

# Payments for forest environmental services (PFES) in Vietnam

## Findings from three years of implementation

August 2014

Vietnam's payments for forest environmental services (PFES) policy aims to incentivize individuals and communities to sustainably manage and protect their forests by providing compensation for their efforts.

The sustainable management and protection of Vietnam's forests and landscapes is vital for the health and well-being of its rural communities. Forests play a crucial role in protecting watersheds, preventing soil erosion, maintaining the water cycle, and fighting climate change. Timber and non-timber forest products (NTFPs) are an important source of income and nutrition. But economic development and growing demand for food, energy and wood resources are putting increasing pressure on Vietnam's forests and landscapes.

To protect these vital ecosystem services, in 2010 the Government of Vietnam became the first country in Asia to institutionalize a nationwide policy on PFES. Mandated through Government Decree No.99, the PFES policy requires users of forest environmental services to make payments to suppliers of these services.

Services, as outlined in Decree 99 include: watershed protection; natural landscape beauty protection and biodiversity conservation for tourism; forest carbon sequestration and the reduction of greenhouse gas emissions through the prevention of deforestation and forest degradation; and the provision of the forest hydrological services for spawning in coastal fisheries and aquaculture.

Vietnam's Ministry of Agriculture and Rural Development (MARD), which is responsible for implementing PFES, has successfully issued procedures and established fixed payments for watershed and landscape beauty protection services. In addition, they have identified forest environmental service users as water supply companies, and hydropower plants and tourism companies; and suppliers as forest owners – individuals, households, communities or organizations who hold forested land titles.

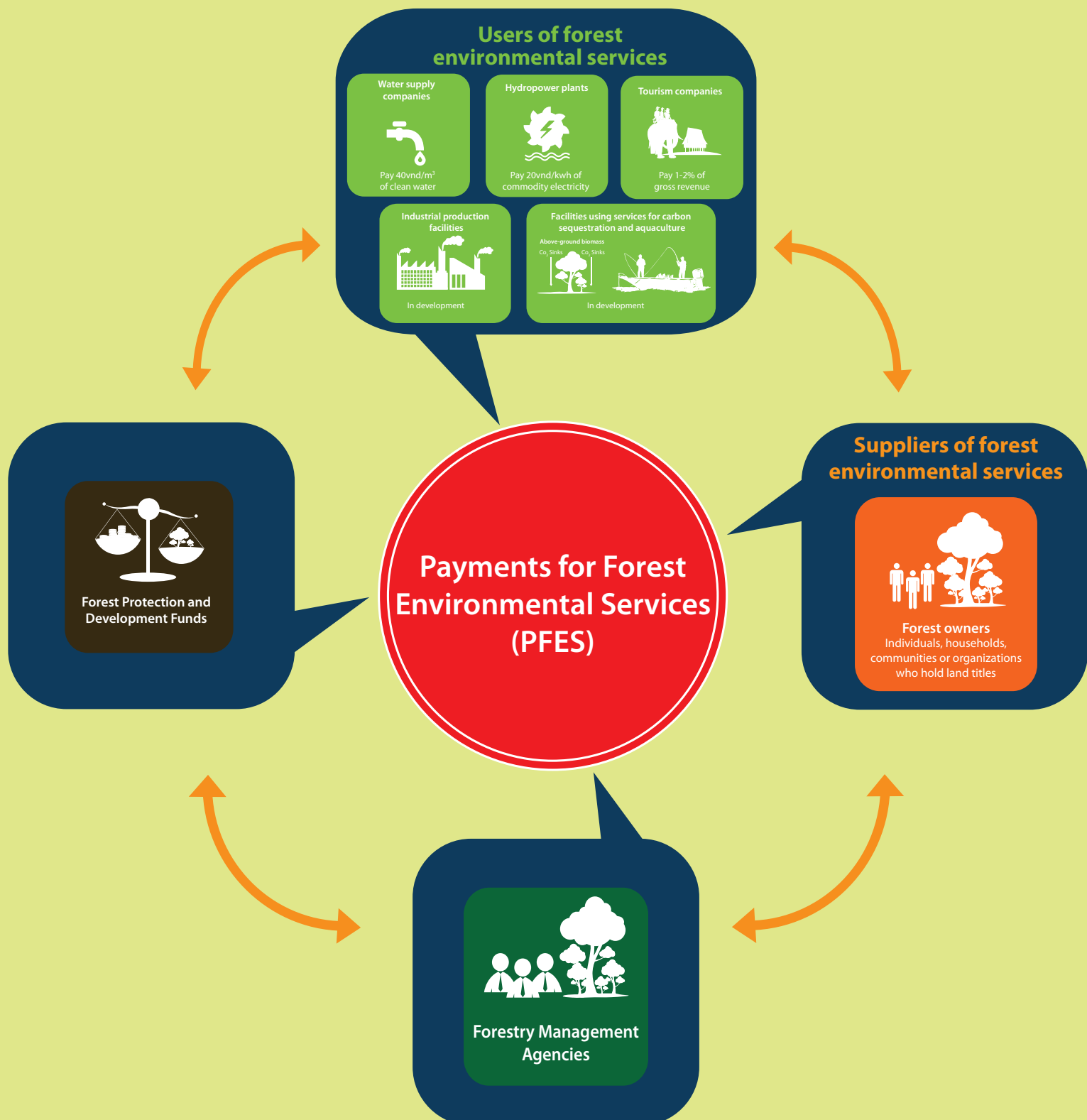
Currently, MARD is developing a framework to capture payments for the forest's hydrological services provided the aquaculture sector, and is linking payments for forest carbon sequestration services to the UN-led REDD+ scheme (Reducing Emissions from Deforestation and forest Degradation), which is moving into the pilot phase.

