

Institute for Global Environmental Strategies



Payment for Environmental Services in Vietnam:

An Analysis of the Pilot Project in Lam Dong Province



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An Analysis of the Pilot Project in Lam Dong Province



April 2011

Institute for Global Environmental Strategies (IGES)

Forest Conservation, Livelihoods, and Rights Project

2108-11 Kamiyamaguchi, Hayama, Kanagawa 240-0115 Japan

Phone: +81-46-855-3830 • **Facsimile:** +81-46-855-3809

E-mail: fc-info@iges.or.jp

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Author: Nguyen Quang Tan

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Cover photo: PES for a combination of forestry, agriculture, landscape beauty and the maintenance of hydrological values. Photo taken by author.

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Foreword

In this paper, Dr Nguyen Quang Tan, RECOFTC Vietnam Programme Coordinator, reviews the PES Pilot project in Lam Dong province, Vietnam. He considers the market, policy and governance drivers in the Pilot area that contribute to deforestation and forest degradation, and the strategies that the Pilot sets out to deal with these drivers, as well as the process of designing the Pilot from the perspectives of informed and meaningful stakeholder participation and transparency.

The objectives of this paper are twofold. First, it aims to contribute to a better understanding of how payment for environmental services (PES) can be applied to the forest sector in developing countries, through an independent analysis of one innovative PES project. Second, it aims to extract lessons for one specific type of PES, namely REDD+ (i.e. reducing emissions from deforestation and forest degradation and enhancing forest carbon stocks). The PES Pilot project in Lam Dong province seeks to deliver water source regulation and provision, soil protection, reduction of erosion, protection against sedimentation of reservoirs and ecotourism-related environmental services, whereas the main environmental service of REDD+ is protection and enhancement of forest carbon stocks. Despite these differences, the PES Pilot project and REDD+ share in common the need for agreement on amounts and distribution of payments, the need for incentives and controls, and the need for strategies to deliver the environmental services.

I congratulate the author and the IGES Forest Conservation Team for succeeding in bringing together this report, which I anticipate will be useful to people working on PES and REDD+ both in and outside Vietnam.

Hideyuki Mori
IGES President
April 2011



Preface

In 2005, the United States Agency for International Development (USAID) awarded Winrock International, in partnership with the International Union for Conservation of the Nature (IUCN), Winrock International India (WII), and FFF Associates Inc., a three-year grant to implement the Asia Regional Biodiversity Conservation Program (ARBCP). In September 2008, Winrock International received a two-year extension to consolidate achievements in the initial pilot site and to directly apply lessons learned in other parts of the Greater Mekong Sub-region (GMS). In Vietnam, one of the main activities that ARBCP undertakes under the extension is to consolidate and mainstream pilot biodiversity conservation, payment for environmental services (PES), and livelihoods activities in Lam Dong province (Central Highlands of Vietnam). With support from ARBCP, a decision on a PES Pilot was issued in April 2008. Lam Dong was selected as one of the provinces to carry out the pilot from 2008-2010. The pilot was undertaken by Lam Dong Department of Agriculture and Rural Development (DARD), with support from ARBCP

This report provides an analysis of the PES Pilot in Lam Dong province. It was prepared with funding from the Institute for Global Environmental Strategies (IGES) and RECOFTC – the Centre for People and Forests.

The author would like to thank all people who have shared comments and information during the process of the study, including Professor Hidefumi Imura, Dr. Henry Scheyvens, Dr. Federico Lopez-Casero and Dr. Enrique Ibarra Gené from IGES.

All ideas and comments in this report are the sole responsibility of the author.

Nguyen Quang Tan



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Abbreviations

5MHRP	Five Million Hectare Reforestation Programme
ARBCP	Asia Regional Biodiversity Conservation Programme
CPC	Communal People's Committee
DARD	Department of Agriculture and Rural Development
FPDF	Forest Protection and Development Fund
ha	hectare
IGES	Institute for Global Environmental Strategies
IUCN	International Union for Conservation of the Nature
JVC	Joint-Venture Company
m ³	cubic metre
MARD	Ministry of Agriculture and Rural Development
MB-PF	Management Board for Protection Forest
MB-SUF	Management Board for Special-Use Forest
NTFP	Non-timber forest products
PES	Payment for environmental services
PPC	Provincial People's Committee
RBC	Red Book Certificate
REDD	Reduced emission from deforestation and forest degradation
SFE	State Forest Enterprise
SOC	State-owned Company
Sub-DOF	Sub-department of Forestry (provincial level)
Sub-FPD	Sub-department of Forest Protection (provincial level)
UAFE	Union of Agriculture and Forestry Enterprises
USAID	United States Agency for International Development
US	United States
VND	Vietnamese Dong (local currency)

1 Introduction

This paper provides an analysis of the PES (Payment for Environmental Services) Pilot in Lam Dong province, Central Highlands Region, Vietnam, which is implemented by the Lam Dong Department of Agriculture and Rural Development, with support from the Asia Regional Biodiversity Conservation Programme. The paper was commissioned by the Institute for Global Environmental Strategies, with the objectives of better understanding how PES can be applied in the forest sector in developing countries and extracting lessons for REDD+ (i.e. the concept of reducing emissions from deforestation and forest degradation and enhancing forest carbon stocks). REDD+ is in fact a type of PES; therefore, lessons for REDD+ from the PES Pilot in Lam Dong are expected.

Specifically, this paper aims to:

- Assess the market, policy and governance failures in the Pilot area that underlie deforestation and forest degradation;
- Assess the process of designing the Pilot from the perspectives of informed and meaningful stakeholder participation and transparency of decision making;

- Assess the likely *effectiveness* and *equity* of the strategies that the Pilot sets out to deal with the market, policy and governance failures.

The focus of this paper is thus on issues that are associated with governance, i.e. transparency and participation, and outcomes, particularly for local people. These concerns for governance and for the wellbeing of local communities and indigenous people have been expressed in the international negotiations on REDD+ and are reflected in the Cancun Agreements (Decision 1/CP.16) reached on 11 December 2010 by the Convention of the Parties to the United Nations Framework Convention on Climate Change at its 16th session.¹ The Agreements request developing country Parties, when developing and implementing their national strategies or action plans for REDD+, to ensure the full and effective participation of relevant stakeholders, inter alia indigenous peoples and local communities. Developing country Parties are also requested to develop a system to provide information on how the safeguards referred to in appendix I of the Decision are addressed. The safeguards for the implementation of REDD+ include transparent and effective national forest

1. Section C under Part III Enhanced Action on Mitigation of the Cancun Agreements is on REDD+.

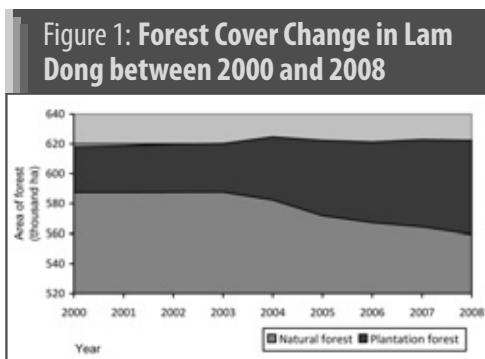
governance structures, and respect for the knowledge and rights of indigenous peoples and members of local communities.

This paper is structured as follows. Section 2 provides an overview of the extent and condition of forests in Lam Dong. Section 3 first explains forest and land policy as well as actual forest use in Lam Dong. It then reviews the drivers of deforestation and forest degradation as well as initiatives to deal with these drivers and/or their negative impacts. Section 4 describes and analyses the project design process. Section 5 describes and analyses the project implementation process; the embeddedness of the Pilot in the policy and administrative frameworks; the services and benefits of the project; roles, rights and responsibilities; attention to livelihoods and local needs; and consultation and conflict management mechanisms. The final section reflects on the major observations of the analysis and several lessons for REDD+.

The information in this paper are from two main sources. Existing (grey) literature on the PES Pilot Project in Lam Dong, including project documents and reports from ARBCP/Winrock International, the Ministry of Agriculture and Rural Development (MARD), and Lam Dong province was used. Direct communication with staff from Winrock International, Lam Dong DARD, and a group of farmers in the PES Pilot site in Lac Duong district of Lam Dong province also benefited the paper.

