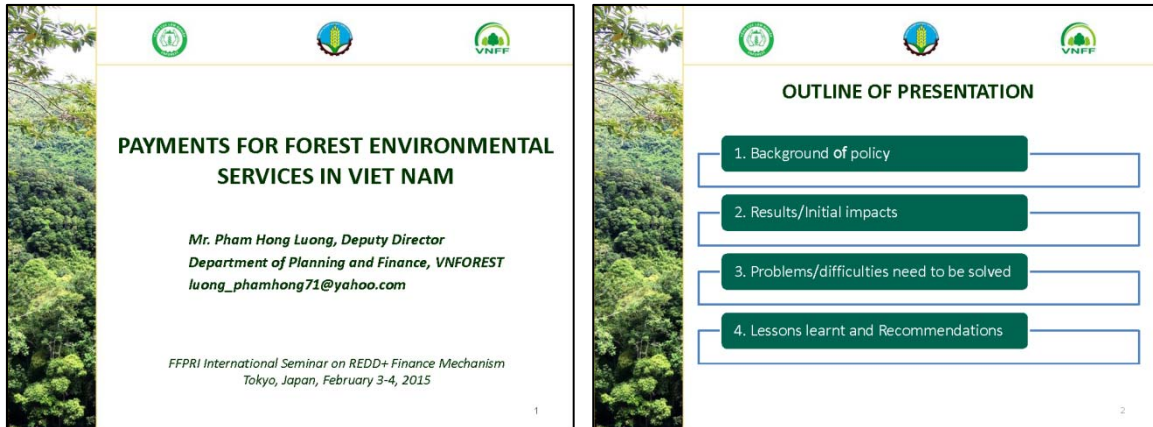


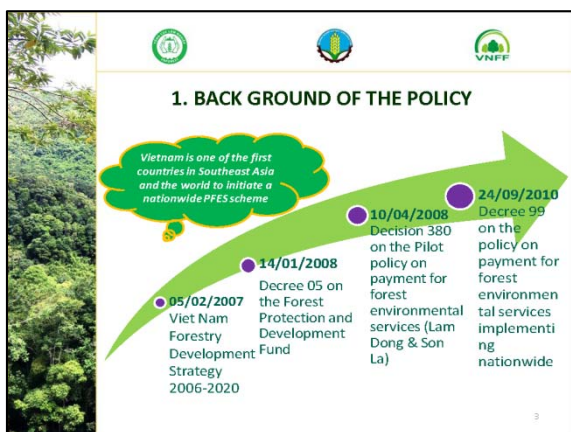
Payments for Forest Environmental Services in Vietnam  
Pham Hong Luong (VNFOREST<sup>1</sup>, Vietnam)



First of all, I would like to thank Dr. Ma for nominating me and organizers for allowing me to stand here to present payment for forest and environmental services in Vietnam. As you may know, in our country, we followed the initiative leading by Costa Rica. The question here is why we conduct this initiative, as you normally raise the question of, in a forest sector, how to ensure and how to incentivize the forest owner and household who depend on the forest?

We need to give them incentive to ensure their life. That is our initial idea. However, as you may know, in 1990s, our forest cover reduced, so in the 2000s we issue the law of Forest Protection and Development.

### 1. Policy Background



A year later, we issued a strategy and decree for establishment of Forest Protection and Development Fund. One year later, in 2008, we were supported by GIZ<sup>2</sup> and USAID. Then we piloted our policy in two

<sup>1</sup> Vietnam Administration of Forestry: <http://tongcuclamnghiep.gov.vn/default.aspx> (Vietnamese)

