framework is the guiding reference framework for social risk management, its provisions on benefit sharing are currently broadly stated.

Looking ahead, an immediate priority is to build awareness among Bank staff about benefit sharing, with a clear overarching vision as well as appropriate training, guidance, and resources. In the longer term it is critical to build the evidence of the impacts of benefit sharing with effective monitoring and evaluation systems to support continued learning and improvement.
1. Introduction

Large infrastructure projects and investments in mining and other extractive industries can transform a country’s economy. However, experience around the world has shown the impacts of such projects are not evenly distributed. While the benefits may accrue to the country as a whole, or to a specific sector or region, negative impacts typically fall disproportionately on local communities. People may be displaced and/or lose access to key livelihood resources; traditional practices may be disrupted.

In an effort to mitigate negative impacts, many projects include compensation to affected people and, in some cases, investments in local infrastructure and in new livelihood options. Yet while these measures are important, they are often inadequate, and local communities may still be left worse off, economically, socially, and culturally. Not only does this raise serious questions about fairness and justice, but it can also harm the projects themselves, due to strong local opposition, delays, increased costs, and even conflicts.

The concept of “benefit sharing” emerged from an awareness of this problem and a desire to do better. The World Commission on Dams, for instance, set a strategic priority in 2000 that in hydropower projects, “adversely affected people” should be recognized “as first among beneficiaries,” with mutually agreed, legally protected benefit sharing mechanisms. There is no single definition of “benefit sharing,” but in the context of development, it is generally understood as a framework for governments and project proponents to maximize and distribute benefits among stakeholders, trying to achieve equity across spatial and temporal scales, and in keeping with sustainability principles. As a recent paper for the International Finance Corporation (IFC) stressed, it is different from impact mitigation, which focuses on “doing no harm”—instead, “benefit sharing focuses on opportunities to deliver value to the project’s host communities.”

Benefit sharing can be instrumental in achieving the World Bank’s strategic objectives to reduce poverty and build shared prosperity. It can help increase social acceptance of projects, enhance their overall socio-economic benefits, help them make a more lasting impact, and help ensure a “just transition” in the context of investments in clean energy and low-carbon development.
Aiming to advance knowledge of benefit sharing and promote its effective implementation across the World Bank Group (WBG), the Social Sustainability and Inclusion Global Practice conducted an in-depth study in 2021 with four main objectives:

- To assess the extent to which benefit sharing is reflected in WBG policies and guidelines;
- To assess how benefit sharing contributes to delivering on WBG objectives;
- To distill insights from WBG projects in different sectors and regions; and
- To provide recommendations for the WBG’s future work.

The results of the study are presented in two volumes: this is Volume 1, and a collection of detailed case studies from different sectors and around the world is presented in Volume 2.

The next section of this report delves deeper into the concept of benefit sharing, including its application in key sectors. Section 3 provides a brief history of benefit sharing in the WBG and an analysis of how the concept is reflected in WBG policies and guidelines. Section 4 presents an analysis of benefit sharing in the WBG’s portfolio, based on the case studies presented in Volume 2. Section 6 presents a vision for benefit sharing across WBG operations, including recommendations for how it could be implemented.

This is the first such comprehensive review of benefit sharing conducted within the Bank; previous studies have focused on specific sectors only, such as hydropower, mining, and forestry. The goal is to provide a broader perspective, drawing on the experiences and insights of WBG specialists across sectors and countries, and to invite reflection and further discussion on options for the Bank’s future engagement.
Major projects, no matter how beneficial overall, can dramatically affect the lives and livelihoods of people in the surrounding area. Local communities often rely on the land, bodies of water, forests, and other natural resources. Whether or not they have formal ownership rights, they stand to lose from giving up those resources, and they are generally wary to do so unless they can see clear benefits.

Those concerns are not unfounded. An analysis of communities resettled as part of 50 large dam projects, for instance, found that in 80 percent of the cases reviewed, the majority of affected people saw their living standards worsened. There is also evidence that local infrastructure projects financed by companies as part of their corporate social responsibility are insufficient to support long-term socioeconomic development. This is especially true in the absence of related public sector interventions.

When local people oppose projects, in turn, developers may face delays, fines, and harm to their reputation, and governments may lose out on expected revenues (from energy and commodity generation and sales, taxes, and royalties) and find it increasingly difficult to attract private investment.

The idea that the benefits of activities should be shared equitably has been advanced in several contexts over the decades—from space exploration, to the oceans, to genetic resources. In the context of development, benefit sharing is a way to ensure that the economic rents from projects that harness natural resources (water supply, renewable energy, extractive industries) are fairly distributed, along with as other benefits, such as job opportunities—with special attention to the people in host communities.

Benefit sharing mechanisms have three key rationales, which are often interconnected, as shown in Figure 1: economic—to provide economic benefits to a broad range of stakeholders; equity—to ensure “no one is left behind,” with particular support for those who might be adversely affected by a project, as well as poor and marginalized households who might otherwise find it difficult to access benefits; and risk management—to obtain local buy-in and thus gain a social license to operate.

2. Understanding Benefit Sharing
Within the World Bank, the motivation to adopt a benefit sharing framework was evidence of serious shortcomings in the resettlement and rehabilitation plans included in many of its projects. From 1986 to 1993, the World Bank financed projects that resettled 2 million people. A study of those projects, as well as others involving resettlement, found that it was more common for affected people’s income to decline—by as much as 40 percent—than to be fully restored. Importantly, the study found that "successful income restoration was achieved primarily when projects enabled resettlers to share in some of the immediate benefits created by the very project that caused displacement.”

The study also found evidence that inadequate resettlement could increase project risks, as it “induces local resistance, increases political tensions, entails project delays, and postpones project benefits for all concerned.” A one-year delay, in turn, could reduce the net present value of a project by a third, and a two-year delay, by more than one half. This meant there was a strong case for changing resettlement practices not only on equity grounds, but also on financial grounds.

Over time, the WBG has broadened its perspective on benefit sharing. A 2008 workshop on benefit sharing in hydropower projects noted that “the evolution is toward sustainable development, which requires moving beyond mitigation and compensation to maximizing development benefits and more equitable outcomes; and working directly with affected communities to increase investment effectiveness and outcomes.” Across sectors, benefit sharing is increasingly recognized as relevant within the WBG for all projects that affect the livelihoods of local communities, especially poor and marginalized people, whether or not anyone is resettled.
2.1 Key Factors in Benefit Sharing Mechanisms

There is no one-size-fits-all approach to benefit sharing. The specific design of each mechanism should be tailored to the local context, as well as to the main objectives. Still, there are common elements and some best practices across sectors. This section reviews key considerations, as well as important distinctions between benefit sharing and traditional compensation and harm mitigation schemes.

2.1.1 GEOGRAPHIC REACH

Benefit sharing mechanisms typically target not just individuals directly affected by a project\(^4\), but the broader project influence area, recognizing that impacts can be far-reaching. For instance, beneficiaries can include people who are losing access to natural resources or forgoing non-priced environmental services (such as biodiversity, or the recreational or cultural value of a particular place). It can also include people who are affected indirectly\(^5\) or through cumulative effects\(^6\), or who cannot easily access the benefits (e.g. due to gender norms, or to limited literacy).

The definition of the target area—and populations—will depend on the specific project context. There is strong evidence that successful benefit sharing requires early and inclusive consultation and engagement with affected communities, with meaningful participation and respect for local, and sometimes Indigenous, practices and norms. As part of this engagement, local people themselves may identify who should benefit; self-identification is considered best practice. Local communities can also play an active role in project development: if appropriately consulted and engaged, they can contribute their knowledge to project design, suggest innovative solutions, and monitor impacts. This can create local ownership and thus increase both the feasibility and the sustainability of a project.
2.1.2 SOURCES AND USES OF FUNDS

A distinctive characteristic of benefit sharing in infrastructure projects is that benefits are distributed throughout the duration of projects, not just at the outset, taking a life-cycle approach. Project financiers such as the World Bank and IFC can help governments design and implement or strengthen existing benefit sharing mechanisms as part of their support, through technical assistance and/or by providing funding.

While mitigation measures are only funded through a project’s investment budget, benefit sharing in infrastructure and extractive industry projects can also be funded through operating income. Before the project is operational, the funds for benefit sharing measures may come from the project capital budget or from a corporate social responsibility budget. During operation, they may come from taxes, royalties, and/or project equity participation. In some contexts, special funds may also be set up, drawing on operating income, to prepare for a project’s eventual end, aiming to ensure a “just transition”—for example, to diversify a community’s economy in anticipation of a mine’s planned closure.

Whatever the source of funds, the shared benefits can be monetary or in-kind. The former can include direct cash transfers to individual households and/or businesses; dividends from equity shares; subsidized electricity rates (or free power); and funds for micro- or small and medium enterprises (SMEs). Common in-kind benefits include training and capacity building; preferential access to job opportunities; physical infrastructure (water supply and sanitation, roads, rural electrification, rural irrigation systems, telecommunications); health and education facilities; and goods and services (books, medical supplies).

2.1.3 BENEFIT SHARING VS. MITIGATION MEASURES

As noted in the introduction, a key distinction between benefit sharing and mitigation measures, such as compensation and livelihood restoration, is that the latter focus on offsetting or avoiding negative impacts, while benefit sharing actively aims to make local communities better-off than they used to be.

In practice, however, the two may be intertwined, as benefit sharing programs are sometimes designed as extensions of mitigation measures. The latter may include provisions for building facilities and rural infrastructure, for example, benefitting the greater community and not only those who were displaced. There may also be compensation mechanisms that go beyond one-off payments. However, in most cases, mitigation and restoration plans are limited only to the people who are directly affected by a project; they do not typically foresee a continuous engagement or a sharing of benefits with local communities throughout the life of the project. Those are the distinctive features of benefit sharing.
2.1.4 UNIQUE APPROACHES IN FORESTRY AND LAND USE PROJECTS

Some projects in this sector take the same basic approach to benefit sharing as those in extractive industries: giving communities a share of the value that is commercially extracted. Revenue from royalties, taxes, and fees is often split between the central government and local governments in the area where forestry activity takes place. Benefit sharing is also the keystone of community-based forest management arrangements, which detail how revenue from the sale of timber and non-timber forest products managed by communities should be distributed, and how it can be used. For example, in Cameroon and Liberia, a share of concession revenue must be earmarked for community activities. Benefit sharing can also take the form of community-company partnerships or agreements between companies and out-growers, which specify how the latter will be remunerated for their production costs and any additional non-monetary benefits they may receive.
In many other forestry and land use projects, however, benefit sharing involves an entirely different type of revenue: performance-based payments to local communities for contributing to objectives such as carbon emission reductions or environmental services. Many developing countries participate in Reducing Emissions from Deforestation and forest Degradation (REDD+) programs,19 for instance, which set up benefit sharing mechanisms to incentivize local communities to sustainably manage natural resources and actively protect and/or restore forests. Upon demonstrating results (e.g. an increase in forest cover, or avoidance of expected forest losses), governments receive payments that are then shared, either as monetary or non-monetary benefits, with local communities and Indigenous Peoples who contributed to achieving those results. Under certain programs, such as the Forest Carbon Partnership Facility, countries are required to draw up dedicated benefit sharing plans to receive emissions reduction payments.

Importantly, in these projects, the benefits shared are entirely from carbon finance, and they last only for the duration of project financing. The shared benefits are linked to achieving a specific objective, and the beneficiaries are those stakeholders who play an active role in forest conservation, often including national, subnational, and local stakeholders. These projects often contribute to strengthening land rights as well. Though these benefit sharing mechanisms are fundamentally different from the others discussed in this report, they are included in the analysis because they offer useful lessons relevant to other sectors.

2.1.5 Benefit sharing and different project stakeholders

Through well-designed benefit sharing mechanisms, local communities become partners in a project, with a stake in its timely and effective completion. This means their interests are aligned with those of the government and developers, and they no longer have a reason to oppose the project. Benefit sharing can thus make projects socially feasible, which may also have positive implications for their technical, economic, financial, and environmental feasibility.

**For governments**, well-designed benefit sharing mechanisms can be instrumental in achieving economic growth and development, poverty reduction, and social justice objectives:

- Benefit sharing provides a framework for embedding social equity, human development and sustainability objectives into national investment plans aimed at economic growth.
- It reduces the risk of disruptions and delays affecting project outputs (e.g. electricity generation and transmission, extraction of natural resources), and the related stream of revenues (from sales, royalties, and taxes).
- It can support employment and economic development at local, regional, and national level.
- It helps build consensus around large investment projects of national importance.
For private sector developers, meanwhile, benefit sharing mechanisms can increase the likelihood that they will realize the desired profits:

- It reduces the risk of conflict and the associated costs, including wasted staff time, idle machinery and other fixed costs; the costs of managing conflicts; and forgone investment opportunities. Companies may also avoid penalties for failing to meet contractual obligations—e.g. if they cannot deliver electricity to the grid—or the costs of compensatory actions, such as having to buy electricity on the spot market.
- It helps build a positive reputation among investors and financiers, and can increase the value of shares for companies quoted in capital markets.
- If appropriately consulted and engaged, local communities can contribute with their knowledge and suggest innovative solutions, help developers prevent mistakes, and monitor impacts. This, in turn, can increase the feasibility and sustainability of projects.