2 Forests in Lam Dong

Lam Dong province is situated in the southern part of the Central Highlands Region of Vietnam. The province has a total physical area of 977,219 hectare (ha). With 602,243 ha of forest (both natural and planted) or 62.1% of the total physical area, Lam Dong ranks third in Vietnam in terms of forest cover.² Although the province experienced a net gain of 0.73% in forest area from 2000 to 2008, the natural forest declined by 4.74% in the same period (0.53% or approximately 3,000 ha per year). As illustrated in Figure 1, the gain in forest area is due to the expansion of planted forest exceeding the loss of natural vegetation.



Source: Lam Dong Statistical Year Book 2008.

Standing timber stock of Lam Dong's forests is estimated at 56 million cubic meters (m^3), of which 95% (55 million m^3) is held in the natural forests and the remainder in planted forests.

The quality of the natural forests is declining. Only 0.7% of the forest area is classified as rich (standing timber stock of 226 m^3/ha or above). Forests of high and medium quality are found mainly in protected sites or in inaccessible areas. Most of Lam Dong's forests are of poor and degraded quality, though there is a lack of data on the rate of forest degradation in the province.

Various factors have contributed to deforestation and forest degradation in Lam Dong in specific and in the Central Highlands Region in general. The main factors are:

- Logging activities by state forest enterprises between the late 1970s and the early 1990s;
- Expansion of agricultural crops, particularly cash crops (coffee, rubber);
- Re-settlement scheme for local people and spontaneous migration;
- Illegal logging and forest fire, etc.

2. There is a slight difference in the forest area data for Lam Dong quoted in www.kiendlam.org.vn (accessed 13 October 2010) and those presented by the province Forest Sub-department. The data presented in this report are from the latter source.

3 Policy, market and governance issues before the project

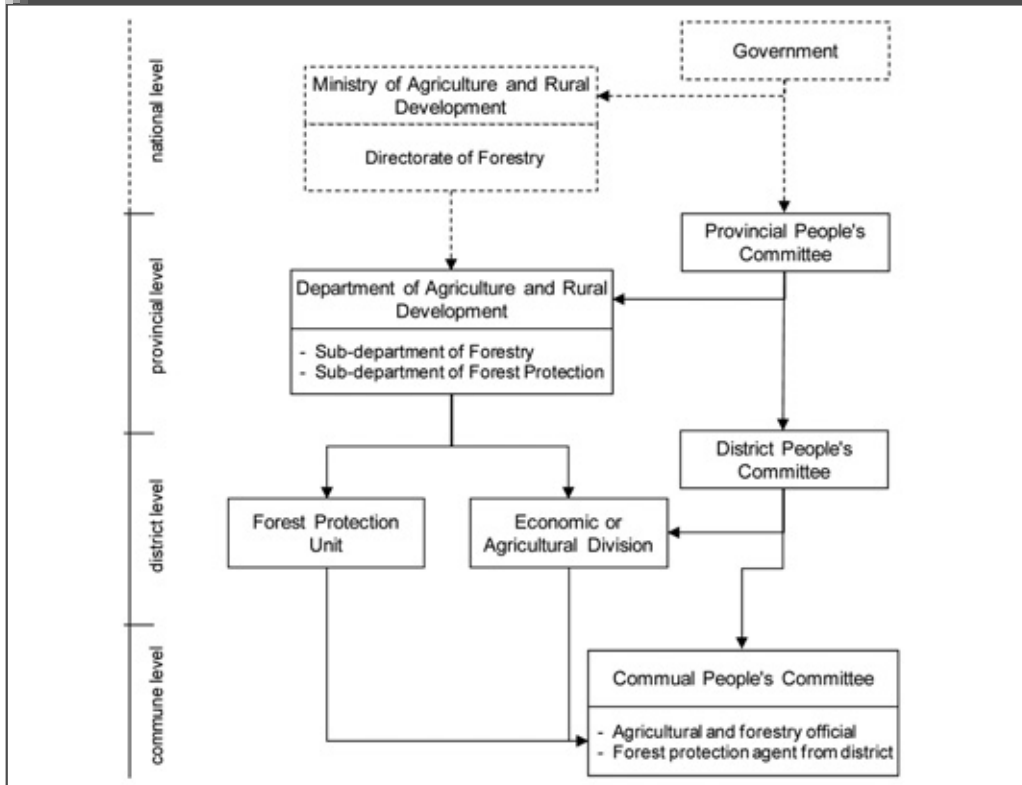
3.1 Forest and land policies in the province

3.1.1 Forest management structure in Lam Dong

At the provincial level, the Department of Agriculture and Rural Development

(DARD), which is the line agency of MARD and a member of the Provincial People's Committee (PPC), is in charge of forestry issues within the province. The sub-department of forestry (Sub-DOF) and sub-department of forest protection (Sub-FPD) are under DARD (Fig. 2).

Figure 2: Forest management structure in Lam Dong



Source: Author.

At the district level, the economic division (or the agricultural division in some cases) is responsible for forest management, utilisation and development. The district forest protection unit (FPU) is independent of the economic division and reports directly to the Sub-FPD at the provincial level.

At the commune level, one agriculture and forestry official is based in the Communal People's Committee (CPC) and is supported by a field level forest protection agent from the district FPU. The state is also present at the village level, though it is not considered an administrative unit under the current legal framework. In each village, there is a state-elected leader. While the traditional village headman is still respected by the villagers, the decision-making power has shifted to the state-elected leader, who serves as the connection between the state and the villagers, helping to implement state policies at the village level.

In addition to the forestry administration, there are various organisations in charge of forest management in the province. Further discussion on the main actors involved in forest management in Lam Dong is presented below.

3.1.2 Formal management arrangements for forests

The forest area in Lam Dong is classified into three categories of forests: production forest (345,003 ha, or 57.36% of provincial forest), protection forests (172,800 ha, 28.73%), and special-use forests (83,674 ha, 13.91%).³ According to the Law on Forest Protection and Development of 2004 (Article 4):

- *Protection forests* are used to protect water sources and land, to prevent

erosion and desertification, to minimise natural disasters, to regulate the climate, and to contribute to environmental protection.

- *Special use forests* are used mainly to preserve nature, the national ecosystem, and the genetic diversity of forest plants and animals; to serve research purposes; to protect historical and cultural relics and landscapes; and to provide resort and tourist sites.
- *Production forests* are used mainly for the production of timber and non-timber forest products, combined with environmental protection.

In terms of forest tenure, similar to other provinces in Vietnam, the forest area in Lam Dong is under the management of eight main groups of actors. These are: 1) households and communities, 2) communal people's committees, 3) management boards for protection forest, 4) management boards for special-use forest, 5) state-owned companies, 6) joint-venture companies, 7) the armed forces, and 8) other entities, such as private companies (Figure 3).

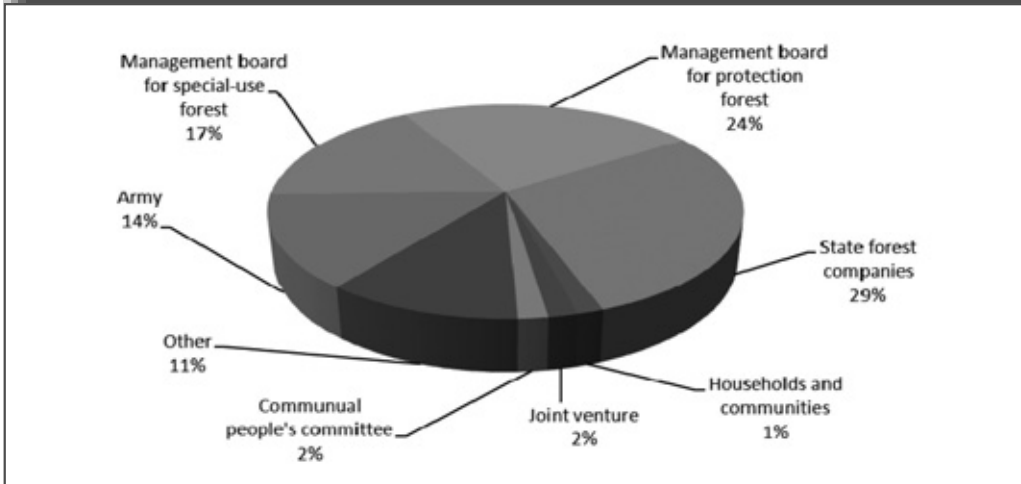
Box 1 provides an overview of the rights and duties of each group, and a brief description of each group follows.