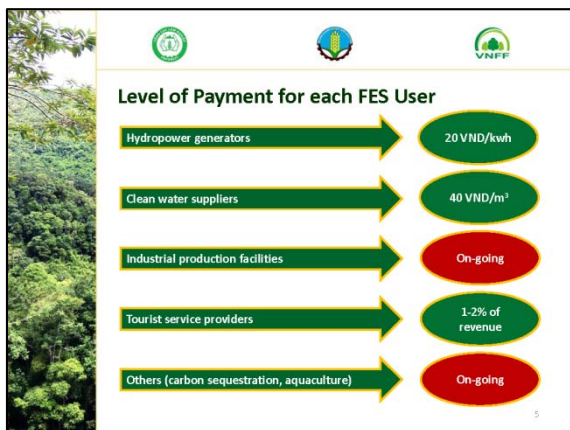
<sup>2</sup> German Agency for International Development: [https://www.giz.de/en/html/about\\_giz.html](https://www.giz.de/en/html/about_giz.html)

provinces, Lam Dong and Son La. Based on a successful result, then we scaled up nationwide in 2010. The policy of payment for forest environmental services started in 2011.

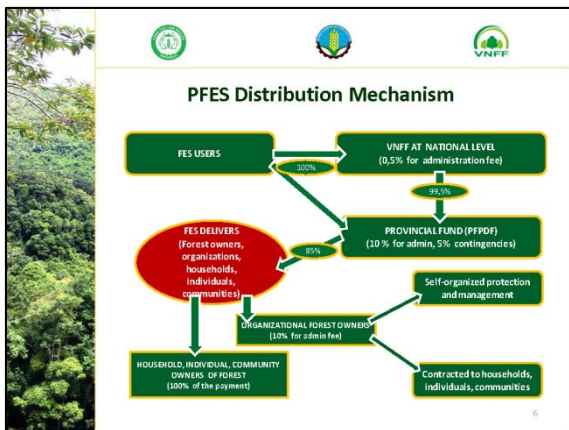


This is the overall picture of the PFES modality. On the left hand side, you can see a service provider as the forest owner and household who are contracted to protect forests. On the right hand side is service users including the hydropower plants, water suppliers, industrial sector, and eco-tourism companies. Also, in the future maybe the aquaculture entities who benefit from the forests also have to pay.

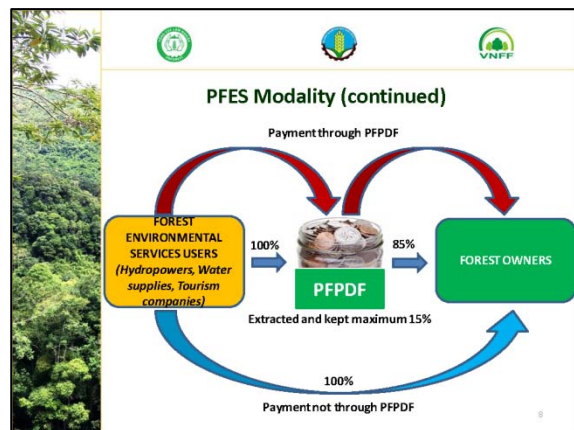
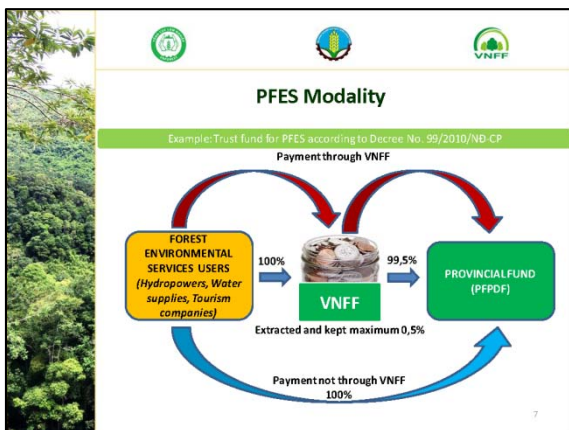
We are working for the forest protection and development fund. We are intermediary to receive money from service user, and then we pay for forest owner and households.



In our policy, beyond study, we regulated some rate of payment. For example, for hydropower plants, they are paying 20 VND/kwh. For water suppliers they pay for 40 VND/m<sup>3</sup>. For eco-tourism entities, they pay from 1% to 2% of their revenue. For other entities, such as the industrial sector and aquaculture, it is still on-going. We are trying to study more to regulate the rate of payment.



