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Connecting Local Forest Managers with Beneficiaries

Payments for Forest Environmental Services in Vietnam

Juergen Hess and To Thi Thu Huong

Key message:

It is necessary to raise awareness regarding Payment for Forest Environmental Services (PFES) among all stakeholders from national policy makers to service buyers and local communities.

The role, tasks, responsibilities and rights of all actors involved in the PFES payment system should be clearly identified and agreed upon.

Participation of local people should be promoted through:

- A stakeholder consultation process for joint decision making and consensus building
- Empowering local people to raise their voice in decision-making and to monitor the whole.

Introduction

Since 2004, the Government of Vietnam has laid the foundations for a nationwide program of Payments for Forest Environmental Services (PFES). Most crucially, Decision No. 380, dated 10 April 2008, facilitated the piloting of PFES in Lam Dong and Son La provinces, while Decree No. 99 mandated application of PFES nationwide. Thus Vietnam has become one of the first countries in the world to initiate nationwide PFES, following Costa Rica and Mexico.

The rationale underlying PFES is simple: it connects local forest managers with the users of forest environmental services through direct payments (Wunder 2005). Downstream beneficiaries of forest protection schemes pay forest managers for the provision of particular services, such as hydrological benefits and watershed protection. However, in practice PFES necessitates radical changes in the institutional design of forestry programs. Horizontal, contractual coordination between forest managers and service users should replace the top-down, bureaucratic implementation of centrally conceived programs.

This brief argues that Vietnam’s PFES program has yet to develop an appropriate institutional design to connect service users directly with local forest managers. This is one of the key experiences learned from the PFES pilot scheme in Son La Province, which the German International Cooperation (GIZ) has supported at the Government’s request. Son La had laid the foundations for PFES implementation by granting local forest managers forestland use rights in the early years of the last decade. While indirect payment can be seen as an appropriate immediate option during this initial period, the existing hierarchical structures reveal unavoidable obstacles to successful implementation of the PFES pilot as there are gaps in horizontal coordination between forest managers and service users.

Key Elements of the Son La PFES Pilot Scheme

The scheme comprises nine communes in nine districts of the province where crop production and livestock husbandry are key livelihood activities.

Service providers: The Son La scheme has worked with a total of 4,507 forest owners, including households, communities, and other organizations (see Table 1). Together, they hold a forest area of 58,571 hectares, for which they have received forestland use rights (or ‘Red Books’). Around two-thirds of the forest belongs to local people in various forms and the other third to organizations such as forest management boards and communal People’s Committees.

Table 1. Forest Owners and Areas in Son La’s Pilot PFES Scheme

Pilot Scope	Total	HHs	HH groups	Communities	Organizations
Number of owners	4,507	4,094	136	105	172
Forest area managed by each type of forest owner (ha)	58,571.35	12,824.84	3,143.96	21,223.63	21,378.91

Note: HH = household

Source: Report on Forest Land Revision on DARD – Son La, 3/2010.

Service users: Four downstream companies were included: Hoa Binh Hydropower Plant, Suoi Sap Hydropower Plant, Moc Chau Water Supply Company, and Phu Yen Water Supply Company.

Initial selected services: Given the biophysical conditions of Son La Province, initially two forest environmental services were selected during the pilot period: soil protection and water regulation.

Payment levels: Payment levels were set for 1 kilowatt of electricity (VND20/kilowatt or 0.1 US cents) and 1 m³ of water (VND40 per cubic meter of water or 0.2 US cents) in accordance with Decision No. 380. The payments due from each company were calculated on the basis of their total annual commercial water/electricity productivity.



Participatory planning for PFES pilot policy and decree

Top-down Hierarchical Structures Decelerate PFES Implementation

As in many PFES schemes worldwide, the Son La pilot has not connected service users and service providers on a contractual basis. Instead, the pilot scheme has involved various State agencies as intermediaries, in particular PFES Management Boards for coordination at several levels and the Social Policy Bank for the handling of financial transactions.

The collection of service payments has remained wedded to the existing hierarchical structure. At the national level, the Forest Protection and Development Fund (VNFF) collects payments from the Hoa Binh Hydropower Plant as it is situated downstream not only from Son La, but a total of five provinces. Meanwhile, the Son La Forest Protection and Development Fund receives payment from the remaining three companies as they are entirely located within the provincial territory.

In national policy debates, much attention has focused on the collection of service payments, in particular on companies' willingness to pay and the definition of affordable payment levels. Policy-makers have stressed the need to compensate forest managers as an issue of social equality, and to reduce the State's financial burden from investment in forest protection and management. As a result, much effort has been expended on explaining the reasons for payment to service users, consulting them about proposed payment levels, and allowing them to include payments into production costs. As a result, the affected companies agreed to make the required payments on a bi-annual basis, i.e. in July and January.

However, the companies did not make the required payments, despite considerable support from Government agencies. By late 2010, only three out of the four companies had transferred the first payment in 2009 totaling over VND60 billion. For example, Hoa Binh Hydropower Plant did not deliver any subsequent payments despite written requests by the national VNFF (see Box 1). One company, Suoi Sap Hydropower Plant, was unable to afford any payment due to significant losses.

At the same time, local forest managers have not demanded the promised payments, even though they would derive significant benefits from them. This is despite their participation in various awareness-raising and consultation events as well as distribution of information leaflets and local radio broadcasts. Forest managers are apparently not fully aware of their rights and the potential benefits under the PFES scheme. Just as in the past, they seem to wait for the Government to step in and provide benefits to them in a top-down manner.