Suppliers of forest environmental services are forest owners – individuals, households, communities or organizations who hold forested land titles.



## PFES in Practice

The relationship between suppliers and users

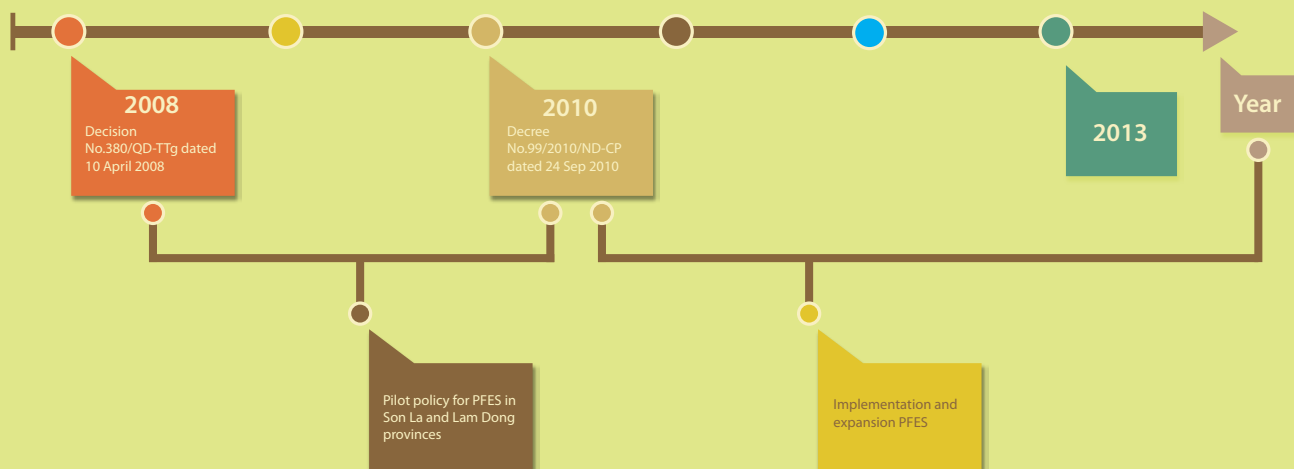




# Provincial Forest Protection and Development Funds in Vietnam







The PFES policy aims to improve forest quality and quantity, increase the forestry sector's contribution to the national economy, reduce the State's financial burden for forest protection and management, and improve social well-being.



# Achievements

## **The establishment of a legal PFES framework reinforces political commitment for PFES and strengthens the capacity of implementing agencies**

More than twenty legal instruments – Decrees, Prime Ministerial Decisions and Circulars – form the legal basis for PFES implementation in Vietnam. Forest protection and development funds (FPDFs) have been established at both central and provincial levels with provincial FPDFs dominating the institutional setting for PFES. Provincial FPDFs sign contracts with buyers and collect payments, prepare payment plans, monitor and release payments to service suppliers and report to the central FPDF. To date, 40 provinces have established steering committees, of which 36 provinces in Vietnam have established provincial FPDFs, and 31 provinces have established fund management units to oversee PFES implementation (VNFF 2014)

## **PFES revenue is supporting the forestry sector's contribution to the national economy**

Since its implementation in 2009, PFES has generated a total revenue of more than VND 3.44 trillion or approximately USD 162 million (VNFF 2014). Such mobilization of financial resources has meant that PFES has not only increased the contribution of Vietnam's forestry sector to the national economy but it has also reduced the financial burden of the State to protect and manage its forests.

## **Communities benefit from increased financial support, job creation and greater awareness of forest protection and sustainable forest management**

In several provinces, such as Lam Dong, Lai Chau and Kon Tum, PFES payments to individuals, households, communities and companies exceed the financial support of VND 200,000 per ha per year provided by the government to forest owners for forest protection and development through the State budget (VNFF 2014). The PFES policy is also beginning to raise awareness among communities about the role of forests for ecosystem services. This combination has encouraged local communities to more actively protect and manage their forests sustainably. In provinces such as Quang Nam and Dak Nong, villages have even used PFES payments to establish patrol teams to support forest protection.

## **PFES is contributing to the protection of the environment**

In recent years, the Vietnam forest protection and development fund (VNFF) has witnessed a reduction in the number of violations against the Forest Protection and Development Law and a reduction in the area of degraded forests. Violations almost halved between 2008 and 2013 and the area of degraded forests in 2013 is less than one-quarter of the area of degraded forests recorded in 2008.