For local communities, benefit sharing mechanisms can make a particularly big impact:

- Through participatory and inclusive consultation and engagement, benefit sharing helps communities become empowered partners of projects and active agents with a voice in the decision-making process.
- Benefit sharing mechanisms can expand employment opportunities during construction and increase local economic activity for businesses supplying goods and services. They can also provide longer-term economic benefits through training and skills enhancement programs and by adding local infrastructure that provides better access to markets and services (schools, hospitals), thus boosting incomes and improving living conditions.
- Benefit sharing can be designed to strengthen the capacity of formal and informal local institutions and community-based groups, and empower them to manage natural resources and local infrastructure efficiently and sustainably.

All this is why the WBG has increasingly recognized benefit sharing as an important aspect of project development: a mechanism for correcting the unequal distribution of project impacts, promoting sustainable development, and ensuring that projects will proceed smoothly.
2.2 Benefit Sharing in World Bank Policies and Standards

Citizen engagement and social inclusion are central both to benefit sharing, and to the World Bank’s approach to achieving its strategic goals of poverty reduction and shared prosperity. In particular, the Social Sustainability and Inclusion Global Practice of the World Bank, created in 2019, promotes community empowerment and community-driven development programs that combine agency and economic empowerment. Benefit sharing activities thus fit well with the Bank’s agenda on social sustainability and inclusion.

Benefit sharing is not explicitly mandated by the Bank’s Environmental and Social Framework, launched in 2018, but the framework’s spirit and objectives are consistent with those of benefit sharing. Bank staff are directed to work to not only “do no harm,” but actually maximize development gains, and in this context, they are asked to consider benefit sharing arrangements. However, this approach is supported mainly in the context of resettlement, and for affected Indigenous Peoples. For example, the ESF says:

- Where relevant, “[the resettlement] plan should also assess the feasibility of prospects for financial distributions to communities, or directly to displaced persons, through establishment of project-based benefit sharing arrangements” [ESS1, para 28];
- For Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities, in addition to the Indigenous People’s Plan it is also recommended to consider “a broader integrated community development plan as well as opportunities for culturally appropriate and sustainable development benefits” [ESS7, para 20].

A notable gap that warrants further attention is that, although all WBG projects are appraised ahead of time to assess the economic costs and benefits expected to result from project implementation, conventional cost-benefit analyses typically do not disaggregate the information to determine how different segments of the population might gain or lose. Currently, there is no guidance for assessing the asymmetric costs borne by people in project host communities relative to those who receive project-generated goods and services (e.g. electricity, water supply, etc.). More work could be done in this area.
2.3 Why Benefit Sharing Is Important for the World Bank

As laid out above, benefit sharing supports the economic development of project host communities, promotes equitable access to the benefits shared, and provides a tool for risk management. This means it can play an important role in helping the Bank achieve its strategic objectives of poverty reduction and shared prosperity, while reducing the risks associated with projects, including delays and cost overruns. In countries affected by fragility, conflict, and violence, benefit sharing can also help avoid fueling or even triggering further conflicts. And across WBG operations, it may be helpful in advancing the transition to a green and sustainable future. Each of those points is discussed further below.

Adopting benefit sharing across different areas of the Bank’s portfolio could help to advance global development and poverty reduction objectives. As discussed in the previous section, benefit sharing is consistent with Bank’s social sustainability and inclusion agenda and with the citizen engagement strategic framework. It also supports the spirit of the Bank’s Environmental and Social Framework (ESF). Benefit sharing can also be help countries achieve the Sustainable Development Goals—for example, SDG 1 (no poverty), SDG 10 (reduced inequality), SDG 6 (clean water and sanitation), SDG 7 (affordable clean energy), and SDG 8 (decent work and economic growth), depending on what benefits projects share. Importantly, inclusion is central to the UN 2030 Agenda, which pledges upfront that “no one will be left behind.”

Benefit sharing mechanisms can help ensure that private sector activities support sustainable and inclusive economic development. The private sector, particularly in extractive industries, has long recognized the need to invest in local development to gain a social license to operate, and the IFC recently developed sectoral guidance to help companies in the renewable energy sector adopt benefit sharing approaches. However, there is strong evidence that private companies’ actions alone are not enough; government initiatives are necessary to achieve significant and sustainable benefit sharing results. Many countries where the Bank operates already have revenue-sharing mechanisms in place (e.g. linked to natural resource extraction, including in the mining, forestry and water sector), but often they fail to account for local inequalities, are not transparent, or do not benefit the communities most affected by projects. In other countries, benefit sharing is not yet required, or it is only required of the private sector. The Bank is well positioned to encourage and support national and local governments and institutions to create or improve benefit sharing mechanisms, in line with each country’s development priorities.

Well-designed benefit sharing mechanisms can avoid project delays, cost overruns and related additional financing. As noted earlier, benefit sharing can help a project developer gain local buy-in and a social license to operate—that is, acceptance of its presence, operations, and impacts by stakeholders, especially local communities. Lack of a social license can lead to project delays, cancelations, and cost overruns, with domino financial and reputational consequences for the developer and the government. Social acceptance is
complex and dynamic, which points to the need for continuous engagement with communities in order to gain and sustain a positive and trusting relationship. Failing to do this can carry major costs. There is evidence that social risks peak during the project development and construction phases, when opponents can challenge permits and Indigenous Peoples, who have an internationally right to give or withhold consent to a project that affect them, can deny or withdraw it.\textsuperscript{29} An analysis of sources of conflict in 200 infrastructure projects throughout Latin America and the Caribbean found that the top four were deficient planning, lack of adequate consultation, lack of community benefits (this led to conflicts in 84 percent of cases), and reduced access to resources.\textsuperscript{30} Of the projects reviewed, 81 percent reported delays, averaging about five years, and 58 percent had cost overruns, publicly reported at about 69 percent of the average original budget. Ultimately, 42 percent needed to be redesigned due to conflicts, and 18 percent were canceled. Reputational damage to the project developer was noted in 95 percent of the cases.

Benefit sharing can help support a just transition to low-carbon and sustainable development. The WBG is committed to supporting countries in a shift to long-term decarbonization, consistent with both the Paris Agreement and the SDGs.\textsuperscript{31} This will require ambitious investments in renewable energy and a shift away from fossil fuels, with major implications for people and communities who depend on coal mining, for instance. Benefit sharing can be a strategic tool to support climate change mitigation and development together by working to ensure that the energy transition is accompanied by improved socio-economic conditions in local communities. As discussed in greater detail later in this report, it is crucial for renewable energy projects to have well-designed, highly inclusive benefit sharing mechanisms. Communities affected by coal mine closures, meanwhile—and those with limited years left before the mines they depend on close—need support to develop alternative livelihood opportunities and infrastructure. Improving a country’s legal and regulatory frameworks on benefit sharing and local community participation can help lay the foundations for a more sustainable and inclusive transition to low-carbon development.\textsuperscript{32}

More generally, benefit sharing is a way to expand the inclusiveness of investments. Benefit sharing stems from recognizing the limited trickle-down effect of projects—be they energy, water, or extractive projects—for communities that live in the areas that host them (usually poor and remote). Benefit sharing is to ensure that these projects not only benefit those who can access services, such as electricity and water supply customers, but also the broader community. This is instrumental to the Bank’s agenda on social sustainability and inclusion.

Other multilateral banks also increasingly support benefit sharing in the projects they finance. However, like at the WBG, the language they use in relevant policies, and the approaches they have taken to date, have tended to treat benefit sharing as a next step beyond standard social safeguards and mitigation measures. For instance, the Inter-American Development Bank’s 2018 framework for sustainable infrastructure proj-
The Asian Development Bank’s Involuntary Resettlement Safeguards refer to benefit sharing as “opportunities to derive development benefits from a project,” particularly for the displaced poor and vulnerable groups, “in addition to compensation,” aiming to “improve standards of living.” The document provides examples of benefit sharing, such as “to provide electricity generation or irrigation or water supply projects in new relocation areas for the benefit of both the displaced persons and host communities.” Another example is for project executing agencies to set aside a percentage of the revenue from a project, such as a toll road, to fund new or improved education or health care facilities.

The European Investment Bank’s Environmental and Social Standards, meanwhile, require project promoters to “take the necessary measures to appropriately manage the risks and adverse impacts of the EIB operation on vulnerable individuals and groups” and, “as appropriate, strengthen the adaptive capacity of vulnerable individuals or groups by promoting inclusive development and benefit sharing.” It is also emphasized that “the need for such measures is particularly critical in situations where discrimination is systemic and entrenched, governance is poor or protection of the rights of vulnerable groups is weak, in particular in potential conflict or post-conflict zones.”

Similarly, the European Bank for Reconstruction and Development’s 2019 Environmental and Social Policy requires finance recipients to “provide affected indigenous peoples opportunities for culturally appropriate development benefits.” It also notes that “actions to minimize, mitigate and compensate for adverse effects and to identify and share benefits [must be] contained in a time-bound plan, such as an indigenous peoples’ development plan (IPDP), or a broader community development plan with separate components for indigenous peoples”. The plan is to be developed in consultation with the affected people.
This section examines how the WBG has implemented benefit sharing in different sectors, starting with policies about resettlement and rehabilitation, then expanding into a wide range of activities tailored to each sector.

### 3.1 Resettlement and Rehabilitation Policies

The World Bank has long recognized that people who are forced to move to clear the way for a project bear a disproportionate cost, and should at least be made whole. In 1990, Operational Directive (OD) 4.30 introduced the notion of “sharing benefits,” so as to ensure “that the population displaced by a project received benefits from it.” Involuntary resettlement, it added, “should be conceived and executed as development programs,” and displaced persons should be assisted in improving their living standards and earning capacity, or at least to restoring them (OD 4.30, 3b).

A new policy adopted in December 2001, Operational Policy (OP) 4.12, similarly noted that “where it is not feasible to avoid resettlement, resettlement activities should be conceived and executed as sustainable development programs, providing sufficient investment resources to enable the persons displaced by the project to share in project benefits” (OP 4.12, 2b).

In 2004, the Bank published in-depth guidance based on OP 4.12, the Involuntary Resettlement Sourcebook. It notes that the resettlement planning process “should explore the possibility of sharing project benefits” with the people who are being displaced, as Bank policy “requires that DPs benefit from the project” (p. 340). Drawing on recommendations by the World Commission on Dams, the guidance identifies mechanisms for sharing benefits: from revenue-sharing, to equity participation in projects.
3.2 Extractive Industries

Extractive projects can last from about 10 years (precious minerals) to 40 years (low-value commodities), with licensing periods typically lasting 25 years. These projects can disproportionately affect local people, typically well beyond the direct project impact area. At the outset, communities may be involuntarily resettled and/or lose access to land and assets (addressed through mitigation and restoration measures). In addition, they may endure environmental impacts for the duration of the project, noise, as well as a higher cost of living due to the influx of workers. However, extractive projects can also generate large benefits, including large numbers of jobs, as well as improved local infrastructure (water and power supply, roads) that is needed by the projects, but can be used by local communities, too.

Many countries legally require some form of revenue sharing in extractive projects. The central government captures the rents through royalties and taxes and redistributes it to subnational governments or communities. Recognizing that failing to address the needs of those local people can lead them to obstruct projects, the IFC’s community investment handbook, published in 2010, encourages companies to invest in benefit sharing even when it is not required, and provides guidance for doing so. Although the structure and rates of oil, gas, and mineral royalties vary widely internationally, they have a common rationale: to compensate the owner of the resource (the government) for its extraction. Notably, revenues from oil, gas, and minerals, like the resources themselves, are finite. The revenues are also notoriously volatile, responding sharply and unpredictably to fluctuations in commodity prices. These characteristics can pose challenges for benefit sharing—for example, dealing with boom-bust cycles, which, if not properly managed, can negatively affect local communities that are relying on those benefits.

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Revenue sharing mechanisms and community development funds (such as funds, trusts and foundations) emerged in the mining industry in the 1930s, but there is evidence that their contribution to local development and poverty reduction has been limited. A 2015 review found that positive local outcomes were possible, but in no way guaranteed, and generally concentrated in the short term. The authors also found that extraction can increase and exacerbate inequality, and noted evidence suggesting that “mine closure can be more painful than the welfare gains during mine opening” (p.10).

The World Bank’s role in this sector has evolved over the years, from mainly exploration and production activity support (1960s to the early 1980s), to sector policy reform and commercialization of state-owned enterprises (1980s), to a greater emphasis on capacity building and private sector development (1990s). In 2000, in response to calls from some non-governmental organizations (NGOs) to stop supporting extractive industries, the WBG launched the Extractive Industries Review (EIR), an in-depth look at its role in the extractives sector and potential ways forward.

Benefit sharing features prominently in the EIR. The main report says that “the WBG strongly supports the principle that communities should benefit from projects that affect them and that these projects should contribute to broader regional and national development goals.” To that end, it adds, “the WBG will work with governments, sponsors, and communities to ensure that affected communities, including Indigenous Peoples’ communities, benefit from projects as much as possible through good practice approaches to local recruitment and training, and the development of local suppliers and downstream industries. Good practice will also include components that directly benefit local communities, such as access to health services, community funds, vocational training, general education, and infrastructure” (pp. 4–5).