Households and communities manage the smallest area of forest in the province (around 1% of the provincial forest). There are currently 1,801 households and three communities involved.

Communal people's committees (CPCs) are temporary custodians of forest areas that are in the process of being allocated to households or communities. CPCs do not

3. http://fipi.vn/solieu_ck3/Vung_TayNguyen/LAMDONG.htm (accessed 13 October 2010).

Figure 3: Forest management by group of actors



Source: Ministry of Natural Resources and Environment (MONRE).⁴

Box 1: Overview of the rights and responsibilities of forest management actors

- MB-SFs are responsible to the state for the protection, management and conservation of the area of special-use forest under their scope of responsibility. They are in charge of monitoring forest condition changes. Their rights are to carry out research, socio-cultural activities and eco-tourism.
- MB-PFs are responsible for protecting, managing, developing and using the allocated area of protection forest as regulated by the laws and legal regulations. MB-PFs are also responsible for receiving investment funds and subcontracting local people or organisations for the protection forest they own. They are also required to monitor forest condition changes. The rights of MB-PFs include the organisation of production and commercialisation activities in the allocated forest.
- SOCs are responsible for effective production and commercialisation activities for the allocated forest. They also have a responsibility to monitor changes in forest conditions and to conduct periodical inventory of their forest resources. The rights of SOCs include rights to use, purchase and process forest products as regulated by law, to use part of the forest land for agricultural or fishery purposes, to commercialise the allocated forest in cooperation with other organisations or individuals, and to subcontract the allocated forest to other organisations, households or people for forestry, agricultural or fishery purposes.
- Other groups of actors have the right to receive support from the state in terms of soft loans, extension, product processing and marketing. They are also entitled to collect timber and other forest products and to use part of the allocated forest for agricultural or fishery purposes. They are responsible for using their forest in accordance with existing laws and regulations. Forest owners will also have to pay taxes as required by law, to report changes in the conditions of the allocated forest and to do periodical inventory of their forest resources.

See also Nguyen (2006).

have full tenure rights to the allocated forest areas, and in practice, such areas often become informal 'open access' zones,

as many CPCs lack adequate staffing to oversee their resources. No data are currently available regarding the number of

4. The author received the data used to construct this figure from a source in MONRE. The author could not find this data in any published form.

CPCs managing forests and the forest area under their management.

Management boards for protection forests (MB-PFs) are state organisations whose main task is to manage forest areas that are classified for protection purposes. MB-PFs receive funding from the state for managing their forests. They are the second largest forest manager in the province.

Management boards for special-use forests (MB-SUFs) are established and run by the state to manage special-use forests. MB-SUFs receive funding from the state for managing their forests. They are the third largest forest manager in Lam Dong.

State-owned companies (SOCs), formerly known as state forest enterprises, are self-financed entities set up and owned by the state. Their main task is to manage and commercialise the (production) forest areas allocated to them. They currently manage the largest area of forests in Lam Dong.

Joint-venture companies (JVCs) are in charge of safe-guarding the protection forests and commercialising the production forests allocated to them.

The armed forces are mostly in charge of forest areas used for national security purposes.

In general, forests in Lam Dong are managed as private property, state property and common property. Forest management under contract also exists.

Private property includes forest management by households (part of group 1 above), joint venture enterprises (group 6), and private companies (part of group 8). In most cases, forest managers under this arrangement are

entitled to a legal land use certificate (i.e. a Red Book Certificate – RBC for short) for the forest area they are allocated. Private property is mainly applied to production forest (for production purpose) and special use forest (for landscape and for tourism).

State property arrangements can involve People’s Committees, army units, MB-PFs, MB-SUFs, and SOCs (groups 2, 3, 4, 5 and 7). Forest is often allocated to state bodies for unspecified periods of time. Where the forest falls into special use or protection categories, forest owners are entitled to receive a state budget for management of the forest. The state property regime includes all the three forest categories (i.e. production forest, protection forest and special use forest).

Common property arrangements apply to group 1. Forests under this arrangement are allocated to a group of individuals, each of whom has similar rights and responsibilities. Owner groups are also entitled to have a RBC for their forest (production forests). It is important to note that overlapping forest tenure arrangements exist in practice. A forest area may be formally under a state or private management arrangement, but in practice it is more representative of common property.

Forest contracting takes place when an ‘owner’ of forest under state or private property signs a contract with an organisation, a household, a group of households or a village to protect the forest (special use and protection forests). Forest contracting is relatively common in Lam Dong, with most of the budget sourced from the national Five Million Hectare Reforestation Programme (5MHRP) or provincial forest protection programmes. In 2004, for example, 301,836

ha of forest were under contracts for protection, of which 106,061 ha were under the 5MHRP and 179,685 ha were under provincial programmes.⁵

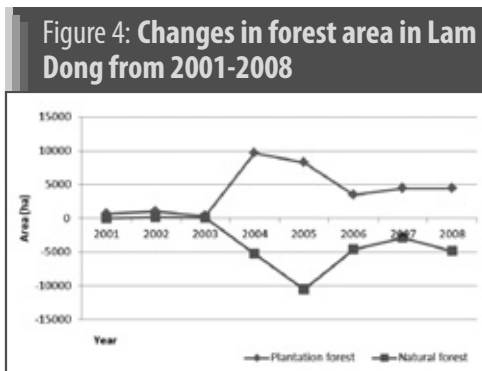
3.2 Forest uses in Lam Dong

This section describes the actual uses of forests in Lam Dong province and considers the extent to which these uses are reflected in official policy.

3.2.1 Uses of forest resources

In legal terms, all forestland is for forestry purposes. All actors are expected to abide by the forest laws and local communities must limit their sedentary agriculture to the designated areas. Staff from the local forest protection units and forest managers are responsible for stopping forests from being converted to agricultural land.

However, encroachment of forest and the use of forestland for cropping purposes (e.g. growing of coffee, cassava, and other short duration crops) is widely practiced. From 2006-2008, for example, over 220 ha of forest were reportedly lost through agricultural expansion.⁶ In 2009, around 274 ha of forest were cleared for farming purposes (Lam Dong Forest Protection Sub-department 2009). Hot spots of clearance of forestland for agricultural cropping include Lac Duong, Bao Lam, Duc Trong, Da Teh and Lam Ha districts.⁷ Along with illegal logging, discussed next, land conversion has contributed to the decline in natural forest area in Lam Dong over recent decades (Figure 4).



Source: Lam Dong statistical yearbook 2008.

Similar to forestland, the use of timber resources is regulated by state policies. Logging, including by state organisations, must be permitted by competent authorities (DARD or MARD for large volumes). Any logging conducted without the appropriate permit is considered illegal.

Timber harvesting and use for housing by local people can be permitted by district authorities, with endorsement from village and commune leaders. However, it is not common for local communities to apply for the permit for timber harvesting and use for domestic purposes because of the large administrative burden for them.

Unauthorised timber logging is common. Five-hundred and eighty-nine cases were detected in 2009, an increase of 31% over the cases detected in 2008 (Lam Dong Forest Protection Sub-department 2009). Illegal logging takes place in forest areas under the management of not only state organisations but also other actors (ibid.).

In contrast to timber and land resources,

5. <http://www.dalat.gov.vn/sonnptnt/Chi+cuc+Lam+Nghiep/tHONGTIN+TONG+QUAN.htm> (accessed 13 October 2010).

6. <http://www.nongnghiep.vn/nongnghiepvn/vi-VN/61/158/1/15/15/14907/Default.aspx> (accessed 13 October 2010).