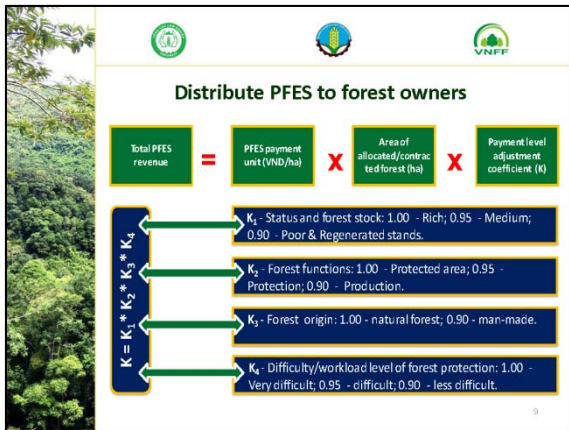
This is the PFES distribution mechanism. As you already know, at the central level, we call that the Vietnam Forest Protection and Development Fund<sup>3</sup> (VNFF). We sign contract with the PFES users, then we receive money, and we have kept 0.5% for administration cost at the central level. 99.5% will be distributed to the provincial fund. At the provincial fund, they keep 10% for their administration cost, and 5% for contingency costs, and the rest amount, around 85% will be distributed for forest owners and households who contract to protect forests.



There is a PFES modality that I mentioned already. At the central level, we only sign the contract with the entities that have a watershed, not within provinces. It can be two provinces and more over. Then we receive money and then we pay for the provincial level.

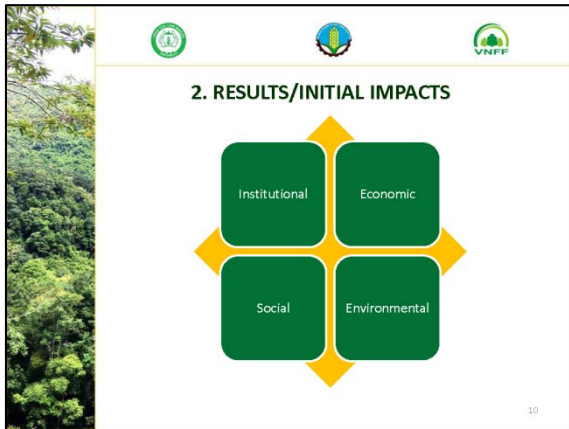
At the provincial level, they only sign contracts within the provinces. For example, hydropower, they had the watershed within provinces, then provincial fund will sign contract with them and receive money. They keep 10% for administration cost and 5% for contingency costs.

<sup>3</sup> <http://vietnam-redd.org/Upload/Download/File/ENG - ND5CP%283%29- quy BV va PTR 0637.pdf>



This is the calculation for receiving money from PFES. It depends on three factors. The first one rate of payment per hectare and the second one is number of hectare the forest owner is protecting or developing. The first one depends on the K coefficient<sup>4</sup>. We assume that K coefficient can help to ensure the quality of forests and it can benefit for the forest owner when they manage many types of forest. For example, the K1 stands for status of forest or you can call that forest condition. The second one relates to the function of forest. The third one relates to origin of forest and the last one stands for rate of difficulty or workload of the people who have to protect the forest.