A joint independent review, conducted in parallel with the EIR and published in 2005, found that the WBG’s support to the sector had inadequately addressed some areas—notably governance and revenue management. It recommended making explicit linkages between resource rents and sustainable development through Country Assistance Strategies, to guide project design and the monitoring and evaluation of results. Two other key recommendations were to evaluate the sharing of benefits, and to increase local community participation and communication throughout the project, including its closure.
A 2010 World Bank report reviewed the experience of mining sector foundations, trusts, and funds in developing countries, with 14 detailed case studies, including examples of funds established as part of mine closure planning. The latter, while still uncommon, is likely to attract more interest as countries transition out of coal mining. Box 1 briefly describes two examples from Indonesia. The 2010 report also identifies a key challenge that was also raised by World Bank mining specialists consulted for this project: how to define the beneficiaries. The scope of benefit sharing can range from just the direct area of interest, to special focus groups, to the entire population of a region or country (even multiple countries in transboundary projects). Another Bank report, in 2011, identified key conditions for success, based on global experience: a high level of stakeholder participation, governance structures and appropriate management of administrative responsibilities, and planning for long-term sustainability, whether by endowing funds or by expanding stakeholder participation in the governance structure.

**Box 1. Benefit Sharing in the Context of Mine Closures**

Kelian, a large gold mine in East Kalimantan, Indonesia, was owned and operated by Kelian Equatorial Mining (KEM). Prior to the mine’s closure in 2005, KEM established a Closure Foundation to fund ongoing forest protection and to assist the community after operations ceased. A community transition endowment fund was established to help local people transition from a mining economy. The Closure Foundation Board included some representatives from KEM and its owners, national and local government, and NGOs/academia.

Minahasa Raya was a gold mine about 80 km south of Manado in North Sulawesi, Indonesia. It operated from 1996 until mine closure works were completed in 2004. The operator established three foundations to fund ongoing education, economic activity, and community development and monitoring after it relinquished the mining area. The Minahasa Raya Foundation, established in 2000, is an endowment fund to increase human development through scholarships, training, and education. After 15 years, the fund is still functioning and is considered successful.

Source: Mackenzie (2016).
The Bank has also examined how community development agreements (CDAs) can provide sustainable benefits from mining projects, including pro-poor initiatives, going beyond the projects’ immediate scope of impacts.\(^{51}\) A 2012 sourcebook recommends that CDAs “go beyond the direct project footprint” and include those impacted by “transportation routes, supply chains, employment catchment areas, and the use of areas by people from outside the immediate area (e.g., cultural/traditional land use areas)” (p. 11). It also emphasizes beneficiary self-identification as a way to ensure complexities that outsiders may not grasp are not overlooked. Noting the issue of communities’ dependency on mineral resources, the book recommends that CDAs begin to plan for the project’s end from the outset. By aligning initiatives with government plans and services and supporting capacity building, projects can help ensure that development gains established during the life of the CDA continue beyond closure.

A joint UNDP-NRGi initiative drew lessons from evidence globally and made recommendations on how to design and implement effective revenue-sharing. Key recommendations included to define clear objectives of the redistribution mechanism, make formulas simple and enforceable, get national consensus, embed it in national legislation, and formalize independent oversight of it.\(^{52}\)

The World Bank has also sought to address issues of social inclusion, social accountability, and gender in the extractives sector. A 2009 paper explored how men and women are differently impacted by extractive industries and the implications of this for sustainable development and for the profitability of extractive industry operations themselves.\(^{53}\) The report suggests that extractive industries companies invest in social programs to mitigate negative impacts and amplify positive effects for women. A recent published paper, for example, shows that in India mining royalties improved the agency and health status of women living in proximity to mine sites.\(^{54}\)

The IFC has also developed a framework for multi-stakeholder benefit sharing in the extractives sector, stressing that no single blueprint can be used to determine what equitable sharing looks like.\(^{55}\) Instead, the IFC relies on an informed, overall judgment from a diverse team of experts, representing specialty areas such as finance, engineering, environmental and social, economics, and law.
In the last two decades, the World Bank has been instrumental in providing technical assistance to countries to help reform mining sectors and support global best practices and standards. The Bank supports the Extractive Industries Transparency Initiative (EITI), a global standard to promote the open and accountable management of oil, gas, and mineral resources, through the Extractives Global Programmatic Support (EGPS) Multi-Donor Trust Fund. This is a demand-driven program that supports developing countries in the governance of these resources, with a strategic focus on poor and fragile/conflict-affected countries. The EGPS focuses on four key areas: revenue transparency and efficiency, effective regulation and institutional strengthening, local value and diversification, and local community benefits.

Local content opportunities are also key to benefit sharing in the extractive industry, which is why the World Bank, through the Extractives-Led Local Economic Diversification (ELLED) program, promotes local economic diversification and the development of competitive local industries in mineral- and hydrocarbon-rich economies.

Starting in 2019, in line with its support to the Paris Agreement, the WBG stopped financing oil and gas upstream investments. Going forward, the only support provided will be technical assistance to support regulatory reforms and strengthen institutional capacity. Linked to this, an increasingly important area of World Bank support will be helping countries to transition out of coal mining. The Bank has been doing this since the late 1980s, and its portfolio in this area has been growing over the last few years.

In this context, in 2018, the World Bank published a framework for a “Just Transition for All” in managing coal mine closures. It describes the socioeconomic and environmental impacts of mine closures and the Bank’s approach to providing programmatic assistance to ease the transition to a new energy economy. Nine lessons were presented, built on three pillars: (i) governance systems; (ii) people and communities; and (iii) land and environmental reclamation. The need for sustained stakeholder engagement, advanced planning, and adequate budgets was highlighted—both to mitigate immediate economic shocks in coal-dependent regions, and to contribute to successful mine closures. This is a crucial step in the right direction. Key ways in which the framework could be enhanced include addressing the impact of mine closure on revenue-sharing mechanisms (such as royalty regimes), and exploring how such mechanisms could help ease the transition in the lead-up to a mine closure and afterward.
3.3 Hydropower

Hydropower investments were dramatically scaled down in the 1990s, mainly due to concerns about the environmental and social impacts of dams. With the adoption of its 2003 Water Resources Strategy, however, the World Bank stepped up hydropower investment again, seeing it as crucial to sustainable development and poverty reduction. From 2002 to 2014 alone, the WBG provided more than US$8.8 billion in funding for the installation or restoration of 17 GW of hydropower.60

Hydropower plants have long lifetimes (about 50–100 years), and concession periods last on average 30 years. Over the past two decades, the World Bank has published numerous guidelines, papers, and reports to help practitioners understand and operationalize benefit sharing in the context of hydropower development. Along with extractive industries, it is the sector where benefit sharing has received the most attention, yet this has not always translated into effective benefit sharing mechanisms on the ground.

Two key reports outside the Bank laid important foundations for benefit sharing in hydropower. In 2000, the International Energy Agency published a review and guidelines that recognized local communities as “key players” in hydro projects, “because they are most directly affected” (p. 30). They should also benefit, both in the short term and the long term, and not monetarily: “improved access, improved infrastructure, support for health and education programs, legal title to land are all important benefits that may be derived from a hydropower project” (p. 30). Later that year, the World Commission on Dams proposed a new policy framework for hydropower development.61 It recommends that adversely affected people be recognized as first among the beneficiaries of the project, and that mutually agreed and legally protected benefit sharing mechanisms be negotiated to ensure implementation.
A 2002 report commissioned by the Bank focused specifically on benefit sharing, explaining the different rationales and laying out criteria for evaluating benefit sharing mechanisms, with some illustrative case studies. Table 1 presents a summary. The report proposes that rather than trying to make up for nonquantifiable costs by increasing compensation to account for all future losses, projects should share profits generated over the long term. With this approach, mitigation measures would provide compensation for quantifiable losses, while profit sharing would provide development benefits that would more than offset any nonquantifiable losses.

Table 1. Criteria to Evaluate Benefit Sharing Mechanisms

<table>
<thead>
<tr>
<th>Economic rationale</th>
<th>Existence of an economic rent (prerequisite)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical considerations</td>
<td>Benefits shared commensurate with the entitlements and needs of each category of affected people</td>
</tr>
<tr>
<td></td>
<td>Involvement of affected people in use of benefits</td>
</tr>
<tr>
<td>Development considerations</td>
<td>Involvement of the state in defining benefit sharing mechanism</td>
</tr>
<tr>
<td></td>
<td>Contribution of benefit sharing mechanism to development on a sustainable basis in the project-affected area</td>
</tr>
<tr>
<td>Administration considerations</td>
<td>Efficiency of transfer mechanism</td>
</tr>
<tr>
<td></td>
<td>Accountability of implementing agencies</td>
</tr>
</tbody>
</table>

Source: Égré et al. (2002).

In 2008, the World Bank held a workshop on benefit sharing in the context of hydropower development, providing a platform to discuss past and current practices and explore options for Bank-financed projects. The workshop helped tease out some of the main challenges of implementing benefit sharing on the ground, including issues related to weak institutions, political interference, and differences in legislation across countries. The workshop report defined benefit sharing as a “framework to maximize and distribute benefits across stakeholders, consistent with the principles of sustainability” (p. 5). It also noted that “the evolution is toward sustainable development, which requires moving beyond mitigation and compensation to maximizing development benefits and more equitable outcomes; and working directly with affected communities to increase investment effectiveness and outcomes” (p. 5).

A 2008 paper by an energy specialist at the Bank built on prior discussions on the distribution of economic rents by emphasizing that rent sharing should benefit the region in a broader sense than just the local community, including upstream and downstream stakeholders, and that such an approach would be particularly relevant to large projects with vast catchment areas. That idea was reiterated in a 2010 water policy note by the Bank, which argued that hydropower has the potential to contribute beyond electricity generation or local flood management, as a driver of regional development.

As a first step in a three-year pilot initiative to build a framework for enhanced devel-
development benefits to local communities in hydropower projects, the Bank commissioned an in-depth review of the existing literature and case studies, published in 2009. This was followed in 2012 by a guide for local benefit sharing in Bank-financed hydropower projects. It covers all the key elements in the design of benefit sharing mechanisms: (a) gaining an understanding of the impacts of a project; (b) gaining an understanding of the legal regulatory context; (c) consultations with stakeholders; (d) defining objectives of the benefit sharing program; (e) determining beneficiaries; (f) designing mechanisms and exploring multiple entry points; and (g) setting up implementation arrangements.

In 2019, the International Hydropower Association published a “how-to guide” on benefit sharing for hydropower, to contribute to increasing knowledge and understanding of practical measures that can help meet good international industry practice, and conform with the internationally recognized Hydropower Sustainability Tools. The guidance clarifies that benefit sharing refers to the “additional benefits that can arise from a hydropower project, and the sharing of benefits beyond one-time compensation payments or resettlement support for project-affected communities” (p. 11).

In 2021, the IFC published a collection of seven case studies of private and public sector hydropower projects where benefit sharing has been implemented. It emphasizes the importance of tailoring mechanisms to the “unique circumstances of the individual project and affected communities,” stressing that “there is no single one-size-fits-all approach or template that companies can follow to achieve optimal outcomes, especially since what represents an optimal outcome will vary from project to project, even with the same sponsors” (p. 4). Drawing on lessons from those case studies and other projects, the IFC also published detailed guidance for the private sector on benefit sharing. It details ways to optimize implementation through monitoring, good governance, and adaptive management. It also looks at key challenges and provides suggestions on how to mitigate them.
3.4 Other Renewables (Solar, Wind, Geothermal)

As solar, wind, and other renewable energy technologies have matured, they have become increasingly attractive options for sustainable development consistent with countries’ climate goals. Yet, as with hydropower and extractives, there is evidence that the costs and benefits of such investments are unevenly distributed, with negative impacts disproportionately borne by the host communities. This means that the same rationales for both mitigation and benefit sharing apply in these projects.

The WBG’s renewable energy investment portfolio grew significantly in the past two decades, from just US$1.6 billion in 2000–2005, to $12 billion in 2012–2017, reflecting its strategic priority at the corporate level.72 Figure 3 shows WBG commitments to renewable energy in fiscal 2018–2020 (as of January 2020). The total portfolio is over $4.5 billion through 150 investment projects. Solar PV has the largest number of projects (91) and total commitments, followed by hydropower; the IFC and the Multilateral Investment Guarantee Agency (MIGA) have continued to support wind power, while geothermal investments are largely supported by the World Bank. Several projects involve multiple technologies.

Figure 3. WBG Renewable Energy Finance Commitments in Fiscal 2018–2020

<table>
<thead>
<tr>
<th>Technology</th>
<th>WB</th>
<th>IFC</th>
<th>MIGA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydro</td>
<td>6</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Wind</td>
<td>35</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Solar PV</td>
<td>35</td>
<td>32</td>
<td>24</td>
</tr>
<tr>
<td>Solar CSP</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Geothermal</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bio-Power</td>
<td>9</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Multi-Tech RE</td>
<td>9</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Between 2014 and 2019, the IFC invested in more than 126 renewable energy projects, contributing over $10 billion in capital to emerging markets around the world, including financing from IFC’s own account and funds mobilized from others. In 2019, the IFC published a guide to local benefit sharing in large-scale wind and solar projects, including case studies and lessons from companies’ experiences in securing and maintaining social license to operate through benefit sharing. Importantly, the paper recommends a project life-cycle approach to sharing benefits, with support through the different project phases: from development, to construction, operations and maintenance, and decommissioning. In conducting research for the study, the authors found no examples of inclusive decommissioning. However, they stressed the need to “view decommissioning through the lens of sustained, positive socioeconomic benefits once the project is no longer operational” (p. 16). They also stressed the importance of taking local community expectations into account and integrating them into decommissioning plans. They suggested that “parts of the wind or solar project infrastructure could continue to serve a functional purpose and could be left in place, such as substations, buildings, roads, access tracks, gates and fences” and that “local workers and companies can be involved in decommissioning and rehabilitation activities, thereby maximizing benefit sharing opportunities for local communities” (p. 16).