Box 1: Hoa Binh Hydropower Plant's Unwillingness to Pay

Mr. Nguyen Van Minh, the Deputy Director of the Hoa Binh Hydropower Plant understands the positive effects of forest protection in the upper watershed: "We are fully aware that good forest protection and management shall enable effective operation of our plant," he says. Yet the Plant can only disburse payment if it is authorized to do so by its parent company, Electricity of Vietnam (EVN). EVN, however, falls outside the reach of the Ministry of Agriculture and Rural Development (MARD), as it falls under the jurisdiction of the Ministry of Industry and Trade (MOIT). As a result, Son La's PFES scheme will only receive payments from the Hoa Binh Hydropower Plant if the Prime Minister requests EVN to authorize this.

The Potential Benefits of a Decentralized Institutional Design

The experience from Son La suggests the need to move away from the command-and-control approach towards a decentralized design that promotes service providers' and users' own sense of responsibility and mutual accountability (see Figure 1). Such a move can be achieved by enhancing the existing institutional structure through horizontal linkages at the central level among different ministries and at the local level (between service users and service providers). This includes involving, increasingly decentralizing and empowering local people as partners, thus enabling a voluntary contracting market that specifies expected performance, rewards and accountability. Furthermore, it is important to recognize that local people are no longer seen as cheap laborers to be paid for forest protection, but as equal partners and a driving force in forest management and development.

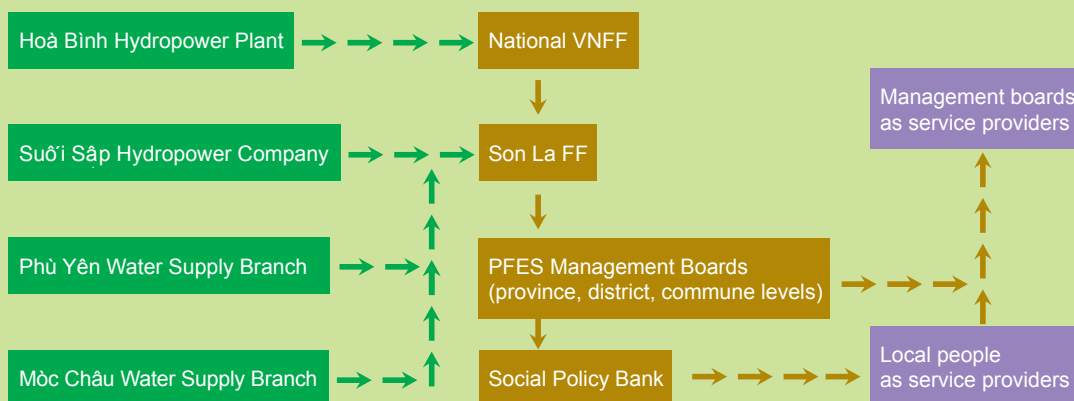


Figure 1: Decentralized Institutional Design for PFES

In addition to decentralization, the institutional design of PFES would benefit from forest managers' further empowerment through acceleration of forest and forestland allocation. The forestland currently under the control of State-owned enterprises and management boards needs to be transferred to local people for management and protection, including the issuance of forestland use rights. In the long-term, direct and transparent involvement of local people as service providers and service users in the PFES mechanism is crucial to ensure trust and a mutually beneficial relationship that enables both parties to fulfill their rights and obligations following market mechanisms without being forced by the State.

Awareness-raising campaigns are launched



Implications for the Implementation of Decree 99

Insights from Son La indicate that the current institutional design of PFES is yet to serve the long-term overarching goal to connect forest managers with service users effectively. Critical constraints include forest managers' insufficient awareness, the command-oriented approach, inadequate collaboration and cooperation among different line ministries and agencies, limited enforcement, and insufficient understanding of rights and obligations for both service providers and service users.

In the future, PFES needs to move to a more suitable institutional design that connects service users directly with local forest managers as a way to ensure the effective operation of the PFES scheme nationwide. Such a move would require the following actions:

- Awareness-raising for all stakeholders from decision-makers at the national level to business production companies and forest owners, as planned by MARD in collaboration with GIZ and other national, international stakeholders.
- Apart from a number of inter-ministerial guiding circulars, it is important to have one between MARD and MOIT that specifies the mandates, rights, and obligations of key stakeholders for a decentralized institutional design. Such a circular needs to define a clear management mechanism for the VNFF, including provisions for the collection of payments from different sources.
- Multi-stakeholder consultations for joint decision-making and consensus-building. Representatives of local forest managers and service users should be included as members of PFES management boards at all levels.
- Empower local people to voice their views during decision-making and to monitor the program, for example through the establishment of forest owners' associations as indicated in the National Forest Program.
- Participatory and transparent monitoring and evaluation of PFES in terms of both financial management and impacts. Monitoring and evaluation should include representatives of service users and service providers.

Reference

Wunder, S. 2005. *Payments for Environmental Services: Some Nuts and Bolts*. Occasional Paper 42. Bogor: Center for International Forestry.



RECOFTC
PO Box 1111, Kasetsart Post Office
Bangkok 10903, Thailand
Tel: +66 (0)2 940 5700
Fax: +66 (0)2 561 4880
Email: info@recoftc.org
Website: www.recoftc.org



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