7. <http://www.thuvienphapluat.vn/?CT=NN&NID=12322> (accessed 13 October 2010).

the state's regulation of non-timber forest products (NTFPs) is less strict. Tenure over NTFPs is practiced on a communal property basis. Among local inhabitants, no specific distinction is made between people in terms of who can claim NTFPs in the forest. Local households, whether indigenous ethnic households or migrants, can collect NTFPs as they need for domestic (and sometimes small scale commercial) purposes.

3.2.2 (Re)planting of forest area

In addition to extraction of forest resources, reforestation has also been undertaken in the province. Between 2000 and 2008, a total of 32,340 ha of forest were planted, equivalent to around 4,042 ha per annual. As indicated in Section 2 and in Figure 4, the rate of forest planting has surpassed the deforestation of natural forest, creating a net gain in forest cover in the province over the last decade.

Funding for the plantation activities is mainly from the state budgets (both central and provincial), though around 24% of the funding for forest plantation in the province is from private sources.

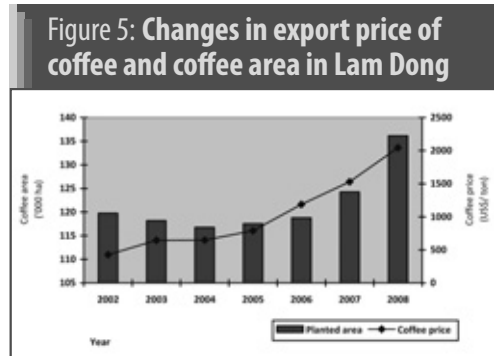
3.3 Drivers of deforestation and forest degradation

This section reviews the major drivers of deforestation and forest degradation in Lam Dong province over recent decades.

3.3.1 Market drivers

The market plays an important role in driving deforestation and forest degradation in Lam Dong province and the Central Highlands Region in general. In Lam Dong, which has the largest coffee planting in Vietnam, the coffee price is the most important factor. When prices were low in

the early 2000s, local coffee growers did not have enough economic incentive to take care of their plantations. In 2005, the coffee price rose to US\$ 789 per ton, in 2006 to US\$ 1,189/ton, in 2007 to an average of US\$ 1,529/ton before reaching US\$ 2,044/ton in 2008 (Figure 5).



Source: www.tinhuongmai.vn (accessed 13 October 2010); Lam Dong Statistical Yearbook 2008.

Taking signals from the bull market, local growers began intensifying their existing crops and found ways to expand their cropping area. After a period of decline, the total area under coffee expanded from 116,700 ha in 2004, to 117,500 ha in 2005, and to over 136,000 ha in 2008 (Lam Dong Statistical Yearbook 2008). Although there is no detailed assessment of how much of the expansion of the coffee area was at the expense of the forest area, a relationship appears to exist, as expressed by one of the state officials from Lam Dong:

In recent years, prices of agricultural products, particularly coffee, have been on the increase. . . . Beginning this year, the price for coffee seedlings has exceeded 7,000 VND per piece and most coffee nurseries in the province have run out of seedling supplies. This is an indication of accelerated deforestation in the province. Forest destruction will break the average of 750 ha per year for the last three

years.⁸

3.3.2 Policy factors

Various policy factors have been associated with the deforestation and forest degradation in Lam Dong. The four most significant are logging by the state forest enterprise system, pressure on forest resource by migrants, illegal logging, and expansion of rubber plantations.

Logging by state forest enterprises (SFEs) between the late 1970s and early 1990s was a major factor contributing to deforestation in Lam Dong. After the unification of the country in 1975, a system of SFEs and Union of Agriculture and Forestry Enterprises (UAFEs) was set up in the Central Highlands Region to manage the local forest resources and to contribute to the socio-economic development of the region. SFEs and UAFEs were involved in the local state administration and socioeconomic development, not only in the forestry sector. Most villagers became workers in the local SFE/UAFE, and leadership of the SFE and UAFE were part of the local administration:

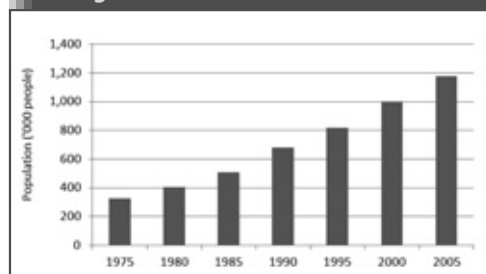
...the chairman of the commune was the vice-director of the local SFE.... The district chairman was the vice-director of the UAFE The district's socioeconomic development plans were integrated into those of the UAFE, as were the district's mass organisations (Dang 1989).

While the intention of setting up SFEs and UAFEs was to manage the forest resources, their operations mainly focused on timber exploitation. Extensive and lengthy logging activities resulted in the rapid decline of forest resources. In the period

1982-1992, when SFEs and UAFEs were actively exploiting the forest resources, the deforestation rate and net annual loss of standing timber were estimated at 10,000 ha and around 5%, respectively (Nguyen et al. 2001).

The rapidly growing number of migrants in the province, both policy-supported and spontaneous (Figure 6), placed additional pressure on forests. In the 1980s, with the policy to build up the new economic zone, thousands of people were moved from provinces in the northern part of the country to Lam Dong. Between 1980 and 1990, the population of Lam Dong grew from 406,000 to 680,000, an increase of 67.5%. With a natural growth rate of around 2.7%, migration contributed to 4% of the population growth in the province in this period. Although early migrants were brought in under the state programme, the policy triggered waves of spontaneous migration that followed the early comers, which made a significant contribution to the population growth of 47% in the decade that followed.

Figure 6: Population growth in Lam Dong between 1975 and 2005



Source: www.dalat.gov.vn (accessed 13 October 2010).

Illegal logging has also contributed to forest loss. While illegal logging is driven by the

8. <http://www.nongnghiep.vn/nongnghiepv/vi-VN/61/158/1/15/14907/Default.aspx> (accessed 13 October 2010).

increased market price for timber, the failure of state policy in forest management and protection and in banning logging in natural forest (see discussion below on governance issues) have also acted as drivers. In 1992, the Government of Vietnam issued a partial logging ban to limit the quantity of timber harvested. It strengthened the ban in 1997. The ban resulted in a higher timber price, making illegal logging more financially attractive. Consequently, in contrast to the policy intention, the ban increased the pressure on forests. The issue was made more difficult with the unbalanced holding of forest resources among different actors. Until recently, most of the forest resources (86% - see Figure 3) were under the management of the state actors. Local communities were in control of only 1% of the total forest. Due to this lack of legal rights to forest resources, local people had no incentive to participate in the effort to combat illegal logging. Many of them are in fact involved in illegal logging as it brings them attractive financial rewards.⁹

The recent expansion of rubber in the province has also threatened Lam Dong's forests. Rubber was only introduced in Lam Dong in 2006, yet its expansion has been remarkable. By 2007, 272 ha had been planted, the figure reached 532 ha in 2008, and by the end of 2009, there were around 2,044 ha of rubber in the province.¹⁰ In 2009, the government issued a new policy that directs rubber development throughout Vietnam, including the Central Highlands Region (Decision 750/QD-TTg, 3 June 2009). According to this policy, around 100,000 ha of rubber will be planted in

the Region in the areas with poorly used agricultural land and poor natural forests. The implementation of this type of policy is threatening not only poor forests, but also the conservation areas.¹¹

The confusion in current forest classification systems partly contributes to the situation. Following the strategy to develop rubber plantations in the Central Highlands (Circular 39/2008/TT-BNN, 3 March 2008), forests with an average volume under 130 m³/ha are classified as degraded forest and are allowed to be converted to rubber plantations. This affects much of the natural forest in the Central Highlands, including Lam Dong. A revision reduces the threshold to 110 m³/ha, but the policy still poses a threat to some of the natural forests.

3.3.3 Governance factors

Governance factors (or lack of proper attention to them) also explain the decline of forest resources in Lam Dong. There is often little attention to local actors, particularly local communities, in policy making related to natural resource management. Policies are often made from the top down and consultation with potential beneficiaries and affected groups is inadequate. Stakeholder consultation at the grassroots level, if ever conducted, is relatively nominal.