Aiming to unlock much-needed private investment in renewable energy in developing countries, the World Bank Energy Sector Management Assistance Program (ESMAP) partnered with the Agence Française de Développement (AFD), the International Renewable Energy Agency (IRENA), and the International Solar Alliance (ISA) to create the Solar Risk Mitigation Initiative. In 2019, it published guidelines for sustainable solar deployment, including key steps governments can take to maximize projects’ socioeconomic benefits, such as local hiring, local content, and economic development. Further guidance is currently being developed.

Though private sector initiatives are valuable, there is strong evidence that their impact can be limited without government involvement. In 2019, the World Bank and the IFC published a report on promoting social acceptance for wind power through benefit sharing, risk management, and local participation. It looked in particular at the Mexican state of Oaxaca, which attracted a large share of wind energy investment between 1990 and 2015. Through a combination of qualitative and quantitative analysis, the report concluded that wind park investments in the region had limited socioeconomic impacts on the communities hosting the projects, particularly as most of the private sector initiatives on benefit sharing were decoupled from government actions. The study linked wind power investments with increases in the rate of house ownership and in housing quality, but yet other socioeconomic indicators did not show statistically significant differences between project host communities and others nearby. The authors recommended a systematic benefit sharing and community-engagement strategy, led by the public sector through accompanying policies and resources.

No benefit sharing guidelines nor research studies have been produced for the geothermal sector. However, given the relatively large involvement of the World Bank in geothermal, it is important that future work investigates the need to also support benefit sharing mechanisms in this sector.
In general, several developing countries have pledged very ambitious climate mitigation agendas and long-term strategies to reduce greenhouse gas emissions. These require large capital investments in energy infrastructure, but also institutional strengthening and capacity building to manage the energy transition. The voices of local communities who will host these projects are often not heard, and their role in supporting such a transition is not appropriately acknowledged. In light of this, the WBG can play an important role in ensuring no one is left behind, and the principles of benefit sharing are reflected in the World Bank’s activities to support these countries achieve their ambitious energy goals.

3.5 Forestry and Land Use

In 1991, the World Bank issued a major new policy paper on forestry, prompted by warnings that 17–20 million hectares per year were being deforested in the developing world, and tropical humid forests were shrinking irreversibly. The policy, which represented a major shift for the Bank, is considered the first comprehensive sector strategy to mainstream the conservation agenda in WBG activities. It identified the fundamental conflict between national governments’ (as well as individuals’ and communities’) desire to realize the capital found in forests, and the need to conserve those forests and protect biodiversity. A 2000 study by the Independent Evaluation Group added recognition of the public goods dilemma, which requires the global community to pay forest owners to preserve natural forests. The authors recommended payments for environmental services to ensure the conservation of natural habitats of international and national importance, based on the negotiation of transparent agreements around broadly understood, enforceable, and actually enforced rules. At that time, forestry was only 2 percent of its total lending portfolio, but the Bank aimed to become an influential global actor.

In 2004, the Bank published a new forestry strategy, designed around three pillars: harnessing the potential of forests to reduce poverty, integrating forests in sustainable economic development, and protecting vital local and global forest environmental services and values. It promoted a livelihoods-based approach, including priority areas around “empowering women, the poor, and marginalized groups to take a more active role in formulating and implementing rural forest policies and programs,” and “supporting the scaling up of collaborative forest management so that local communities can manage their own resources, rehabilitate and protect forests, market forest products, and benefit from security of tenure” (p. 26). As part of the strategy, the Bank also planned to play a role in helping build and finance markets for international public goods, such as carbon and biodiversity, and helping governments design, implement, and finance effective national markets for environmental services provided by forests.

As discussed in Section 2.1.4, in forestry, benefit sharing can take very different forms, with different funding sources. On one side, there are various mechanisms for sharing the value that is extracted from publicly owned forests. On the other side, there are per-
formance-based payments to compensate community members for their contributions to protecting or restoring forests and, through those actions, reducing carbon emissions or otherwise enhancing environmental services. The first category includes a range of options, such as participatory forest management, community–company partnerships, and forest concessionaires’ responsibility for social agreements and rent sharing. In those cases, the principles that guide revenue-sharing are similar to those that govern the extractive industries royalty regimes. The mechanisms used to share benefits with communities in the context of performance-based payments, such as in countries participating in REDD+,

however, are entirely different. As noted in Section 2.1.4, national governments typically receive payments and then provide monetary or non-monetary benefits to various stakeholders who contributed to their achieving the desired goal. Under certain programs, such as the Forest Carbon Partnership Facility, countries are required to draw up dedicated benefit sharing plans in order to receive emissions reduction payments. Benefits only last for the duration of project financing.

In 2019, the WBG published a report on good practices for results-based land use programs. It defines benefit sharing in such contexts as “the intentional transfer of monetary and non-monetary incentives (goods, services or other benefits) to stakeholders for the generation of environmental results (such as greenhouse gas emission reductions) funded by revenues derived from those results” (p. 5). Drawing on 13 case studies around the world, it provides recommendations in five areas: cross-cutting themes; beneficiaries and benefits; institutional, financial, and governance arrangements; stakeholder participation; and monitoring, evaluation, and adaptive management.
In 2020, the Bank published a report on insights from the work of the BioCarbon Fund, a public-private sector initiative launched in 2004 that supports a wide range of activities that restore and protect ecosystems and can generate multiple revenue streams. The report, which includes a chapter on benefit sharing, provides multiple recommendations, which it notes are specific to forestry and land-use projects, but may also be applicable to other sectors. There are also important interlinkages between forests and other sectors that make benefit sharing to support forest conservation relevant to those sectors too. For example, forest loss can lead to increased erosion and silt loads in hydropower reservoirs. Forests also provide ecosystem services that are essential for sustaining growth in agriculture and energy.

Overall, World Bank lending to the forest sector has increased in recent years, with two priority areas: investments in sustainable forest management, and "forest-smart" interventions in which the WBG takes a holistic look at forest landscapes, so that its work in sectors like agriculture, transport and energy does not erode forest capital, but instead generates positive forest outcomes. In fiscal years 2002–2015, the WBG invested a total of US$6.5 billion in the forest sector (an average of about $465 million per year), ranking second in the list of official financiers of forest activities and first in the list of multilateral financiers. After adoption of the Forest Action Plan FY16–20, the World Bank’s forest portfolio reached $2.3 billion in fiscal 2018, and IFC lending, $118 million. Increasingly, World Bank instruments are being combined with other sources of finance for larger, more integrated forest programs. The Bank now hosts several trust funds on forests, such as the BioCarbon Fund Initiative for Sustainable Forest Landscapes, the Forest Investment Program of the Climate Investment Funds, the Forest Carbon Partnership Facility, and the Program on Forests (PROFOR, a multi-donor partnership to improve knowledge sharing and results monitoring for more effective interventions in the forest sector). Two Forest Carbon Partnership Facility case studies are included in Volume 2 of this study, and summarized in the next section.

Going forward, the World Bank aims to deploy performance-based payment mechanisms strategically to support client countries’ efforts to shift to a low-carbon development trajectory. These instruments are considered a prominent feature of the WBG forest pipeline. They form part of the programmatic approach and are likely to drive the portfolio in some key countries. In the context of sharing the value commercially extracted from publicly owned forests, the Bank could also provide support around fiscal policies and governance. The Climate Investment Funds published a book in 2021 that details how fiscal reforms can contribute to forest conservation and ecosystem health.
3.6 Other Sectors

The World Bank has also supported benefit sharing in projects in other sectors not discussed above, but no corresponding sectoral framework, policy, or analytical work on benefit sharing could be identified for this report. The case studies include two such projects, CASA 1000, which is a transboundary electricity transmission line project (in Afghanistan, Pakistan, Kyrgyz Republic, and Tajikistan), and a water management project (which includes the construction of a dam) in Kenya. In both projects, benefit sharing consists of the provision of in-kind benefits (e.g., local infrastructure), subgrants for locally driven projects, and capacity building and empowerment to the communities affected, beyond those physically resettled. The rationale was that without benefit sharing, local people would be excluded from the main benefits generated by these projects (electricity and water supply), while bearing most of the negative impacts. Benefit sharing was also seen as an opportunity to support the development of these very poor and remote communities, and as part of a risk management strategy to increase local acceptance and gain social license to operate. Bank staff working on water management systems and electricity transmission could consider developing advisory materials for future benefit sharing arrangements based on experience with these unique types of operations.

WBG specialists working in transport were asked whether they could suggest examples of projects with a benefit sharing element in that sector, but no relevant projects were identified.
4. Benefit Sharing in the Bank’s Portfolio
Case Studies and Lessons Learned

From March through July 2021, World Bank specialists across different sectors, including energy, extractive industries, water management, transport, public-private partnerships, and social development, were asked to help identify suitable case studies for this report. Based on their suggestions, 12 case studies were chosen for review, covering 15 projects (in one case study, involving an electricity transmission line across four countries, each country has its own benefit sharing mechanism). The selection aims to provide a good sample of activities across sectors and geographic areas, but the options were limited by the relatively few operations with benefit sharing activities in the Bank’s portfolio.

Each case study was drawn up with input from Bank staff, and relevant project documents were reviewed, supplemented by external documents and published papers where appropriate. Volume 2 of this report presents the case studies, including detailed descriptions of the benefit sharing mechanisms, as well as lessons learned. Table 2 below presents a summary, which is followed by a brief overview of the characteristics of the mechanisms reviewed. Section 4.2 then provides some overarching insights.

Table 2. Case Studies and Approaches to Benefit Sharing

<table>
<thead>
<tr>
<th>Case study</th>
<th>Sector</th>
<th>Description</th>
<th>Approach to benefit sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000) and four associated community support projects (CSPs) in Afghanistan, Pakistan, Kyrgyz Republic and Tajikistan</td>
<td>Energy (electricity transmission)</td>
<td>Electricity transmission line across four countries; CSPs funded in each country to support local development (standalone projects)</td>
<td>Benefit sharing before/during construction&lt;br&gt;Rural electrification&lt;br&gt;Subgrants for local projects&lt;br&gt;Capacity building and mobilization&lt;br&gt;Community-driven development approach&lt;br&gt;Beneficiary communities within corridor of impact but the coverage varies by country</td>
</tr>
<tr>
<td>Case study</td>
<td>Sector</td>
<td>Description</td>
<td>Approach to benefit sharing</td>
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<tr>
<td>2. Mining and the PNG Sustainable Development Program, Papua New Guinea</td>
<td>Extractive industries</td>
<td>Benefit sharing fund linked to the operation of the Ok Tedi copper mine</td>
<td>Benefit sharing during operation and beyond&lt;br&gt;Two separate endowment funds: one during operations and one post-mine closure&lt;br&gt;Funds projects in the Western Province (where the operation is located) and beyond</td>
</tr>
<tr>
<td>3. Technical Assistance for Capacity Development in Hydropower and Mining Sector, Lao PDR</td>
<td>Energy and extractive industries</td>
<td>TA with subcomponent to support the drafting of guidelines for the implementation of a benefit sharing type mechanism—the Community Development Fund—and the Model Mineral Development Agreement; however, these were not formally adopted by the government</td>
<td>TA to strengthen existing regulation on benefit sharing and improve the enabling environment for private sector investment</td>
</tr>
<tr>
<td>4. Growth with Governance in the Mineral Sector Project, Democratic Republic of Congo</td>
<td>Extractive industries</td>
<td>TA with subcomponent to improve the socioeconomic benefits from artisanal and industrial mining for communities</td>
<td>TA to support revenue sharing during operation&lt;br&gt;Local capacity strengthening (at appraisal, but not achieved)</td>
</tr>
<tr>
<td>5. Village Community Support Projects, and Support to Local Governance Project (PACV3), Guinea</td>
<td>Extractive industries</td>
<td>TA to help establish the national funding mechanism for mining revenue sharing (the National Local Development Fund)&lt;br&gt;TA support to strengthen local communities’ capacity to use funds received from the National Local Development Fund&lt;br&gt;Support to community-driven development mechanism to channel mining royalties to support local development plan</td>
<td>Benefit sharing during project operation of mining projects&lt;br&gt;Help set up and operationalize two key institutions introduced by the 2013 Mining Code provisions on revenue sharing&lt;br&gt;Strengthen the local government financing system and improve local service delivery in rural communes</td>
</tr>
<tr>
<td>6. The Chile Carbon Finance Project (Forest Carbon Partnership Facility)</td>
<td>Forestry</td>
<td>Benefit sharing plans required for the disbursement of results-based finance</td>
<td>Benefit sharing during “operation”/project requirement in the context of REDD+&lt;br&gt;Mixed approach (funds flow to communities and national stakeholders too)</td>
</tr>
<tr>
<td>Case study</td>
<td>Sector</td>
<td>Description</td>
<td>Approach to benefit sharing</td>
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<tr>
<td>7. The Ghana Emission Reductions Program (Forest Carbon Partnership Facility)</td>
<td>Forestry</td>
<td>Benefit sharing plans required for the disbursement of results-based finance</td>
<td>Benefit sharing during “operation”/project requirement in the context of REDD+ Mixed approach (funds flow to communities and national stakeholders too)</td>
</tr>
<tr>
<td>8. Nam Theun 2 Hydroelectric Project, Lao PDR</td>
<td>Energy (hydropower)</td>
<td>Hydropower project (1,070 MW) The Bank contributed by partially funding the Government of Laos equity, an IDA risk guarantee, and a social and environment project to ensure the project would apply high environmental and social safeguards. The government committed to redistributing some of the revenues toward poverty reduction. The World Bank’s Revenue Management Program was created to oversee the commitment of the Government of Lao PDR</td>
<td>Project revenue streams to national coffers agreed to fund poverty-focused investment/programs Eligible programs include poverty programs such as School Block Grants, Free Maternal and Child Health Scheme, Poverty Reduction Fund, and Health Equity Fund, which are under the oversight of the Ministry of Finance, Ministry of Health, and Ministry of Education and Sports</td>
</tr>
<tr>
<td>9. Tina River Hydropower Project, Solomon Islands</td>
<td>Energy (hydropower)</td>
<td>15 MW hydropower project, with the Bank funding part of total project costs; a grant funded by the Japan Social Development Fund and administered by the Bank supported the Solomon Islands Community Benefit sharing Pilot Project (CBSP)</td>
<td>Benefit sharing before and during construction, and during operation Preferential hiring policy and skills training for local labor before construction Rural electrification and water, sanitation and hygiene projects funded before and during construction (CBSP) Mechanism for revenue-sharing set up with support from the World Bank and Japan Social Development Fund</td>
</tr>
<tr>
<td>10. Regional Rusumo Falls Hydroelectric Project, Rwanda, Burundi, and Tanzania</td>
<td>Energy (hydropower)</td>
<td>80 MW transboundary hydropower project with subcomponent to support a local area development plan aimed at targeting broader impact areas in the four countries</td>
<td>Benefit sharing before/during construction Local infrastructure Youth training centers</td>
</tr>
<tr>
<td>Case study</td>
<td>Sector</td>
<td>Description</td>
<td>Approach to benefit sharing</td>
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<tr>
<td>11. Coastal Region Water Security and Climate Resilience Project (KWSCRCP-2), Kenya</td>
<td>Water</td>
<td>Dam construction in Kwale County for the supply of water to Mombasa; subcomponent on benefit sharing targeting multiple communities (catchment, and rural in Kwale)</td>
<td>Benefit sharing before/during construction&lt;br&gt;Benefit sharing in catchment area (to reduce erosion)&lt;br&gt;Water supply and sanitation investments in rural areas&lt;br&gt;Subgrants to microprojects&lt;br&gt;Capacity building&lt;br&gt;Irrigation demonstration scheme</td>
</tr>
<tr>
<td>12. Noor I Solar Power Project, Morocco</td>
<td>Energy (solar)</td>
<td>The Bank funded 160 MW of the Noor-Ourzazate complex</td>
<td>No benefit sharing component in the Bank’s project&lt;br&gt;National legislative framework supports benefit sharing&lt;br&gt;Corporate social responsibility strategy of the borrower and sponsors to generate local employment and development</td>
</tr>
</tbody>
</table>