# Continued challenges and recommendations

## Limited technical and communications capacity of implementing agencies slow down PFES payments and keep transaction costs high

Although PFES has successfully mobilized financial resources, a number of organizational and technical constraints have delayed the disbursement of PFES payments. Overall, FPDFs have disbursed to service suppliers 81% of total revenues collected in 2012, and 76.2% of total revenues collected in 2013 (VNFF 2014). Challenges that have hindered payments include: incomplete forest inventory, slow land allocation processes, lack of technical and financial capacity at central and provincial levels, and weak coordination among government agencies. Transaction costs also tend to be high due to the large number of forest owners, complex administrative structures and the limited capacity of officials to communicate and raise awareness of the benefits of PFES (Pham et al. 2013).

**Recommendation:** Long-term capacity building and awareness-raising of all stakeholders is essential for the effective and efficient implementation of PFES. This could include prioritizing technical support for improving data on forest areas and forest quality, and training officials on the benefits of forest protection and the potential value of PFES for improving livelihoods.

## PFES payments are comparatively low compared to high opportunity costs

PFES payments continue to be too small to cover the inevitable economic gains of clearing forest for highly profitable activities such as planting maize or coffee, or converting mangrove forests into shrimp farms (Pham et al. 2013).

**Recommendation:** To combat high opportunity costs, PFES could be combined with other forestry or economic support programs to direct additional funding for forest protection initiatives. To enhance community commitment to PFES, direct cash payments could also work alongside non-monetary benefits such as education and long-term poverty-alleviation programs.

## When designing payments, trade-offs exist between effectiveness, efficiency and equity (Loft et al. 2014)

Benefit-sharing under PFES is designed to meet Vietnamese expectations and ideas of equity. In Vietnam, equality can be seen as a form of equity. Everyone is currently paid the same amount, regardless of their legal, social or economic status and regardless of the condition of the forest they are paid to conserve. This may create situations of unfairness if, for example, certain groups work more on forest protection than others. This reduces incentives to protect the forest or enhance its quality, thus reducing the effectiveness of PFES. Similarly, if each household only manages a small area of forest, they receive only a small PFES payment, thus reducing the efficiency of the program. Current PFES payments are calculated in such a way that watersheds with a higher percentage of forest area receive a smaller PFES payment per hectare, thus offering little deterrent to people for converting land in these areas (Pham et al. 2013)

**Recommendation:** Equal payments are considered to be equitable in the Vietnamese context, but local perceptions of equity should be taken into consideration. Accounting for forest quality and using group/community contracts would improve PFES effectiveness and efficiency, whilst combining PFES with other conservation programs could enhance overall watershed protection.

## **A clear monitoring and evaluation system is needed to enhance transparency and accountability**

The Vietnam forest protection and development fund (VNFF) is focusing efforts to build a clear monitoring and evaluation system to enhance current monitoring and evaluation guidelines, which remain ambiguous. One matter that needs addressing is the difficulty that local forest owners face in accessing the current grievance system. This is due to a variety of reasons, including a lack of understanding of the system and/or their rights, and illiteracy or insufficient support by village leaders or officials to forward local groups' concerns (Pham et al. 2013).

**Recommendation:** Transparency and accountability must be embedded across the whole PFES process, including opportunities for inclusive community participation. This includes the monitoring of PFES contracts and financial flows, and the establishment of an accessible grievance procedure for local forest owners. Technical support is needed to assist government agencies and partner organizations to establish environmental and socioeconomic baselines that will help evaluate the target outcomes of PFES.

# **Next steps**

To further enhance the effectiveness, efficiency and equity of the PFES policy, the VNFF will continue to

- develop a framework for the remaining environmental services that are yet subject to payments, namely carbon sequestration - through continued work on REDD+ in Vietnam – and spawning and aquaculture services;
- increase communication activities to raise awareness and build the capacity of government, households, communities and organizations to realize the environmental and socio-economic benefits of PFES;
- enhance the technical and financial capacity of government officials to collect forest inventory data, speed up the land allocation process, and improve coordination and knowledge sharing within and between agencies to improve efficiency;
- increase cooperation and build on relationships with related partners;
- develop a clear monitoring and evaluation system to ensure transparency, inclusive participation, equity and effectiveness across the PFES policy and implementation process.



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## About the VNFF

The Vietnam forest protection and development fund (VNFF) was established on 28 November 2008 under the management of the Ministry of Agriculture and Rural Development (MARD). VNFF mobilizes social resources to protect and sustainably develop Vietnam's forests, support capacity-building and awareness-raising activities, and contributes to the management and implementation of the Vietnam forest development strategy (VFDS) 2020.

VNFF strives to become – by 2020 – a pioneer State financial institution in Vietnam and in the Southeast Asia region. It aims to effectively support the development of the forestry sector through the mobilization of social resources for forest protection and development, sustainable forest management, climate change mitigation and adaptation, and livelihood improvements for local people engaging in forestry activities and biodiversity conservation.

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