The rights available to community actors are often limited. As indicated in Figure 3, households and forest communities have legal access to only 1% of the total forest resources in the province. Others are either contracted to protect the forests, receiving payment for their protection work, or have

9. <http://www.thuvienphapluat.vn/?CT=NW&NID=12322> (accessed 13 October 2010).

10. http://tintuc.xalo.vn/00-661985595/xet_thit_rung_dem_de_trong_cao_su_hau_qua_kho_luong.html (accessed 13 October 2010).

11. See Footnote 10 and <http://www.monre.gov.vn/monreNet/default.aspx?tabid=210&idmid=&ItemID=75704> (accessed 13 October 2010).

no legal rights to forest at all. By contrast, 86% of the forests are managed by different state actors, creating a significant imbalance in legal access to forests.

Further, in the enforcement of legal documents related to forests, the attention given to local communities is poor. Of note is the operation of the state forest administration during the 1980s and 1990s, when the state management regime was considered the best option for local economic development and forest resource utilisation. In this period, the SFE system was believed to be the only way to help the forest dependent communities in Lam Dong to rid themselves of their 'backward' farming practices and overcome poverty (Bui 1989). Traditional land tenure was not well respected, and the use of natural resources by local communities was restricted. Forest resources, which were important sources of local livelihoods, were intensely exploited and exported from within the region.

The insufficient attention to local governance issues led to the practice of 'forest grabbing' by local people who fear that if they do not use the forests now, there will be no forest for them later.¹² It has led to a lack of 'ownership' by local communities for forest protection and management, which has inhibited the province's capacity to prevent and fight illegal logging and forest fire.

3.3.4 What has been done to address these issues?

To sum up, the factors contributing to deforestation and forest degradation in Lam Dong province include market drivers, especially the increase in the coffee price

during the last decade, policy drivers (i.e. the state policy on forest administration and production in the 1980s and 1990s, re-settlement schemes, illegal logging and rubber plantations), and governance drivers (i.e. the lack of attention to local stakeholders, particularly local communities, in various aspects of decision making and implementation).

Various initiatives have been undertaken to tackle these drivers. First, to address the governance issues, the Government of Vietnam requested all levels and bodies of state administration to implement a grassroots democracy policy (Decree 29/1998/ND-CP dated 15 May 1998 and Ordinance 34/2007/PL-UBTVQH11 dated 20 April 2007). The policy emphasises the rights of the communities to be informed, to be consulted, to inspect and supervise, and to make decisions, with the aim to increase local participation and to avoid power abuses by local officials. By 2009, this policy had been implemented in 145 of the 148 communes in Lam Dong. As a result, the involvement of local communities in all aspects of life has improved. Local people are now consulted on issues such as development of village regulations and assessment of the credibility of local officials. They are also better informed about plans for projects and programmes to be undertaken in the local areas, though their involvement in decision making and planning is still limited.

Second, national programmes have been formulated and implemented to address deforestation and forest degradation. The most prominent of these is the Five Million Hectare Reforestation Programme (5MHRP), also known as national

12. <http://tuoitre.vn/Ban-doc/Ban-doc-gui-bai-viet/379256/Pha-rung-vi-nam-sau-se-het-rung-de-pha.html> (accessed 13 October 2010).

programme 661, which was launched in 1998 (Decision 661/QD-TTg dated 27 July 1998). At the national level, one of the 5MHRP's objectives is to increase forest cover to 43% by 2010. One of the measures to achieve this objective is to contract local people to protect forest. In Lam Dong province, local communities have been contracted to protect around 131,000 ha of forest annually under the 5MHRP, with a payment of around US\$ 3 per ha per year in the early years of the Programme, and US\$ 6 in more recent years. Nevertheless, the allocation of legal rights for forestland to local communities has been slow and at a small scale.

Third, the province has made various efforts through the provincial programme to conserve existing forest resources and reforest the bare land. Around 180,000 ha of forest are contracted for protection on an annual basis.

Fourth, efforts have also been made by international donors through development projects. Examples are Forest for Livelihoods Improvement in the Central Highlands (FLITCH) funded by the Asian Development Bank and Trust Fund for Forestry (TFF), and the Payment for Environmental Services (PES) Pilot Project funded by the United States Agency for International Development (USAID).

4 The project design process

In 2005, USAID awarded Winrock International, in partnership with the International Union for Conservation of the Nature (IUCN), Winrock International India (WII), and FFF Associates Inc., a three-year grant to implement the Asia Regional Biodiversity Conservation Programme (ARBCP). In September 2008, Winrock International received a two-year extension to consolidate achievements in the initial pilot site and to directly apply lessons learned in other parts of the Greater Mekong Sub-region (GMS). In Vietnam, one of the main activities that ARBCP undertakes under the extension is to consolidate and mainstream pilot biodiversity conservation, payment for environmental services, and livelihoods activities in Lam Dong province.

This section discusses the process of formulating the PES Pilot project in Lam Dong province. It first provides a general description of the formulation process and then discusses whether inclusive and transparent processes were used to ensure that all stakeholders were provided adequate opportunity to participate meaningfully in the design of the project, and the sense of ownership amongst stakeholders involved in the project.

4.1 Process of PES Pilot project formulation

The history of PES in Vietnam can be traced back to the late 1980s when the Hoa Binh Hydropower Plant began operating (Box 2). At that time, a concern was the need for the Hydropower Plant to pay local communities for protecting the forest to improve their livelihoods. The issue of payment for forest conservation was picked up again in the early – mid 2000s when natural calamities resulting from deforestation and forest degradation in the watershed areas resulted in loss of human lives and loss of assets of the local people. In early 2007, two years after the ARBCP started its work in Lam Dong, a discussion took place between ARBCP, the Office of the Government, and MARD on the need to have a PES project to pilot payment schemes, to provide additional income for forest dependent communities, and to conserve forest resources. Key decision makers were introduced to PES projects in other countries, particularly in the United States, and two visits of different state officials to PES models in the US took place.

Realising the importance of piloting PES in Vietnam, the Office of the Government issued a decision in April 2007 to assign MARD to lead the process to design and

formulate a document that constitutes the main input to build the pilot PES policy in Vietnam. MARD requested its Legal Department to conduct this task. A policy formulation team was set up, led by MARD's Legal Department and supported by ARBCP. An intensive process of research and data collection including a detailed review of international PES experience was undertaken. The team held about 15 consultation meetings/workshops with different stakeholders in Hanoi. With support from ARBCP, team members also travelled to Lam Dong to meet up with villagers in about three villages in Da Nhim commune (Lac Duong district) to explore the possibility to set up the PES Pilot. Representatives of the potential buyers of the environmental services were also consulted. The team members visited Da Nhim and Dai Ninh Hydropower Plants. Representatives of these companies along with others were also invited to a national consultation workshop.

Preparation of the first draft of the PES Pilot decision was completed by October 2007. After it was reviewed by different ministries, MARD revised and submitted the decision to the Office of the Government for promulgation. On 10 April 2008, the Government issued Decision 380/QD-TTg (Decision 380 for short) on piloting payment for environmental services in Lam Dong and Son La provinces (see Annex).¹³

Decision 380 stipulates the types of forest environmental services; norms of payment for use of services; the management of the money collected from PES; rights and responsibilities of the payees and payers

of forest environmental services; and the responsibilities of the government agencies for the implementation of the policy on payment for forest environmental services. Forest protection and development and the conservation of forest ecosystems, biodiversity, and natural forest landscapes are considered services for which individuals, businesses and organisations that use and benefit from them must pay the service providers, i.e. forest owner organisations and households contracted for forest protection. Decision 380 also outlines the steps to undertake the PES Pilot and indicates that MARD is in charge of implementing the PES Pilot, in collaboration with ARBCP.

Within ARBCP, in the first two years of the programme (2005 and 2006) a participatory PES feasibility assessment was successfully undertaken and helped determine the extent to which development of PES mechanisms would likely be able to offset the opportunity costs of biodiversity conservation. Also during this period, opportunities for implementing PES agreements and building supporting mechanisms were identified and feasibility studies on securing buyers and developing the PES transfer mechanisms were undertaken (ARBCP undated). The outcomes of these activities encouraged ARBCP to approach MARD and the Office of the Government to advocate for a PES Pilot policy as mentioned above. ARBCP actively supported the formulation of this policy and the promulgation of Decision 380/QD-TTg was considered "the program's most significant achievement" (USAID-Asia undated).