### 4.1 Case Study Characteristics

Most of the projects reviewed are still ongoing. One closed in 2017 (Nam Theun 2 in Lao PDR), one in 2018 (the Growth with Governance in the Mineral Sector Project in the Democratic Republic of Congo), and one closed in 2020 (TA for Capacity Development in Hydropower and Mining Sector in Lao PDR). The remaining projects will close between 2022 and 2027, with an average duration of about 9 years. The PNG Sustainable Development Program (SDP) is not a World Bank project, but it has co-financed Bank operations in the past.

The 16 countries covered by the case studies span all six World Bank regions: three in East Asia and the Pacific, two in South Asia, seven in Sub-Saharan Africa, two in Europe and Central Asia, one in the Middle East and North Africa, and one in Latin America and the Caribbean. Four of the countries are on the WBG’s fiscal 2022 list of Fragile and Conflict-Affected Situations (Afghanistan, Democratic Republic of Congo, Papua New Guinea, and Solomon Islands), and two (Tajikistan and Guinea) have been prioritized in the Risk Mitigation Regime (RMR) pilot under IDA18.

In four of the 15 projects, benefit sharing activities are project subcomponents, while in nine, there are standalone benefit sharing projects. In Nam Theun 2, benefit sharing activities were embedded into environmental and social obligations, while in Noor I, they
were directly funded by the implementing agencies through a public-private partnership as part of a shared corporate social responsibility strategy.

As shown in Figure 4, eight of the projects include benefit sharing before and during construction (the four CSPs, Mwache dam, Rusumo Falls, Noor I, and Tina Hydro). Nine included it during operation (the three mining projects, two forestry projects in Chile and Ghana, CASA-1000, Nam Theun 2, Tina Hydro, and Noor I). Only in three infrastructure projects is there benefit sharing both before and during construction, and during operation (Tina Hydro, CASA-1000 and Noor I). It is not known yet whether CASA CSPs will support the implementation of a benefit sharing mechanism during the operation of the transmission line. Although that was mentioned in the original project appraisal document, it is not being currently implemented as part of the CSP projects. By end 2023, both the Pakistan and Afghanistan CASA-1000 CSP projects had closed without benefit sharing arrangements in place for the operational phase. Only the Papua New Guinea case includes benefit sharing beyond the term of the project’s operation; an endowment fund financing health, education and infrastructure projects in the mining communities during operations and after the closure of the mine.

Figure 4. Benefit Sharing Approaches across Case Studies

- **Before/during Construction**
  - 8 - Infrastructure

- **During Operation**
  - 3 - Infrastructure
  - 3 - Technical Assistance (Extractives Industries)
  - 2 - Forestry ER Programs
  - 1 - Co-finance (PNG SDP)

- **Beyond Operation**
  - 1 - Co-finance (PNG SDP)

The total amount committed to benefit sharing activities by the projects reviewed is about $280 million. This amount excludes the SDP’s endowment fund (non-Bank project), but also Nam Theun 2 and Noor I (where benefit sharing is funded by the borrower’s and implementing entities’ corporate social responsibility budgets, respectively).

In seven projects in nine countries, a community-driven development approach is being used to deliver benefit sharing. The forestry projects in Chile and Ghana are taking a
mixed approach, with project distributed to communities and to national stakeholders as well. In the Tina Hydro project, the benefit sharing portion of project revenue will be deposited into a Benefit Sharing Fund which will finance community investments identified through a participatory process. This approach is specified in the Benefit Sharing Fund Constitution adopted in 2023.

Some of the countries covered in the case studies have laws on benefit / revenue sharing. This is the case for countries with extractive industries, where governments typically capture some project revenue and redistribute it to lower levels of government—for example, in Lao PDR, the Democratic Republic of Congo, Guinea and Papua New Guinea. Sometimes the private sector is also required to fund local development through community development funds (e.g. in Lao PDR). In the case studies, the countries where the Bank is supporting benefit sharing in the hydropower sector currently do not have relevant laws on benefit sharing, even if they do have national legal provisions on revenue sharing for the mining sector (in Solomon Islands, Rwanda, Burundi, and Tanzania).

The Bank is currently supporting the preparation of a hydro project in Nepal (Upper Arun Hydroelectric Project, not examined in the case studies), where all hydro projects are required by law to support local communities during construction (through a funded of 0.5–0.75 percent of total project cost). Nepal also requires hydropower operators to pay royalties which are shared during operation, with the federal government taking half and the provincial and local governments each taking a quarter; and to spend 1 percent of the annual profit for corporate social responsibility (CSR) activities in the affected area.

In Kenya, where the Bank is supporting a water management project, including construction of a Mwache dam, the government adopted a new Natural Resources (Benefit Sharing) Act in November 2022 which would require private companies to pay royalties for the extraction of natural resources, including water, and has provisions for benefit sharing agreements and local benefit sharing committees. In Morocco, legislation was introduced in 2009 and then integrated in 2016 which requires the national renewable energy agency to support the development of the local communities hosting projects.

4.2 Insights from the Case Studies

The case studies show how widely benefit sharing can vary across projects in the Bank’s portfolio—reflecting differences across countries and across sectors. As outlined in Sections 2 and 3, benefit sharing can take many forms, and it is appropriate to tailor mechanisms to the specific project context. There is no one-size-fits-all approach. In infrastructure projects, the Bank has supported community-driven investment and capacity building before and during construction. Sometimes it provided subgrants (Rusumo Falls, Mwache dam, Tina Hydro Project, CASA-1000 CSPs), while in the Tina Hydro project, benefits will also be provided directly to tribal members in the form of royalties. In the mining projects, the Bank helped build local governments’ capacity to manage mining...
revenues (in Guinea), or supported the drafting of benefit sharing guidelines to ease the implementation of the legislation on mining revenues and community development funds (Lao PDR). This section provides some observations on benefit sharing implementation in the case studies, then draws lessons on potential ways to improve benefit sharing in WBG-financed projects.

### 4.2.1 Timing and Design of Benefit Sharing Mechanisms

Bank staff still have important questions about benefit sharing, suggesting that more clarity and guidance would be helpful. In interviews for this report, many asked for clarification about what is considered “benefit sharing,” particularly around its geographic scope (local, regional, national, international) and the activities involved. This indicates that clear guidance—for example, on distinctions between benefit sharing on one side, and risk mitigation and rehabilitation measures on the other, as well as on what activities might be suitable in each sector, could help reduce uncertainty and increase consistency across Bank operations. Section 5 further addresses this need.

To date, the Bank’s support to benefit sharing in infrastructure projects has been mainly before and during the construction phases, with limited support in the operation phase. In all nine of the infrastructure projects reviewed, benefit sharing focused on the “pre-operation” phase, where the Bank is often involved as a financier and/or provides technical assistance on design and safeguards. There is one project with a case study in this report where the Bank has supported legal provisions and the design of a benefit sharing arrangement during operations (Tina Hydro Project) and another in which the Bank is supporting benefit sharing during construction where there are also legal provisions for benefit sharing during operations, but no support for design of arrangements (CASA-1000) and no efforts to date to establish such arrangements in the four participating countries. While it has not been covered in this report, the Bank is also supporting the design of a Benefit Sharing Program as part of the Rogun Hydropower Project in Tajikistan. The only project in which the Bank has supported benefit sharing during operation is Tina Hydro, where a revenue sharing mechanism was set up. The Bank also plans to support a similar mechanism for the CASA-1000 transmission line project. The three TA mining projects reviewed have provided technical assistance to support effective governance and strengthening of the institutional capacity of local institutions to manage mining project revenues during operation. The Papua New Guinea SDP project, supported by the Bank through co-financing, is the only case study with a benefit sharing mechanism to support communities both during operation and after closure.

A key challenge in infrastructure projects is to address benefit sharing early on, during project design, and empower local communities to actively participate in shaping it. The best practice is to develop benefit sharing plans in a participatory manner, and to engage community members so they can inform the design of the parent project as well
as the scope and content (e.g. target area, investment needs, etc.) of the benefit sharing mechanism. However, the Bank may be more or less able to achieve this depending on when it gets involved in a project and what financial instruments are used. In the Tina Hydro project and the CSPs, the Bank was present early on and was able to conduct consultations on community priorities during the project design. Experience in Nepal shows that the preparation of standalone benefit sharing plans and operational guidelines in consultation with local communities and local government institutions significantly help implement benefit sharing. Another challenge is that different stakeholders can favor approaches that are not community-driven. In the case of CASA CSP in the Kyrgyz Republic, for example, energy sector stakeholders favored a top-down approach, as a technical study indicated that all the CSP funds would be needed for electricity upgrades in the target villages. To preserve the community-driven approach, the CSP capped electricity investment, while giving communities the choice to use benefit sharing funds for further electricity upgrades, or for other types of community infrastructure. As reported by Bank staff, preserving a community-driven approach required constant negotiation.

It is crucial to communicate clearly with community members from the start and set realistic expectations, to avoid creating discontent and confusion. For example, in the Noor I project, community expectations were often higher than what developers considered reasonable. This highlights the importance of setting clear goals and engage regularly with communities in a transparent manner, to avoid rumors. In the case of Noor I, the implementing entities ultimately had to take corrective measures to ease tensions. The lack of sustained engagement with local communities was also an issue in the Rusumo Falls Hydropower project. The implementing agency recruited a community relations expert to help it address the concerns being voiced by community members.

Consultations and engagement activities during project design need to be planned and resourced in a timely manner. To give a sense of the time required, in the forestry projects, the process for preparing advanced drafts of the benefit sharing plans (required to sign the financial agreement) was around two years. After this, countries have one more year to complete it. In the case of Tina Hydro, although the project has yet to be built, more than 200 consultations have been held since 2009. These were necessary and ultimately led to self-identification of beneficiaries in a way that was participatory and respectful of cultural norms.

Some aspects of benefit sharing can be highly political and require time to be addressed. There are cases where the design of benefit sharing has been lengthy and required negotiation with government stakeholders, for different reasons. For example, a common issue experienced across the CSPs was the difficulty in agreeing on the institutional home of benefit sharing and—linked to this—the most appropriate implementing agency. Going forward, this could be politically negotiated between the Bank and governments to ensure that the most suitable agencies or institutions are chosen. Capacity building in those agencies can also be supported as part of benefit sharing activities.
Ethnic and tribal divisions can also create challenges. In the case of the Mwache dam in Kenya, Bank staff reported that the government initially resisted benefit sharing that would benefit a marginalized ethnic group. Other political challenges are discussed further below.

