

Payments for Forest Environmental Services

Vietnam

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Introduction

In 2004, the government of Vietnam laid the foundations for a nationwide program of payment for ecosystem services (PES) through the revised Forest Protection and Development Law (2004). In 2008, Decision No. 380 established a national program known as Payments for Forest Environmental Services (PFES), and first was piloted in Lam Dong and Son La Provinces. Following the pilot period, Decree No. 99 in 2010 mandated the nationwide implementation of PFES. Vietnam thus became the first country in Asia to initiate a nationwide PES scheme - although PES schemes in Vietnam deviate from the classic definition of PES (Wunder 2005) because the government sets the level of payment, such that it effectively functions as a water, electricity or tourism tax or fee.

Most PFES projects were developed to test the feasibility of adopting market-based instruments in Vietnam and to trial various benefit-sharing mechanisms and monitoring, reporting and verification systems. The experiences provide numerous lessons learned on institutional settings, benefit sharing, and monitoring and evaluation.

Quick facts

Zone	National Territory
Key Words	Environmental Services Payments, Mechanisms, Evaluation, Monitoring.
Theme	Forest Protection
Implementing Agency	National Government

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Institutional Setting

PFES projects in Vietnam were driven by donors and were designed only as pilot schemes. Intermediaries, including government agencies, NGOs, international agencies, local organizations and professional consulting firms, initiated PES projects based on local problems. Payment levels were set by the central government and the Provincial People's Committees (e.g., in Nha Trang) or according to the budget made available by buyers (e.g., Hoa Binh). Payments were allocated to national parks and marine protected areas boards (e.g., Thua Thien Hue, Bac Kan, Dong Nai), provincial treasuries (e.g., Nha Trang) and a multi stakeholder trust fund (e.g., Thai Nguyen and Hoa Binh). The model with the multi-stakeholder trust fund, representatives of buyers, suppliers, NGOs, academia and government agencies (trialed in Hoa Binh) and a cooperative model (trialed in Thai Nguyen) earned the trust of both buyers and suppliers of environmental services.

The transaction costs for PFES are high because of the complexity of administrative structures, limited capacity of public servants, conflicts of interest, and weak coordination and information sharing between and within government agencies (Pham et al. 2009). For example, in Hoa Binh, the AR-CDM (Clean Development Mechanism Afforestation and Reforestation) project team spent 2 months negotiating with buyers and 4 months to complete the project proposal; it took them a whole year to fulfill all the requirements of the different government agencies, and 2 years to deliver contracts to local residents. Similarly, it took the board of the nonprofit organization 1 month to establish the fund but 1 year to get the province's final approval of its operational guidelines.

Benefit-sharing mechanisms

For PES schemes to be effective, payments must be channeled toward those that actually provide the services and thought must be given to the best way to pay them. In Hue and Nha Trang Provinces, revenue from payments was retained by provincial authorities and not passed on to the suppliers of the environmental services.

The form of payments influences the sustainability of PFES schemes. For example, in Bac Kan, local communities preferred payments in kind, such as support for building community halls and small-scale hydropower plants, because cash payments were so small. In the AR-CDM project in Hoa Binh, the PES contract involved both upfront payments for farmers' labor and the initial funding needed to help farmers change their land-use practices.

Both buyers and suppliers in Hoa Binh saw these as the key determining features for successful benefit sharing because they address local people's pressing needs.

Monitoring and evaluation

Environmental service suppliers and government agencies had difficulties in demonstrating that both the costs and benefits from watershed protection had been delivered to buyers. At the same time, buyers of environmental services point out that obtaining proof of the benefits is the key to incentivizing them to become and stay involved in PES. In the cases studied, difficulties arose for drawing up contracts and instituting comprehensive monitoring and evaluation because of the lack of consistent data on land use, certified forest ownership, and assessments of forest condition, soil erosion, water quality and biodiversity. As budgets for monitoring and evaluation in these schemes were small, monitoring was often based on individual landowner reports, which tend to be biased and inaccurate. Delays in verifying and distributing payments engendered local people's mistrust of the project, which eventually undermined the efficacy of the contracts.

Targeting buyers of environmental services to establish and monitor compliance with contracts requires innovative approaches, continuous follow up and careful assessment of buyers' capacity and willingness to pay, as well as attention to the specific concerns of buyers and suppliers. In addition to voluntary contracts between buyers and suppliers, government enforcement of contracts is needed. Coalitions between state agencies and the private sector

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can weaken law enforcement and undermine the conditionality of PES contracts (as seen in, e.g., Bac Kan). Resistance to paying PES fees is widespread in the domestic private sector; international buyers are more willing to pay because they see the advantages of putting their participation in PES in their public relations campaigns.

Conclusions

Developers of early pilot projects paid no attention to monitoring of financial flows, despite strong interest from international buyers and brokers in participating monitoring environmental services, PES contracts and financial flows, given their skepticism concerning governments' ability to deliver accountable and transparent benefit-sharing mechanisms. Although poverty

reduction is a goal for every project, there has been no monitoring to determine whether it has been achieved. Furthermore, no case in Vietnam has demonstrated the degree to which underprivileged (in terms of wealth or gender) stakeholders are affected and included in PES, that is, the degree to which the mechanism can be considered pro-poor.

References

The following documents informed the development of this paper:

Pham TT, Bennet K, Vu TP, Brunner J, Le ND and Nguyen DT. 2013. Payments for forest environmental services in Vietnam: From policy to practice.