13. In addition to the PES Pilot in Lam Dong supported by ARBCP, there is also a PES Pilot in Son La supported by GIZ (*Deutsche Gesellschaft für Internationale Zusammenarbeit*). The scope and process of the latter is not covered by this study.

After the promulgation of Decision 380, ARBCP was asked to provide support for the implementation of the PES Pilot in Lam Dong province. The request was taken into account and the two year extension of ARBCP (October 2008 – September 2010), awarded in September 2008, focused on three main components, one of which was to consolidate and mainstream pilot biodiversity conservation, PES, and livelihoods activities in Lam Dong province. In 2009, supplementary funding was provided to the programme to cover six key areas, including “strengthening development of a full PES decree with broad stakeholder input.”¹⁴ Between 2008 and 2010, ARBCP worked closely with MARD and DARD Lam Dong in piloting PES in four districts in Lam Dong province.

4.1.1 Reflection on the project formulation process

The formulation of the PES Pilot policy was based on independent analysis conducted by ARBCP in the first phase. The PES

feasibility studies indicated that for the PES Pilot the Dong Nai watershed, which covers part of Lam Dong province, has:

a relatively high chance of success due to the demand for watershed services by urban users in Ho Chi Minh City (HCMC). The area’s proximity to major commodities and tourism markets also offer opportunities to turn demand for biodiversity conservation services into tangible economic incentives through development of access to high value green product markets and ecotourism (ARBCP undated).

ARBCP also benefited from the work by Nong Lam University under Winrock’s John D. Rockefeller 3rd Scholars Programme on the feasibility of watershed-based PES in the Dong Nai watershed, which included a stakeholder survey, and a policy review on how PES mechanisms can be designed to benefit the rural poor and contribute to sustainable natural resource management. In addition, ARBCP’s analysis of on-going

Box 2: Summary of benchmarks for PES Pilot project formulation

Late 1980s	Idea about payment to forest dependent communities for protecting forests for hydropower generation raised
Mid 2000s	Increasing negative impacts of deforestation and forest degradation on human life and assets observed
2005-2007	PES preparatory work by ARBCP in Lam Dong and Vietnam in general
Early 2007	ARBCP approached MARD and Office of the Government about the idea of the PES Pilot policy
April 2007	Office of the Government assigned MARD to take the lead in the preparation of the PES Pilot policy
April-Oct. 2007	Preparation of the first draft version of the PES Pilot policy
Oct 07 – Apr 08	Review of the draft policy by relevant ministries and revision by MARD
April 2008	Promulgation of Decision 380/QD-TTg on the PES Pilot
Sep 2008	ARBCP receives two-year extension for further activities, including the PES Pilot in Lam Dong
Sep 2009	Supplementary funding provided for ARBCP to cover new activities, including support for the development of the full PES decree.

14. <http://www.winrock.org/fact/facts.asp?CC=5597&bu> (accessed 13 October 2010).

payment schemes indicated that a key constraint to existing programmes is that the payment provided did not create an economic incentive for local communities to protect the forest. ARBCP emphasised the importance of usufruct rights in PES and indicated that usufruct rights agreements would be needed in return for household level agreements to provide watershed and/or biodiversity conservation services.

The consultation undertaken during the process of formulating the PES policy appeared to be inclusive. It covered a large number of stakeholders, particularly the important ones, i.e. the potential buyers (companies that use the environmental services in the intended pilot site), and the potential sellers (forest managers in Lam Dong, including local communities). However, only a limited number of actors in the seller group were consulted (only three villages in one commune in the whole of Lam Dong) and it was not known how much the people attending the consultation meeting represented the whole village. Consultation with the buyer group seemed to be more inclusive, with two out of four major buyers in Dong Nai Watershed indicated in Article 3 of Decision 380 directly consulted by the formulation team.

It is impossible to assess comprehensively how transparent the PES Pilot formulation process was, as it was not possible to collect information on what was discussed in the consultation meetings with different stakeholders. Nevertheless, there were a few issues that may have impacted elements of transparency in the project formulation process. First, the rights of buyers were not clearly indicated, particularly with regard to the quality of the services that they would have to pay for. Second, the extent

to which the fee to be collected was fixed was not fully agreed by the buyers as they were not involved in the whole process. Third, the sellers were not involved in the quantification of the benefits they receive from the environmental services they provide.

Though much effort went into consulting different stakeholders in the process of formulating the PES Pilot, it is difficult to say that comprehensive participation of all actors was achieved. Regardless, the PES Pilot policy is legally binding on all the actors mentioned in Decision 380 (Article 3). Therefore, participation of all these actors in the implementation process can be expected.

5 The PES Pilot project

This section discusses the features of the PES Pilot project. Table 1 provides basic information about the project.

5.1 Overview of the project implementation process

The main steps in the project implementation process (Box 3) were as follows.

- *Project initiation*

The project began in 2007, before the official promulgation of Decision 380, with preparatory work. ARBCP helped Lam Dong to set up a technical working group on PES and carbon, with participation from relevant technical agencies in the province.

Table 1: Basic information about the PES Pilot Project in Lam Dong

Administrative coverage:	
5 districts – Don Duong, Duc Trong, Lac Duong, Da Teh, and Da Lat	
Total area of coverage:	584,369 ha
Dai Ninh reservoir:	114,866 ha
Da Nhim reservoir:	73,700 ha
Dong Nai watershed in Lam Dong:	395,803 ha
Environmental services:	
Water source regulation and provision	
Soil protection, reduction of erosion, protection against sedimentation of reservoirs	
Ecotourism	
Beneficiaries (sellers of the environmental services / service providers):	
State actors (forest companies and management boards):	13
Households assigned legal rights to forest:	564
Households contracted to protect forests:	3,342
Buyers of the environmental services:	
Hydropower companies:	2 (Da Nhim and Dai Ninh)
Water supply companies:	2 (SAWACO and Bien Hoa)
Ecotourism companies:	9 (working in 14 sites in 3 districts in Lam Dong)

Source: Lam Dong DARD (2010), MARD (2010).

Box 3: Summary of steps for PES Pilot project implementation in Lam Dong

2007	Preparatory work
2008	Establishment of project management structure and technical working group Awareness raising for local communities Identification of K coefficients Preparation of the list of project beneficiaries Preparation of the list of payers of the environmental services Identification of area to be covered
2009	Establishment of PES payment structure and mechanism Initiation of forest contracting Collection of the PES fees and payment distribution to beneficiaries Preparation of PES Decree
2010	Review of project implementation Issuance of PES Decree

- *Establishment of project management structure and technical working group*

In 2008, the provincial project steering committee was established and project management boards were set up in all districts. The technical working group established in 2007 officially began functioning in 2008.

- *Awareness raising for local communities*

Various activities were undertaken in the intended project areas to raise the awareness of local people on environmental services and to familiarise them with the Pilot project.

- *Identification of K coefficients*

A study was undertaken in 2008 to identify the K coefficients to be used in the payment of the money collected. The idea of the K coefficients is to take into account the variations in natural and socio-economic conditions for different types of forests in the province so that equity and fairness in duties and benefits of the services sellers can be achieved.

In October 2008, the coefficients were

officially approved by the province, with four subsets: K_{LR} for differences in forest types (i.e. production, protection or special-use forests), K_{CLR} for differences in forest quality (poor and degraded, medium and rich forests), K_{NGR} for differences in the sources of forest (natural forest or production forest), and K_{TD} to address the differences in level of pressure on forest (high and low pressure) (Lam Dong PPC 2008).

- *Preparation of the list of project beneficiaries*

Based on the general direction indicated in Decision 380, a list of beneficiaries (sellers of the environmental services) was prepared in 2008. A total of 13 state organisations (state forest companies and management boards), 546 households with legal rights to forest, and 3,342 households contracted to protect forest in five provinces were listed as direct beneficiaries of the PES Pilot project.