**Benefit sharing in the pre-construction phase of projects involves particular risks, including challenges aligning the timing with the parent project.** For example, in the CASA-1000 CSPs, the parent project was delayed in obtaining government commitments, approvals, and ratifications, as well as in procurement. Moreover, the corridor along which the line would be built could only be finalized after feasibility studies, environmental and social impact assessments, and the tendering for the main contractor were complete. In Afghanistan, for example, the process included development of a Feasibility Study and Detailed Design, establishment of a CASA-1000 Secretariat and work with utilities and respective government ministries, including those responsible for finance and energy. This had repercussions for the CSPs. Political change in Afghanistan has also led to significant delays and uncertainty as to completion of the Afghanistan portion of the transmission line. Delays can also limit opportunities to train local residents to work on the construction. Activities such as capacity building of local institutions and community-based organizations can still occur, but until contracts are in place, funds may not be available. In the case of Tina Hydro, for example, the Bank committed to supporting benefit sharing activities even before any formal agreements were signed, but funds were only disbursed after signing. The low disbursement rates of benefit sharing programs in these early stages are an issue that the Bank needs to anticipate and manage. A strategic sequencing of benefit sharing activities could be adopted—for example, starting with policy dialogue, then moving to commitment, while allowing time to finalize details (such as target areas).

**Effective benefit sharing in the construction phase requires good preparation, especially to enable local people and businesses to seize opportunities.** Along with additional capacity building, local development projects, and local infrastructure—extensions of the benefits shared in earlier stages—the construction stage can offer two prime benefits: jobs, and opportunities for local businesses. However, in order for people in host
communities to be able to take advantage of these benefits, activities are needed in the pre-construction phase, such as skills training and the design of preferential hiring policies. The time required for such activities should not be underestimated. Timing is particularly important for more technical training (semi-skilled and skilled jobs), as it typically takes longer and needs to be completed before construction starts.

The Bank has not supported much benefit sharing during project operation, but it could do more in future, including by helping governments set up or improve revenue-sharing mechanisms. As noted earlier, some countries already have laws providing for revenue-sharing. In a few cases, the Bank has played a role in strengthening such mechanisms through institutional capacity building. This was the case in Guinea, for example, with support for local government institutions responsible for managing mining royalties. However, the mechanisms set up by governments can sometimes be fraught with problems, such as a lack of transparency in financial transfers, poor institutional capacity, weak community participation, and unequal access to resources. These issues typically prevent the mechanisms from being effective benefit sharing tools. Given the potential for revenue-sharing mechanisms to support economic development and poverty reduction, the Bank could consider engaging more in this area, more systematically and beyond the extractive industries sector, to include all sectors that harness natural resources (e.g. forestry, hydropower). This could be done through policy dialogue, by providing support to strengthen governance and public financial management of existing mechanisms, and building the capacity of the institutions involved. The Bank could also produce guidance to help governments set standards and regulate private companies’ approaches to community development support (as in the Lao PDR mining case study). It could also help design the revenue-sharing formula and target areas, as it has done for the Tina Hydro project, by promoting participatory approaches. In the process, it could help countries include equity considerations in the design.

In none of the case studies has the Bank explicitly addressed the issue of benefit sharing beyond the end of the project or concession. As noted earlier, the Bank’s Just Transition for All Framework, which relates mainly to coal mine closure, also does not address this. Although several countries have revenue-sharing mechanisms, those funds stop flowing when the project or concession ends, leaving a major gap in communities where the shared revenues may be paying for critical public services. This exacerbates the impact of job and household income losses associated with the closure. Opportunities for local people and businesses around project decommissioning are also seldom discussed. Some countries’ mining laws require companies to have financial surety mechanisms in place to ensure that sufficient funds are available to pay for site rehabilitation and post-closure monitoring and maintenance, including in the event of early or temporary closure. However, even in these cases, benefit sharing arrangements could still provide communities with long-term funding for years after project closure. For example, in the SDP in Papua New Guinea, the capital of a long-term fund is being invested carefully to generate income and to preserve funds to support future generations beyond the mine closure.
4.2.2 DIFFERENCES IN FINANCING FOR BENEFIT SHARING

In negotiating financing arrangements, some governments are less inclined to borrow for benefit sharing operations than others. Benefit sharing activities have been funded through trust funds, IDA credits/grants, or a combination of both. In the Noor I project, finance from the International Bank for Reconstruction and Development (IBRD) was used, combined with trust funds. In the case of CASA-1000 CSPs, where all countries received grant funding, the Kyrgyz Republic borrowed half of the CSP funding amount (an IDA loan). Although these decisions were in part determined by country financing conditions (e.g. Tajikistan IDA conditions changed in 2018), they were also the result of negotiations with the respective country governments and have been driven by the unwillingness of some countries (e.g. Pakistan) to borrow for CSPs. The mobilization of alternative financing sources (grant financing, regional financing, and trust funds) becomes a critical part of the benefit sharing financing strategy.

The criteria for determining funding amounts were generally not well articulated across the case studies—something which can be improved. The four CSP funding agreements, for example, differ with respect to the amounts received and the source of finance. The Afghanistan CSP received the highest amount ($40 million), more than double the funding for the Pakistan CSP ($15 million). The Kyrgyz Republic received $32 million (including additional funding) plus $3.73 million in parallel funding through two separate grants financing livelihood and community engagement activities, while Tajik-
istan received $36 million (including $10 million in additional financing). Conversely, the Rusumo Falls hydroelectric benefit sharing plan allocated the same amount ($15 million) to the three countries participating in the hydro project (Burundi, Rwanda, and Tanzania). The decisions that led to such funding decisions could have been better articulated—for example, by specifying whether funding was allocated on a per capita basis, informed by community needs assessments, based on absorption capacity, etc. In the case of Tina Hydro, for example, community needs assessments and consultations informed the definition of the formula for the revenue sharing mechanism, to ensure that a meaningful amount of funds would be invested annually in the infrastructure prioritized by local residents (education and health facilities). In the case of Rusumo Falls, the funds allocated to benefit sharing have already been spent in two of the three countries (the project will close in June 2024). The communities have sought further funding for a second phase of the benefit sharing program, highlighting the inadequacy of the initial allocation. Going forward, it is important to ensure that the amounts transferred to communities are meaningful and sufficient to address their needs, and that the reasons for decisions around finance sources and amounts for benefit sharing are clearly and transparently articulated. This would prevent sending mixed messages to beneficiary communities in different countries, and help avoid political and reputational risks for the Bank, or diplomatic disputes between countries participating in the same project but receiving different finance packages.

4.2.3 THE DIFFICULT TASK OF DETERMINING WHO WILL RECEIVE BENEFITS

Defining the target area for benefit sharing is challenging; it requires careful work on the ground to determine who should qualify, as there is no “one-size-fits-all” approach. The process takes time, which in some cases delayed benefit sharing activities and/or had budget implications. In the projects reviewed, participatory consultations proved useful for this purpose, and they encouraged people to self-identify as beneficiaries. However, other aspects need to be (and generally have been) considered. Based on the experience of Bank staff, the definition of target or qualified communities for benefit sharing should consider not only the project footprint, or who is directly or indirectly affected, but also customary boundaries, the presence of ethnic groups, and conflict risk. All these factors may mean going beyond administratively defined boundaries. In the context of mining, a long history of experience in some countries’ oil and gas sectors has shown that the drawing of arbitrary lines between communities—and across clan or ethnic boundaries—can create conflict between qualified (i.e., beneficiary) and non-qualified communities, even where relations have previously been peaceful. In the CSP in Pakistan, the project staff described challenges due to the remote and mountainous nature of the areas covered by the transmission line and its route, as well as the presence of tribal areas along the line. Some areas are inaccessible (for security reasons) even by government officials, and there is a history of conflict. The field survey of the transmis-
sion line route was postponed until the power agency confirmed that it was final, and until then satellite imagery and remote sensing tools were used to estimate the geographic scope of the CSP (including community amenities, population, etc.) for project design and rollout planning purposes. This method was considered very cost-effective.

**Several projects have chosen to extend benefit sharing well beyond the directly affected population.** In the three water infrastructure projects reviewed, the benefit sharing target areas included communities in the broader impact area or region—that is, beyond those directly affected and physically resettled. For example, the Mwache dam project in Kenya extended benefits to the entire county hosting the project and the catchment area. In the Tina Hydro project, in Solomon Islands, the target area included customary landowners who self-identified as beneficiaries. In the Rusumo Falls project, the target area included additional districts and communes in the three countries, beyond the directly affected populations. In all these projects, the definition of the target area was the result of participatory consultations. Similarly, the four CSPs will benefit larger populations who would otherwise have no opportunity to benefit from the CASA-1000 project. To ensure greater inclusiveness and minimize the risk of conflict among communities, in Afghanistan and Pakistan it was agreed that the corridor of impact would be 4 km wide, wider than the 3 km used for a project in Eastern Europe and Central Asia. In both Afghanistan and the Kyrgyz Republic, following finalization of the route, the number of target communities roughly doubled. This required reducing the size or number of subgrants or, in the case of Kyrgyz Republic, additional financing when funds became available.

**Some benefit sharing mechanisms include a redistribution of benefits to other government entities, not just local people, but it is not known yet how effective different approaches are.** This is the case with the forestry projects, for example, as discussed above; the national governments share emission reduction payments with different stakeholders, including national institutions and local communities. In extractive industries, royalties are typically shared across different levels of government (e.g. central, provincial, local). In the case of Nam Theun 2, the Lao government committed to sharing project revenues to support national poverty reduction programs. In 2018 the project established a dedicated development fund, the Nam Theun 2 Development Fund, as part of the operating company’s CSR policy.

The Papua New Guinea SDP—up until 2013, when the mine was nationalized—allocated a third of the revenue for the benefit of the people living in the Western Province, where the Ok Tedi mine is located (SDP programs are aligned with the Western Province five-year plan) and two thirds for the benefit of the entire country. In the mining case study in Lao PDR, the guidelines prepared as part of the TA recommended a gradual expansion of coverage after two years of project operation, beyond directly affected communities, to include the district(s) where the project is located. However, this expansion was not endorsed. There is not enough evidence yet to judge the relative effectiveness of these different approaches in achieving benefit sharing objectives (economic development,
equity, and risk mitigation). It is clear, however, that decisions about benefit redistribution should be driven not only by the national context and the different institutions’ capacities, but also by a clear set of pre-determined objectives (e.g. local/regional/provincial/national poverty reduction and economic development). See Section 4.2.5 for a discussion of the necessary monitoring and evaluation.

### 4.2.4 WORKING WITH THE PRIVATE AND PUBLIC SECTORS

The Bank may have limited direct influence to advocate for benefit sharing during operations, but it can still make a real impact on the policy environment and promote **good governance**. If national policies require private sector project operators to support benefit sharing, the Bank can provide support around reviewing and improving benefit sharing policy and enforcement. Bank staff can also work with the IFC to include an effective benefit sharing mechanism in the operation phase of privately run infrastructure. Provisions can be added to contracts, project agreements, licenses to operate, etc. This was done for Tina Hydro, for instance.

The Bank also has even more limited leverage on the private sector when benefit sharing is funded through corporate social responsibility budgets, as in Noor I, but it can still **support best practice**. In Morocco, MASEN, the national renewable energy agency, has a CSR strategy that is being implemented in partnership with the project sponsors. It aims to maximize socioeconomic benefits for local people through employment, industrial integration, and local development. In general, when state-owned enterprises support local development through their CSR, the Bank’s ability to promote best practice is limited. Yet, in the case of Morocco, the adoption of laws (for the establishment of MASEN) with provisions for maximizing socioeconomic benefits for local people through employment, industrial integration, and local development, combined with successful public-private partnerships, has proven to be a successful model, which might be worth considering and promoting elsewhere. The Bank’s role in these cases could be to assist in the design of the legal and
policy framework and encourage public entities to include benefit sharing provisions in templates for legal agreements, bidding documents, etc.

**In countries where the benefit sharing concept is new, governments can be skeptical—especially when it comes to publicly owned projects.** This points to the need to build a strong case for benefit sharing as part of project preparation, with solid evidence that benefit sharing yields results. Bank staff interviewed for this report said many governments were initially skeptical about promoting benefit sharing mechanisms. A common argument was that natural resources are owned by the nation, so everyone should benefit from national projects, not just directly affected communities. Governments also worried that including benefit sharing in one project would set a precedent for other projects and other sectors. In several countries, benefit sharing is required in private sector projects, but not for publicly owned projects. Governments typically underestimate the costs of not having benefit sharing mechanisms in terms of project delays and cost overruns, for instance. In the Bank’s experience, the challenge of promoting local benefit sharing in the operation phase of projects is greater when they are publicly owned, as national governments typically see the management and distribution of all revenues as a key aspect of their public finance role. Still, there is potential to support community-driven development approaches at the local level as a way to share management revenues locally, if this is consistent with the country’s decentralization policies.

**Some governments have withdrawn from benefit sharing commitments—but opposition to projects can also change their perspective.** In the case of Nam Theun 2 in the Lao PDR, despite the commitment of the government to share the benefits of the dam widely to support poverty reduction, the structure of the arrangement made it difficult to track impact of the funds at the community level. Conversely, some governments that were originally skeptical about benefit sharing changed their views after experiencing local opposition on the ground; an example is the CASA CSP in Afghanistan. The Bank can use its experience, long-term engagement, and financial leverage both to encourage countries to support benefit sharing, and to help ensure that their commitment to benefit sharing is sustained over time (and institutionalized, if possible, through policy reforms).