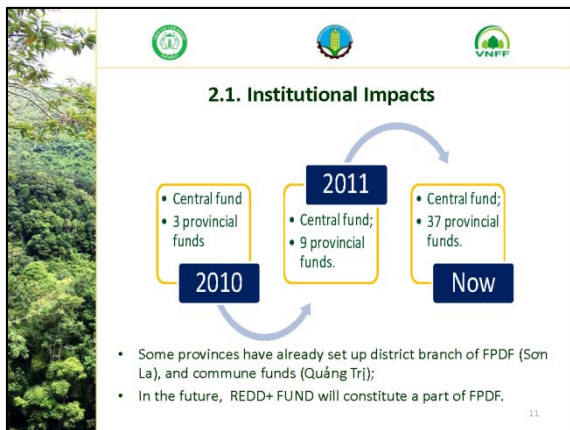
**2. Results & Initial Impacts**



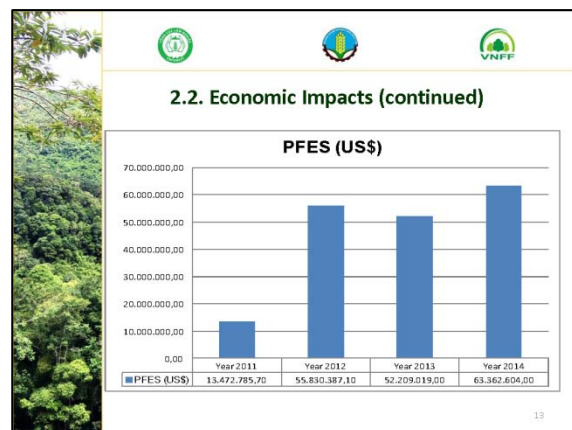
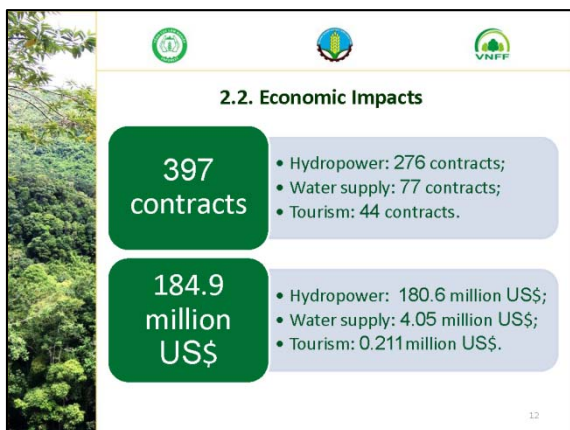
Even though we implemented our policy not very far comparing with Costa Rica’s nearly 20 years, the four years of implementation show remarkable achievement. For example, we can summarize institutional impact, economic impact, social impact, and environmental impact.