- *Preparation of the list of payers of the environmental services*

The list of companies from which fees for

environmental services would be collected accompanied the list of beneficiaries. The list included two hydropower plants, two water supply companies and nine ecotourism companies. The fees to be collected from these buyers were estimated at approximately 47.3 billion VND (roughly US\$ 2.5 million).

- *Identification of area to be covered*

A total of 584,369 ha of forest land in the province were identified as under the scope of the project.

- *Establishment of PES payment structure and mechanism*

In early 2009, the provincial Forest Protection and Development Fund (FPDF) was set up as the mechanism for the distribution of the PES fees. The Fund was placed under the overall management of Lam Dong DARD and was put in charge of the management of the money collected from the service buyers.

- *Initiation of forest contracting*

For households to be contracted to protect the forest, forest owners (state organisations) prepared the necessary documents to support the contracts, to be approved by DARD before they came into force.

- *Collection of the PES fees and payment distribution to beneficiaries*

From 2009, fees were collected from the services buyers. The project also prepared a payment distribution plan, which was officially issued by Lam Dong PPC on 19 August 2009 (Decision 2091/QD-UBND).

- *Preparation of PES Decree*

Based on the work conducted under the project, a national PES Decree was formulated. A review of project implementation was undertaken by MARD in early 2010 and the PES Decree was officially issued in September 2010.¹⁵

5.2 Embeddedness of the PES Pilot

The Pilot project is well embedded into the national policy framework on PES. The project was designed as part of the PES policy formulation in Vietnam. Together with the other PES Pilot in the northern province of Son La, the PES Pilot in Lam Dong is a means to trial PES and to consider what will be required to make PES work in Vietnam. Lessons learned from the two PES Pilots contributed to the formulation of a full PES Decree, which will be applied nationwide. As stipulated in Article 1 of Decision 380, the PES Pilots have the purpose to:

establish the basis for the development of the legal framework for a national policy on payment for forest environmental services to be applied in the whole country, where the responsibilities and benefits of the payers and payees of forest environmental services are clearly defined and to socialise the forestry sector, gradually establishing sustainable economic basis for protecting the environment and ecosystems, improving quality of service provision, especially ensuring water supply for electricity production, for clean water production, and ecotourism business activities.

Connections between the PES Pilot and other national policy initiatives are

15. Decree 99/2010/ND-CP dated 24 September 2010 on PES in Vietnam.

summarised in Box 4. Implementation of the Pilot is also governed by the national legal framework. Where project documents do not specify terms and conditions, those in existing laws and regulations apply.

The payment mechanism of PES in Lam Dong is also embedded in the national regulatory framework. According to Decision 380, PES payment can be made either directly between the buyer and the seller of the product, or indirectly through a third party organisation. The FPDF is mentioned as the agency to handle indirect payment. The FPDF was set up at national level in November 2008, with the provincial FPDF as part of the system established in February 2009.

Further, the PES Pilot in Lam Dong is well embedded in the state administration in the province. The Pilot is officially 'owned' by Lam Dong PPC and managed by DARD. The Lam Dong Sub-DOF is in charge of implementation. ARBCP provides technical support to the project. Other agencies in the province involved in the project include the Department of Finance, Department of Planning and Investment, Department of Tourism, Culture and Sports, the Centre for Environmental Monitoring, and the Forest Protection Sub-Department.

5.3 Services provided by the project and work areas

As indicated in Decision 380 (Table 1), the environmental services being addressed in the Pilot include a) water source regulation and provision, b) soil protection, reduction of erosion, protection against sedimentation of reservoirs, and c) ecotourism. The PES Pilot is not meant to be working directly to reduce emissions from deforestation and forest degradation or enhance forest carbon stocks (REDD+). While carbon sequestration is not part of the PES Pilot, efforts made by the project in the four areas of work that ARBCP undertakes can (theoretically) lead to the achievement of this service.

To achieve the intended goal of the Pilot, the activities support by ARBCP cover four areas of work:

- Restore and maintain ecosystem connectivity and function;
- Promote sustainable financing for biodiversity and natural resource conservation;
- Improve the livelihoods of the rural poor;
- Strengthen environmental governance and institutional building.

The main activities undertaken by ARBCP for each area of work are presented in Box 5.

Box 4: Other national initiatives that the Lam Dong PES pilot has linkages with

- National forest management strategic target to increase forest cover to 16 million ha by 2020
- Power and water supply development needs
- Climate change adaptation and mitigation
- Poverty reduction for ethnic minority communities
- Obligations to the climate change and biodiversity conventions

Box 5: Main activities undertaken by ARBCP to support the PES Pilot

- I. Restore and maintain ecosystem connectivity and function
 - a. Conserve biodiversity at the ecosystem, landscape or regional scale to maintain large-scale processes and viable populations of wildlife and plants;
 - b. Conservation corridors are developed to link and consolidate the project areas network in prioritised conservation foci;
 - c. Restore degraded ecosystems and expand ecosystem services;
 - d. Allow for sustainable use and forms of land tenure consistent with conservation.
- II. Promote sustainable financing for biodiversity and natural resource conservation
 - a. Develop at least one pilot programme transferring environmental service payments from downstream users to upstream providers of services.
- III. Improve the livelihoods of the rural poor
 - a. Increase rural income opportunities from business skills development and improved market linkages;
 - b. Improve resource management and value-added processing.
- IV. Strengthen environmental governance and institution building
 - a. Improve capacity and awareness to comply with laws and regulations;
 - b. Identification of institutional, legal and policy structures to support PES implementation;
 - c. Facilitate dialogue and negotiate agreement between providers, beneficiaries and other stakeholders in PES agreements;
 - d. Communication and sharing of lessons learned.

Source: ARBCP (undated).

5.4 Project benefits to different actors

The PES Pilot intends to bring benefits to a wide range of actors, among whom local communities directly involved in the protection of the forests are given the most attention. The discussion that follows focuses on three main groups of actors: the sellers of the services ('owners' of the forest and local communities involved in the protection), the buyers of the services, and the state forest administration. Actors that indirectly benefit from the services (e.g. consumers of electricity and water) are not discussed in this paper.

5.4.1 For sellers of the environmental services Local communities

In total, around 3,900 households in five districts in Lam Dong are covered by the

PES Pilot. The most tangible benefit for these households is the money they receive from the service buyers through FPDF (indirect payment as defined by Decision 380).

There is a significant variation in the amount of money received by households in different parts of the Pilot. According to Decision 2091/QD-UBND on the distribution of the PES money of Lam Dong PPC, payment received by local households in the pilot areas is:

- Catchment area for Da Nhim Power Plant: 290,000 VND/ ha/year;
- Catchment area for Dai Ninh Power Plant: 270,000 VND/ ha/year;
- Watershed area for Dong Nai river: 10,000 VND/ ha/ year (Box 6).¹⁶

16. Due to the low rate of payment for households in this area, the Lam Dong PPC decided to maintain the payment of 100,000 VND per ha from other sources (i.e. the national 5MHRP or provincial conservation programme), which totalled 110,000 VND per ha for protection of the forest.

Box 6: The disbursement of PES fees by Da Nhim Protection Forest Management Board

Da Nhim Protection Forest Management Board (PFMB) is the first out of the 13 forest owners in Lam Dong to disburse the PES money from the FPDF to local communities. To start with, Da Nhim PFMB prepared a list of people (and the areas of forest) with forest protection contracts, who were eligible to receive payments under PES. Village and communal officials were consulted to ensure that poor and marginalised households were given adequate attention.

The complete list was then sent to the District Forest Protection Unit for cross-checking to avoid households making overlapping claims with other forest owners in the same district. Once cleared, the District People's Committee placed an approval stamp on the list and sent it to Lam Dong FPDF. Lam Dong FPDF then contracted Da Nhim PFMB for the payment to villagers. Based on the contract, Da Nhim PFMB opened a bank account separately for this purpose to receive funds from the FPDF. Upon receipt of the transfer, Da Nhim PFMB set up a committee to disburse the funds to the villagers. Each household on the list had a record book to keep track of the payments and they were required to sign the payment book kept by Da Nhim PFMB. Payment was made on a quarterly basis, based on the performance of the household in protecting the contracted forest.

Source: Cao (2010).