**One case study presents a clear example of political interference undermining a benefit sharing fund, yet it offers some ideas for mitigating such risk.** In 2013, the Papua New Guinea government nationalized the Ok Tedi mine, whose dividends had been used since 2002 to fund local development and to finance a long-term endowment fund registered in Singapore. The government tried to seize the endowment fund, but the Singapore High Court did not allow it, and income from the endowment continues to fund projects in the Western Province, where the mine is situated. This example shows that if one project generates significant revenues, or a private fund reaches a significant size (the value of the endowment fund had reached US$1.3 billion in 2013, when the government tried to seize it), the risk of political interference can be very high. Diverting a percentage of the funds to local coffers could be considered, as long as the necessary
safeguards are in place to ensure effective use of the funds. However, the Ok Tedi case shows another way to manage and reduce such a risk is to set up an off-shore account. The SDP’s ring-fenced, intergenerational fund has thus resisted political interference, at least for now. Importantly, as an endowment fund, it will continue to generate income beyond the closure of the mine.

Building the capacity of local governments and community-based organizations is important for the success and sustainability of benefit sharing. The Bank has generally promoted community-driven development to ensure that the impacts of benefit sharing activities are sustained in the long term. However, not all the projects reviewed for this study adopted such an approach. For example, in the Democratic Republic of Congo, even though the mining sector TA supported some important activities that improved the livelihoods of women and youth working in artisanal and small-scale mining sites, it did not build the capacity of local institutions to manage, plan, and invest in local development. Recent analyses and evaluations of community-driven development operations underscore the risk of creating parallel community structures at the expense of building sustainable local governance capacity, and the importance of integrating it as part of broader governance and public service delivery reforms. In Guinea, the Bank had been supporting capacity building among local authorities for over 20 years, and when the Mining Code was revised to allocate a greater share of mining revenues to local communities, the PACV3 project was adapted to support the decentralization agenda. A successor project has also been designed to build local governments’ capacity to manage their public financial resources in a transparent and participatory manner, and to mitigate local conflicts.
4.2.5 ADDITIONAL CONSIDERATIONS FOR PROJECT DESIGN AND IMPLEMENTATION

Benefit sharing can be mainstreamed into project components, or set up as a separate subcomponent or a standalone project—and each option has its pros and cons. In a project under preparation in Nepal (the Upper Arun Hydropower project), for instance, the Bank has been supporting the integration of the Indigenous People’s Plan into a broader Benefit Sharing Framework to promote a coordinated use of all the different benefit sharing mechanisms mandated by the national legislation, and maximize their development impact. The new Environmental and Social Framework requirements on Free, Prior, and Informed Consent make the Indigenous People’s Plan a suitable tool for benefit sharing. Benefit sharing activities can also be subcomponents in bigger infrastructure projects. However, when this is the case, activities risk being deprioritized or downsized during financial restructuring. That happened in both the water project in Kenya and the mining project in the Democratic Republic of Congo. When benefit sharing is a subcomponent of a large infrastructure project, it is important that the project implementation unit have the resources and organizational structure needed to support the progress of the various components and subcomponents in parallel, recognizing the role each plays in the project’s success. In the CASA-1000 project, meanwhile, benefit sharing was supported through separate projects in each country. The social development specialists working on the CASA CSPs generally found this approach effective. It enabled them to gather the appropriate expertise in the team, for instance, and to work with the government agencies that were relevant to local development (instead of energy or infrastructure ministries, for example). Still, the financing setup had to be reconsidered after trust funds originally intended for the CSPs were used to cover cost overruns of critical CASA-1000 infrastructure. Table 3 summarizes the pros and cons of different structures, as described by Bank staff.
### Table 3. The Pros and Cons of Different Structures for Benefit Sharing in Projects

<table>
<thead>
<tr>
<th>Benefit sharing as:</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| **Project subcomponent** | Lower transaction costs (e.g. for approval, safeguards, reporting)  
Benefit sharing objectives clearly linked to those of the parent project | In case of investment project financing, it risks being opposed by Client (generally less inclined to borrow for benefit sharing)  
PIU needs sufficient capacity to support the parallel progress of the various components and subcomponents  
Risks being downsized as project goes through financial restructuring to cover cost overruns in other project components  
Different timing and different risks of subcomponents activities can add complexity | |
| **Part of ESF arrangements** | Clients support benefit sharing as a mechanism to specifically manage social risks  
No duplication of effort for e.g. indigenous people plan adopts benefit sharing approach | No clear distinction with risk mitigation/ livelihood enhancement activities  
Limited and uncertain budget and staffing resources  
Less visibility and measurability as an area of outcomes contributing to local development | |
| **Standalone project** | More concentrated expertise in social development (e.g. TTL or co-TTL for multi-sector management)  
Implementing agency with experience and incentives to support local development and poverty reduction  
Greater flexibility on financial arrangements  
Monitoring through a high(er) number of socio-developmental indicators | Time alignment with parent project may vary and need to be managed  
Poor/difficult communication with parent project team due to different objectives (potentially perceived as de-linked) | |
| **Part of CSR strategy of borrower and implementing agency** | If successful, stronger developer’s branding (and stronger social license)  
National/state-owned enterprises’ CSR can set high bar for private companies  
Approach likely to be adopted and replicated beyond one single project  
Public-private partnership can be successful if based on common objectives around sharing benefits  
Objectives around socio-economic benefits can be built into EPC bidding documents | Limited Bank or even government capacity to promote best practice on methods, contents, timing, and objectives of benefit sharing (e.g. CDD, inclusiveness, etc.) |
Benefit sharing plans in the land use and forestry sector, in the context of emission reductions programs, offer lessons and examples of good practice that could be applied to other sectors. As noted earlier, benefit sharing in these cases involves results-based payments for verified emission reductions achieved through forest conservation and management programs. The beneficiaries are typically those who contribute directly and voluntarily to the implementation of emission reduction activities. The benefits shared can be monetary or non-monetary and include the funding of local development projects, agricultural inputs packages, and in some cases even support to legalize titles of ownership. Although these projects are fundamentally different from those involving infrastructure or extractive industries, they could offer a range of lessons on how to develop participatory mechanisms for benefits redistribution, for example, as well as on the governance of mechanisms, funding modalities, etc.

It is important to monitor and evaluate the effectiveness of benefit sharing activities, using indicators for each of the three main goals: economic development, equity, and risk mitigation. Having meaningful indicators is key to assessing and monitoring the impact of the Bank’s activities on local development. Indicators corresponding to the goals of benefit sharing—including, in the context of economic development, capacity building and increased access to services—should be embedded in the design of project impact evaluations. The case studies show a range of approaches to monitoring and evaluation. In the CSPs, for example, benefits are measured in terms of increased access to services (electricity, street lighting, social services, and livelihoods facilities/opportunities), as well as through several indicators designed to capture community perceptions (e.g., satisfaction) and empowerment. Data disaggregation by gender and age will help to gauge the inclusiveness of benefit sharing. The results frameworks alone, however, will not show the extent to which benefit sharing leads to sustainable and long-term local development and poverty reduction. Dedicated funds for ex-post impact evaluation would help gather this information. A survey is being conducted in Tajikistan to set a baseline for measuring the poverty reduction and broader economic development impacts of the CSP. This has also been done for the Tina Hydro project. A comparative analysis of different countries’ benefit sharing projects in transboundary projects (Rusumo Falls Hydropower, CASA CSPs) would also be helpful.

A sample of indicators and results extracted from the relevant project documents is presented in Table 4.
Table 4. Examples of indicators and results of benefit sharing projects

<table>
<thead>
<tr>
<th>Examples of indicators</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Village Community Support Projects, and Support to Local Governance Project (PACV3), Guinea (closed in October 2020)³⁷</td>
<td></td>
</tr>
<tr>
<td>Funds transferred from national institution to local govt systems (percentage)</td>
<td>95%</td>
</tr>
<tr>
<td>Local fiscal resources increased by 10 percent (% of local governments)</td>
<td>67% (from baseline 46%)</td>
</tr>
<tr>
<td>Elected mayors and key staff trained in local governance and the use of fiduciary tools</td>
<td>100%</td>
</tr>
<tr>
<td>Beneficiaries who feel project investments reflect their needs (%)</td>
<td>75% (from baseline 26%)</td>
</tr>
<tr>
<td>Number of direct project beneficiaries (thousands) (% female)</td>
<td>3,309 (45.2%) (from 2,326)</td>
</tr>
<tr>
<td>Number of micro-projects financed</td>
<td>222</td>
</tr>
<tr>
<td>Percentage of local development plans which used participatory approaches</td>
<td>100%</td>
</tr>
<tr>
<td>Nam Theun 2, Lao PDR (closed in December 2017)³⁸</td>
<td></td>
</tr>
<tr>
<td>Allocation and utilization of NT2 revenues for poverty reduction and environmental management purposes (100%)</td>
<td>Fully achieved</td>
</tr>
<tr>
<td>Financial statements (of NT2 revenues) are published</td>
<td>Almost fully achieved</td>
</tr>
<tr>
<td>Basic public and social services are provided and improved in all resettlement villages on the Nakai Plateau</td>
<td>Fully achieved</td>
</tr>
<tr>
<td>Watershed environmental protection: conservation and management of the NT2 watershed results in no further degradation of habitats or in declines of threatened species</td>
<td>Partially achieved</td>
</tr>
<tr>
<td>Community support project (CSP), Afghanistan³⁹ (closed)</td>
<td></td>
</tr>
<tr>
<td>75% of sampled families benefitting from the CSP express support towards the transmission line (include neutrality as being supportive) (percentage)</td>
<td>88%</td>
</tr>
<tr>
<td>At least 50% of total beneficiaries are female (Percentage, Custom)</td>
<td>50%</td>
</tr>
<tr>
<td>100% of communities in the corridor of impact receive support through the CSP Grant (percentage)</td>
<td>72.29%</td>
</tr>
<tr>
<td>% female (percentage)</td>
<td>50%</td>
</tr>
<tr>
<td>75% of sampled families benefitting from the CSP express support towards the transmission line (include neutrality as being supportive) (percentage)</td>
<td>88%</td>
</tr>
<tr>
<td>Mining and the PNG Sustainable Development Program, Papua New Guinea (ongoing)³⁰</td>
<td></td>
</tr>
<tr>
<td>Long-term fund growth in 2020 (net of transfer to development programs)</td>
<td>9% (from US$1.49 billion to US$1.62 billion)</td>
</tr>
<tr>
<td>Funds transferred to the Development Fund for development programs</td>
<td>US$35 million</td>
</tr>
<tr>
<td>Noor I Solar Power Project, Morocco (phase I of Ouarzazate Solar project)³¹</td>
<td></td>
</tr>
<tr>
<td>Number of Moroccan employees (percentage of total employees)</td>
<td>77%</td>
</tr>
<tr>
<td>Of which local employees (from the province hosting the project)</td>
<td>46%</td>
</tr>
</tbody>
</table>
Working collaboratively—within the Bank and with other organizations—can improve the design and management of benefit sharing activities and projects. The design of benefit sharing mechanisms requires a range of skills, including both sectoral proficiency (e.g. extractives, energy), and economics and social development expertise. The IFC has stressed the importance of relying on a diverse team of experts, representing specialty areas such as finance, engineering, the environment, social issues, economics, and law. Most staff interviewed for this report acknowledged this and suggested greater collaboration among the Bank’s specialists from different teams in the design of benefit sharing projects and activities. This would require clearly defining roles and responsibilities. For example, some staff recommended the more systematic involvement of social development advisors in projects with significant social impacts, such as mine closures. Positive examples of co-management already exist, as in the Tina Hydro project, where an energy and social specialist jointly led the team. Collaboration between organizations can also be instrumental. For Tina Hydro, the IFC helped build the case for benefit sharing with the developers and operators. It also led the negotiations on project agreements, advising on where benefit sharing provisions should be inserted.
5. Conclusions

The literature and case studies presented in this report show that benefit sharing can be a valuable tool for enhancing the Bank’s impact around the world, by seizing opportunities to support broader sustainable development and poverty reduction in the context of infrastructure, forestry, mining, and other projects. Building on the insights presented above, this section reviews key challenges for the Bank in supporting benefit sharing as well as some ways to create a stronger enabling environment benefit sharing in WBG-financed projects around the world.

As laid out in Section 3, the WBG has promoted benefit sharing, at least in some contexts, since the early 2000s. In some sectors, particularly hydropower, extractives, and forestry, the Bank and the IFC have produced guidelines and source books that explain the rationale for benefit sharing and recommend best practices. As experience with benefit sharing has grown, the WBG has also worked to draw lessons on how to design and implement mechanisms most effectively. However, it is clear that Bank staff still have many questions about benefit sharing activities and approaches, and the operationalization of benefit sharing has not been systematic or consistent across the portfolio. There are several reasons for this.

The term benefit sharing can refer to different things in different sectors, which leads to confusion among staff. This report has shown the wide range of mechanisms and activities that can be used for benefit sharing, and how they can occur in different phases of projects, with different target populations. A common benefit sharing framework (built around the three rationales of economic development, equity, and risk management) can be applied to infrastructure and extractive projects, including those involving corridors of impact (transmission lines and transport corridors). In the context of forest and land use projects, however, benefit sharing often involves monetary and nonmonetary incentives distributed to local communities to achieve certain objectives, and funded through international funds and carbon finance. As noted in Section 4.2.1, all these factors can be confusing for Bank staff, and clearer guidance is needed to ensure that all understand what benefit sharing entails in their sector.