<sup>4</sup> Payment Level Adjustment Coefficient

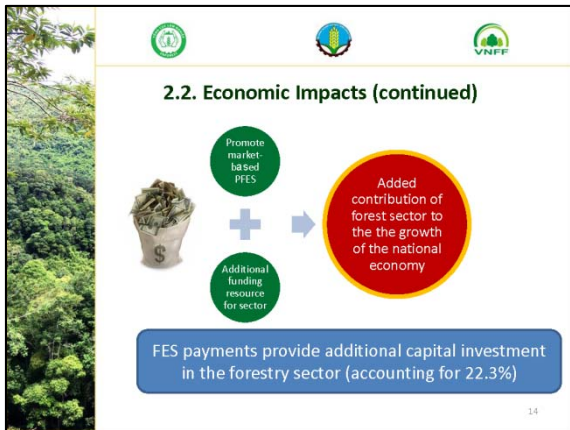




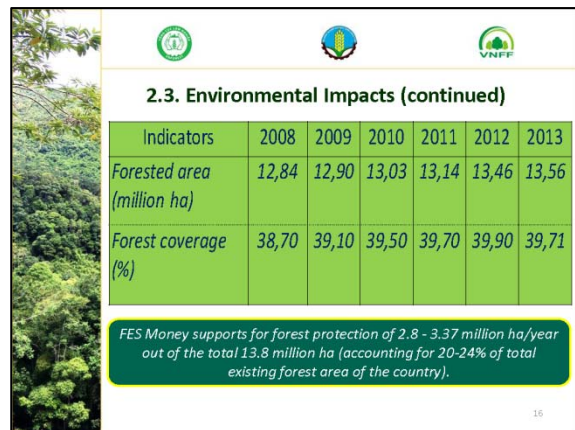
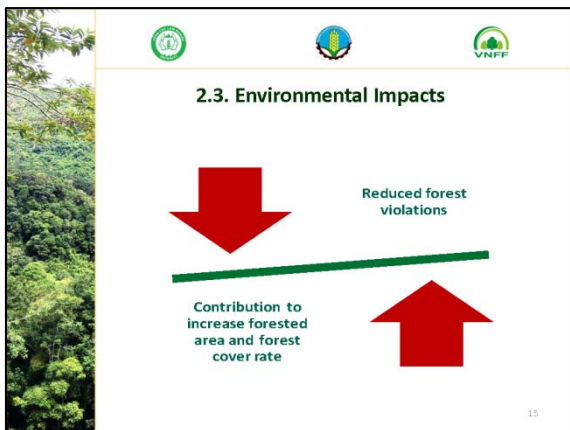
I can summarize some impacts such as, when we emphasize on institutional impact, we assume that, in 2010, we have three funds: one in central and two at provincial levels. However, up to now, we already established a system from the central to provincial level. Now we got 37 provincial funds. Including the legal framework, it allowed it to implement our policy. Now in some provinces, they establish the branches and also at the district level. In the future, we are trying to establish the REDD fund as a part of our fund.



Emphasizing economic impact, we already signed a lot of contracts with the entities who use the forest services. For example, we signed nearly 400 contracts from hydropower plant water supplier and tourism companies. We receive a lot of money from them. From 2011 up to now, we received nearly USD\$190 million, in which hydropower plants account for nearly 98%. You can see that figure increased year by year. The recent year 2014, we received USD\$63 million.







It can be clearly seen that our policy contributes to the forestry sector. It created a mechanism based on market. Therefore, now the forest owner they are reserved to receive money not only from timber but also from this policy. Now our policy accounts for 23% comparing with the total investment in forestry sector.



When we emphasized on environmental impact, it can help to increase the forest area, but also reduce violations in forest law enforcement.

You can see the figure in the table. It proved that the forest area year by year increased and the coverage also increased.



### 2.3. Environmental Impacts (continued)

Description of status	Progress over years					(+)/(-) 2013 vs 2010 (%)
	2010	2011	2012	2013	Total	
Forest violation case	66.925	58.655	57.132	54.745	237.457	-18,20%
Destroyed area (ha)	133.850,00	117.290,00	114.264,00	109.490,00	474.894,00	-18,20%
Forest fire areas (ha)	267.658,00	234.580,00	228.528,00	218.980,00	949.746,00	-18,19%

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There is a figure relating to reserve protection.







### 2.4. Social Impacts


- Created jobs with participation of 236,425 households of contracted forest (90% minority people);
- Improved income/livelihood for people who are engaged in forestry (from PFES revenue average 90 USD/household/year);
- Created new revenue source for forest owners, especially some forestry companies.






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For social impact, Dr. Ma already had seen in Lam Dong, our policy created a lot of jobs for minority people. A lot of people are joining our program. Now, compared to the beginning, nearly 300,000 households are joining our policy. It ensured their livelihood by receiving this money. Comparing with the Costa Rica, it is around US \$60 per hectare per year but in our country it is less than that, but it is very suitable for poor people.

### 3. Problems & Difficulties



### 3. PROBLEMS/DIFFICULTIES

AT CENTRAL LEVEL	<ul style="list-style-type: none"> <li>Guiding document for implementation of Decrees 05 and 99 not yet fully developed and detailed enough;</li> <li>Difficult to determine forest area located in inter-provincial watersheds.</li> <li>Not yet created sanction mechanism for PFES violation</li> </ul>
AT LOCAL LEVEL	<ul style="list-style-type: none"> <li>Delayed implementation arrangement, particularly fund's structure and staff</li> <li>Policy dissemination, awareness communication, training and capacity building have not been sufficient; disbursement rate quite low.</li> </ul>
AT FES USERS	<ul style="list-style-type: none"> <li>Awareness on policy still low. Some private or joint-ventured hydropower's still reluctant to pay or find the way to escape.</li> <li>M&amp;E system has not been fully developed and detailed enough to provide data timely.</li> </ul>

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Even other way, we got remarkable achievement, but we are facing some difficulty. For example, at the central level, there is a new initiative and new policy. Even if our government issues a decree, it is still not detailed enough. When we apply in whole country, there is something not suitable and not consistent with the process and practices. Therefore, we should study more.

I mentioned the biggest difficulty also comes from how to identify forest area to ensure fairness when we pay money for households. We have to demarcate and identify forests correctly. Otherwise, it can be a conflict of interest.

To ensure policy enforcement, we should issue sanctions. For example, now we still have many hydropower plants that fail to pay money. In our policy, we allow them to add the cost in the price of electricity, but now they fail, so that means we need to have a sanction to force them.

At the local level, there is some delayed implementation at some provinces. In our country, we have 63 provinces, but up to now, only 37 provinces are implementing our policy. That means some provinces are not ready to implement our policy. Of course, the dissemination of policy and capacity building at the local level is not enough. There are more difficulties relating to technical issues. For the forest service users, I said some of them not ready to pay for forest service providers. That is the right time to force them by issuing the decree relating to sanctions.

#### 4. Lessons Learned & Recommendations



From implementation over four years, we have some lessons learned. The first is I get some idea that is the same as with our colleagues: political will and strong commitment, not only from the central but also from provincial level. It is very, very necessary to implement our policy successfully.

For example, in the south, some provinces such as Lam Dong, they have a strong leading and commitment from the top leader, then they can implement very well. However, in the north, some provinces lack interest of the top leader, so there are delaying. Of course, when doing the policy, then we have to allocate adequate funding to ensure processes, for example, relating to how to train people, how to raise awareness for people.

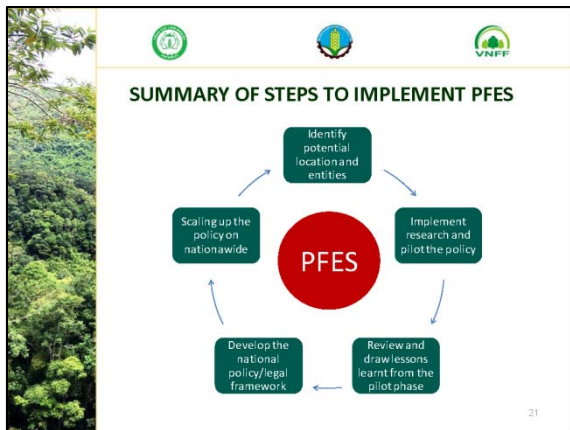
Of course there are new policies. That is why we should frequently revise and update our regulation especially the decree or circular relating to PFES to ensure it is consistent with the process. Of course, one of the key issues relates to communication among partners and mobilizing concern and cooperating with the



other stakeholders who are involved in our process.

As I mentioned, in the past, without our support from the donor community, for example GIZ and USAID, we cannot create our policy successfully now.

The last one is, to ensuring the quality of forest and to ensure the user money transparently, we should establish the M&E system. That is why we are trying to develop the database to integrate in our forest informative system now.



I can summarize process in our country to ensure implementation of our policy effectively. The first one, we have to identify potential entities and potential locations. In the past, we chose Lam Dong in the south and Son La in the north, so it helped to initiate it. Then we cooperate with the other stakeholders. They can help us to study.

I agree with the Peter Graham that NGO and international, they are helpful to support to study more and to provide scientific evidence that is suitable and helpful for policymakers to develop our legal framework.

Beyond that, we pilot the policy before we apply in whole country based on that success story and based on difficulty at the piloted PFES, and we can issue the official circular/decrees to apply in the whole country. Then we monitor and assess to be consistent with the process. That is the process for our policy implementation.

5. Future Vision of the VNFF



In the future, we hope that by doing so, we can mobilize the social resources to protect our forest.

We hope that we can be successful in the future. REDD fund, as I said, can be a part of our fund, so we hope with the financing resources we can provide the forest owners and households to ensure the quality and quantity of forests as well as improve their livelihood.