The rationale for including benefit sharing mechanisms in projects is not always clear to task team leaders or sector specialists. Without a clear guidance on benefit sharing, task team leaders and specialists in energy, mining, or infrastructure construction, for instance, may not always understand the case for benefit sharing—much less be able to articulate it persuasively to skeptical governments. Standard cost-benefit analysis is insufficient to provide an economic rationale. Furthermore, the real costs of opposition to projects and conflicts (delays, cost overruns, and reputational damage) are often not known to govern-
ments or the Bank, leading them to underestimate those risks. At the same time, sector specialists may not fully grasp the socioeconomic impact of benefit sharing. This is why, as noted above, it is helpful to systematically engage social development and governance advisors in project design—even as sector specialists’ own capacities are developed. For example, mining specialists interviewed for this report said this area of work could be strengthened, including by increasing collaboration with social development specialists. This could include joint team leadership and the co-development of a more systematic approach to delivering the Just Transition for All framework. However, even social specialists at the Bank currently have limited knowledge of benefit sharing.

The design of benefit sharing requires time and resources, from preparation through to implementation, which needs to be planned in the project cycle. The additional effort required to prepare, design, and implement benefit sharing activities may have discouraged the Bank from supporting this approach more consistently across the portfolio. Even without benefit sharing, it can take several years to conduct feasibility studies and prepare engineering and technical project designs. Project preparation timeframes, together with time pressures to meet financial commitments and disbursements, have generally resulted in most projects adopting a mitigation, restoration, and “do no harm” approach, rather than exploring benefit sharing arrangements. Finally, benefit sharing activities present several implementation challenges that cut across sectors, requiring—for example—understanding of governance issues, and knowledge of national fiscal policies and legislations.

The Environmental and Social Framework is the guiding reference framework for social risk management, and the provisions on benefit sharing are currently broadly stated. As discussed in Section 2, the spirit of the ESF is to maximize development benefits, going beyond “do no harm.” It calls for promoting activities beyond mitigation to support sustainable development, and asks staff to consider benefit sharing arrangements. However, although the ESF clearly supports the underlying principles behind benefit sharing, and it makes multiple references to benefit sharing, it does not explicitly require it nor explain how to do it. The lack of clear provisions on benefit sharing leaves it to the discretion of task team leaders to decide when and how to support such approaches. The lack of clarity around the rationale, and what activities represent benefit sharing (or can be funded to support benefit sharing) have further limited the uptake of this approach. This points to the need to provide guidance as to how to use current ESF provisions to promote benefit sharing.

Each sector presents different key issues, and even within a single sector, there can be multiple effective approaches to benefit sharing. In order to identify the most suitable options for each project, a menu of approaches could be utilized taking into consideration the key issues in each sector. Table 5 presents a preliminary analysis focusing on three categories of projects: those that harness natural resources; infrastructure projects spread over long distances and with corridors of impact; and forestry emission reduction projects. These categories do not span the full range of WBG projects, but they have distinctive characteristics and provide a useful starting point for framing the issues around the design of benefit sharing activities.
Table 5. Potential Approaches to Benefit Sharing, by Sector and Project Impacts

<table>
<thead>
<tr>
<th>Projects generate an economic rent</th>
<th>Projects affect access to natural resources and ecosystem services, alter the landscape, and/or affect livelihood activities</th>
<th>Other key issues to be considered in designing benefit sharing activities</th>
<th>Possible approaches to support benefit sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Before and during construction During operation Beyond operation</td>
</tr>
<tr>
<td>Use / extraction of natural resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extractive industries—oil, gas, and mining (*TA only)</td>
<td>Yes</td>
<td>National legislation on benefit sharing (community development funds, royalties, taxes) Enforcement of benefit sharing legislation Private sector vs public sector projects and benefit sharing National legislation on FPIC and implementation Institutional capacity Governance and PFM Development needs Fragile and conflict affected situations</td>
<td>TA on: Policy Legislation Enforcement Guidelines PFM Local governance Engagement with local communities Subgrants for local infrastructure or direct provision Skills training and jobs Institutional capacity building Citizen engagement, community-driven development</td>
</tr>
<tr>
<td>Water resource management (including hydropower)</td>
<td>Yes Although each project footprint is different, typically these projects greatly impact on the livelihood of the local communities who host them</td>
<td>TA on: Revenue-sharing: Design of the mechanism/formula (e.g. royalty, tariff) Legislation Enforcement Guidelines PFM Local governance capacity strengthening Cofinancing / partnership with benefit sharing programs</td>
<td>TA on: Policies Legislation on project closure/decommissioning Enforcement Guidelines PFM Local governance Labor programs/social protection Consider embedding benefit sharing in closure activities (e.g. Just Transition for All)</td>
</tr>
<tr>
<td>Geothermal Other renewables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other infrastructure</td>
<td>Projects generate an economic rent</td>
<td>Projects affect access to natural resources and ecosystem services, alter the landscape, and/or affect livelihood activities</td>
<td>Other key issues to be considered in designing benefit sharing activities</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------------</td>
<td>------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Before and during construction</td>
<td>During operation</td>
<td>Beyond operation</td>
</tr>
<tr>
<td>Transport, Electricity transmission lines, Pipelines</td>
<td>No</td>
<td>Yes/No</td>
<td>TA on: Policy Legislation Enforcement Guidelines Public finance management Local governance Engagement with local communities Subgrants for local infrastructure or direct provision Skills training Jobs Institutional capacity building CE, community-driven development</td>
</tr>
<tr>
<td>Possible approaches to support benefit sharing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foresty and land use</td>
<td>Emission reductions projects</td>
<td>Participation in REDD+</td>
<td>National legislation on FPIC and implementation</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------------------</td>
<td>------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Participation in REDD+</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Participation in REDD+</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Participation in REDD+</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Participation in REDD+</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Participation in REDD+</td>
</tr>
</tbody>
</table>
References


ENDNOTES


7 Economic rent is the return or profit from exploiting a limited natural resource whose value is independent of any labor, capital, or entrepreneurial effort applied to the resource. Rent is a unique form of return, in that it will not be dissipated by free market competition, and it will continue to accrue to whomever holds the right to exploit the resource. See Rothman, 2000, “Measuring and Apportioning Rents from Hydroelectric Power Developments.”


9 Ibid, p.42.

10 Ibid., p. 41. Examples include helping resettlers develop aquaculture and fisheries in the new reservoirs (Indonesia), moving them into the newly irrigated command areas (China and some projects in India), or favouring them to cash in on the commercial opportunities created around the newly constructed infrastructure (Argentina, China, Turkey).

11 Ibid., p. vi.


14 A direct impact is an impact which is caused by the project and occurs contemporaneously in the location of the project (ESF, p. 18, footnote 20).

15 An indirect impact is an impact which is caused by the project and is later in time or farther removed in distance than a direct impact, but is still reasonably foreseeable, and will not include induced impacts (ESF, p.18, footnote 21).

16 The cumulative impact of the project is the incremental impact of the project when added to impacts from other relevant past, present and reasonably foreseeable developments as well as unplanned but predictable activities enabled by the project that may occur later or at a different location. Cumulative impacts can result from individually minor but collectively significant activities taking place over a period of time (ESF, p. 18, footnote 22).


18 Chandrasekharan Behr et al., 2012, “Benefit Sharing in Practice: Insights for REDD+ Initiatives.”

19 REDD+ is a key part of global efforts to mitigate climate change by supporting developing countries in the sustainable management of forests, reforestation, and afforestation. To learn more, see https://www.un-redd.org and https://www.fao.org/redd/en/.


26 IFC, 2019, “Local Benefit Sharing in Large-Scale Wind and Solar Projects.”


30 Watkins et al., 2017, “Lessons from Four Decades of Infrastructure Project-Related Conflicts in Latin America and the Caribbean.”


EIB, 2018, Environmental and Social Standards, 55.


The number of workers varies significantly from project to project, but labor-intensive mines can provide more than 10,000 jobs per mine, but some large, more technology-intensive mines may employ fewer than 100 workers. See Otto et al., 2006, “Mining Royalties: A Global Study of Their Impact on Investors, Government, and Civil Society.”


Such royalties are sometimes based on measures of profitability, but more commonly on the quantity of material produced or its value. Different mechanisms vary with respect to, for example, the timing of fiscal flows or their capacity to capture windfall revenues from higher commodity prices (e.g. unit-based vs. value-based taxes).


In parallel with that study, the Extractive Industries Review, the independent evaluation units undertook a joint evaluation of the World Bank, International Finance Corporation (IFC), and Multilateral Investment Guarantee Agency (MIGA) to assess how effective the WBG had been in enhancing the contribution of extractive industries to sustainable development.
(see Liebenthal, Michelitsch, and Tarazona, 2005, “Extractive Industries and Sustainable Development: An Evaluation of World Bank Group Experience”). The Compliance and Ombudsman’s Office of IFC and MIGA also undertook a review of the appraisal processes of some more recent projects. All three reports concluded that extractive industries could contribute to sustainable development if appropriate conditions are present.


47 It is recommended that “at appraisal and during supervision, the WBG should systematically estimate the distribution of project benefits among different stakeholder groups (government at different levels, private companies, and local communities), evaluate its sensitivity to different scenarios, and discuss the acceptability of benefit sharing with key stakeholder groups” (p.15).


49 Wall and Pelon, 2011, “Sharing Mining Benefits in Developing Countries.”


52 Bauer et al., 2016, “Natural Resource Revenue Sharing”.


54 Guimbeau, Ji, Menon, and Rodgers, 2021, “Mining and Gender Gaps in India”.


58 Stanley et al., 2018, “Managing Coal Mine Closure: Achieving a Just Transition for All.” Large-scale changes to coal industries across Europe, and more recently in the United States and China, have resulted in as many as 4 million coal workers losing their jobs. The main drivers of these changes are mine mechanization, government policies and competition from other fuels in downstream energy demand markets. At present, economies in Asia, Eastern Europe, and Africa face these same drivers of change, with large job losses already taking place in China, and with other large coal producing countries in Asia likely to follow. Lessons drawn from the experiences of the Russian Federation (Russia The concept builds on the International Trade Union Confederation’s definition: “A just transition brings together workers, communities, employers, and government in social dialogue to drive the concrete plans, policies, and investments needed for a fast and fair transformation. It focuses on jobs, livelihoods, and ensuring that no one is left behind as we race to reduce emissions, protect the climate, and advance social and economic justice”. The Just Transition for All complements this concept by
also envisioning the reform of labor and social policy and institutions to ease the disruption faced by the people directly and indirectly affected by the transition toward clean energy, as well as to support them in their post-transition jobs and lives.

59 Currently, the World Bank’s support to energy transition in coal regions takes a programmatic approach using a combination of trust-funded grant assistance, development policy operations, and targeted investment project finance lending that may utilize government funding and/or development organization financial support.


62 Roquet, and Durocher, 2002, “Benefit Sharing from Dam Project. Phase 1: Desk Study Report.” The main mechanisms for sharing monetary benefits discussed are: redistribution of part of the dam’s revenue to local or regional authorities as royalties tied to power generation or water charges; establishment of development funds financed from power sales; part or full ownership of the project by project-affected persons (equity sharing); levy of property taxes by local authorities; and granting preferential electricity rates and fees for other water-related services to local companies and affected persons.


IFC, 2019, “Local Benefit Sharing in Large-Scale Wind and Solar Projects.”

The partnership has since been renamed as the Sustainable Renewables Risk Mitigation Initiative. To learn more about the initiative’s work, see https://www.worldbank.org/en/topic/energy/brief/srmi.


World Bank, 2004, “Sustaining Forests: A Development Strategy.” Mismanagement of this resource has cost governments revenues that exceed World Bank lending to these countries. Illegal logging results in additional losses of at least US$10 billion to US$15 billion per year of forest resources from public lands. If captured by governments, these losses could support expenditures in education and health that will exceed current development assistance to these sectors. Forests also are central to maintaining the environmental commons. Nearly 90 percent of terrestrial biodiversity is found in the world’s forests, with a disproportionate share in the forests of developing countries. Most of the carbon emissions of developing countries come from deforestation, which accounts for between 10 and 30 percent of global carbon emissions. Growing forests are a valuable resource not just for their timber and biodiversity values but also for their prospective value if a global market emerges for the sequestering of carbon from forests. A Forest Strategy for the Bank that can make an effective contribution to poverty reduction and environmental management is central to achieving the Millennium Development Goals (MDG).

REDD+ is a key part of global efforts to mitigate climate change by supporting developing countries in the sustainable management of forests, reforestation, and afforestation. To learn more, see https://www.un-redd.org and https://www.fao.org/redd/en/.

World Bank Group, 2019, “Benefit Sharing at Scale: Good Practices for Results-Based Land Use Programs.”


However, these were never endorsed by the Lao government.


Wong and Guggenheim, 2018, “Community-Driven Development: Myths and Realities.”


Project Implementation and Completion Results Report, see https://projects.worldbank.org/en/projects-operations/project-detail/P076445


PNG SDP Annual Report 2020, see https://www.pngsdp.org/annual-reports/

“Noor Ouarzazate Case Study”, World Bank internal staff document.


Benefit Sharing in World Bank Operations

Prioritizing Development for Local Communities