The variation in the payments across sites is largely due to the differences in the amount of money generated from the forest (i.e. collected from the PES service buyer). In Da Nhim and Dai Ninh reservoir areas, a much larger amount of money is collected from the two hydropower plants compared to the other areas, leading to higher income for

the service providers (Table 2).

The income that each household receives also depends on the area of forest being contracted/allocated to them. On average, each household having a protection contract has 25 ha (range: 20 ha to 45 ha), implying an average annual income per household of around 250,000 VND for those living in

Table 2: PES income and expenditure in Lam Dong (000 VND)

	Planned	Actual
PES fee (income to FPDF)	47,586,954	55,969,279
Da Nhim Hydropower Plant	20,520,000	24,323,360
Dai Ninh Hydropower Plant	21,796,121	25,799,244
SAWACO and Dong Nai Water supply	5,000,000	5,000,000
Ecotourism companies	270,833	300,000
Bank interest		546,675
Expenditure	47,316,077	25,494,882
Payment for forest protection contract (to households)	38,326,058	20,592,820 ¹⁷
Fund management by SFC / management boards	4,258,406	2,254,492
Fund management by FPDF	4,731,612	2,647,570
Balance (income-expenditure)		30,474,397

Source: Lam Dong DARD (2010), p.4.

Note: 1,000 Vietnamese Dong = 0.04751 US Dollars (<http://www.oanda.com/> 21 April 2011).

17. The payment only covered around 112,000 ha of forest being contracted to 3,342 households.

the Dong Nai watershed area, 6.75 million VND for the Dai Ninh catchment area, and 7.25 million VND per household for the Da Nhim reservoir area.

Another important benefit for local communities is capacity building, which IUCN took the lead in delivering. Awareness raising workshops were organised at the village level with the aim to make local communities better understand the PES policy and the need to conserve nature.

Other benefits for local communities included access to any products in the forest that they invested in from their own resources. In addition, local households were entitled to receive work clothes for patrolling the forest (see section 5.5).

State forest companies and forest management boards

The 13 state forest companies and forest management boards (known as ‘forest owners’) also benefit from the cash income from the PES Pilot project. Unlike local communities, who receive money for the protection of the forest areas under the contracts, state forest companies and management boards are paid for the administration of these contracts. According to provincial Decision 2091/QD-UBND, 90% of the money administered by these forest owners must be paid to local households for forest protection. Forest owners are entitled to 10% of the total amount of money administered by them to cover the management cost and related expenses.

Box 6 provides an example of the work done by Da Nhim Protection Forest Management Board on PES payment distribution and fund management – a pilot payment under

the PES Pilot project.

5.4.2 For buyers of environmental services

The benefit for buyers of the environmental services under the Lam Dong PES Pilot project is the improved quality of the environmental services that they are using, which will lower their operations and maintenance costs. Water supply companies should benefit from more regular and cleaner water; hydropower plants should enjoy more water and less sediment in the reservoirs, and tourist companies should be able to offer better ecotourism services. As the director of Dai Ninh Hydropower Plant puts it:

Watershed forest helps regulate water entering reservoirs, reducing big floods that caused damage in the rainy season and replenishing water for the reservoirs during the dry season and thus increasing the useful water level for electricity generation....

If the money is used effectively and appropriately, it will bring practical benefits for hydropower developers like us because the water regulation function of forest helps us increase electricity production, increase revenue and profit, and reduce damage to the plant’s structures caused by big floods.

Such belief is backed by independent analysis. Gamez (2007) indicates that PES could achieve a positive internal rate of return under any scenario and that:

in the absence of adequate forest cover, environmental degradation can impute higher but disguised costs to hydropower generation. Faster topsoil erosion upstream will create the condition for a continuous siltation process. The sediment build up in dams reduces the volume capacity of the reservoir. This

condition requires a regular clean-up, which would entail additional operational costs. Additionally, suspended sediment particles in the water cause the early wear of the turbine engine parts because of friction. This will require more maintenance and parts. Most important, the loss of volume capacity of the reservoir results in lower productivity.

To estimate the value of the benefits that the ecosystem service buyers would receive, a number of studies were conducted between 2006 and 2008. Using Da Nhim catchment area as the survey site, a study on water regulation and soil conservation indicated that “one hectare of forest was valued at US\$69 per year to the Da Nhim hydropower project, of which US\$14.60 was attributed to the benefits accrued from water regulation and US\$54.40 for reduction of sediment into the reservoir” (Nguyen et al. 2011, p. 18).

Similarly, various studies were undertaken to value the contribution of PES to ecotourism in the project site. It was estimated that a payment of between 0.5 and 2% of the gross annual revenue should be made by each tourism company (Nguyen et al. 2011, p. 19).

5.4.3 For state forest administration and local authorities

The most important benefit for these actors is the support for the realisation of state administration tasks in terms of conservation and development of forest resources, improvement of local livelihoods, and contribution to poverty alleviation. Implementation of the PES Pilot is believed to help the local state forest administration system in Lam Dong to realise the objectives of the forestry sector, which were stated in the 2001-2010 National Forest

Development Strategy as:

to build up a people’s forestry; strengthen forest protection, restoration and development to secure environmental protection function, protect natural forest, conserve biodiversity, protect rare and valuable forest fauna, flora; apply scientific and technical advances, high technology to forestry production to meet diverse demands of national economy; contribute to poverty alleviation, improve livelihood of ethnic people living in forest areas, and create strong basis for national defence.

Another benefit is the money retained to cover the FPDF management expenses. According to Decision 2091/QD-UBND, up to 10% of the money administered by the Fund can be retained to cover activities, including the salaries of staff members, related to fund management. Table 2 presents the amount of money from the PES fee retained by Lam Dong FPDF to cover its expenses.

In addition, state officials are also benefiting from the capacity building activities of the project, mainly in the areas of PES. For example, as mentioned above, two study tours funded by ARBCP were organised for national and provincial officials to visit PES sites in the US. Various trips were also organised for provincial officials to share lessons from the PES Pilot in the country and beyond.

5.5 Role, rights and responsibilities of different actors

5.5.1 ‘Forest owners’ and local communities

‘Forest owners’ and local communities play the role of the providers and sellers

(payees) of the environmental services. Local communities provide environmental services through their forest protection work. 'Forest owners' (13 state forest companies and forest management boards) are the sellers of such services as they have the legal rights to forestland. By contrast, local communities do not have legal rights to forest. Their rights are limited to the entitlement of the payment from the 'forest owners' for their protection work and the ability to exclude any (potential) poachers of the forest resources (see section 3.1.2).¹⁸

Article 16 of Decision 380 specifically indicates the rights and responsibilities of payees of the forest environmental services (see Annex). In general, the one right that they have is to request the provincial FPDF to pay for the forest environmental services. 'Forest owners' also have the right to retain 10% of the amount of PES money administered by them.

Environmental payees have a set of responsibilities to fulfil, including high quality performance on protection work, early notification of any loss of forest resources, and replanting any planted forest within 12 months after harvest. They are also obliged to obtain approval by the competent authorities before changing forest land use.

Both forest owners and local communities benefit from ARBCP's support in terms of capacity building on PES activities. Awareness-raising is conducted through various means, including mass media, a communication team, and workshops at the

project sites.

PES payment is used as an incentive as well as a control mechanism for the local communities. Higher payment from PES (from 110% to 290%) compared to the national 5MHRP is an incentive for local communities to provide the environmental services. Villagers who do not receive payment talk about it with envy.

The control mechanism takes this into account and uses it as a means to control people's behaviour with respect to forests. As mentioned above, the service providers have to fulfil a number of duties in order to receive (full) payment for their protection work. A conditionality for full payment is the quality of the forest protection work. Based on the report from the 'forest owner' organisation and the local forest protection unit, the FPDF releases the payment to the service providers (see 5.5.5). If forest is lost and the service providers do not report on time, payment may be withheld in part or full, depending on the size of forest lost. However, the level of forest lost for withholding full payment is unclear.

Another control mechanism is the patrol work by the 'forest owner' and local forest protection officials, which is conducted on a relatively regular basis in the dry season when the threats to forests are high. The payment to the service providers can be suspended or cut should any encroachment or wrongdoing regarding the forest resources (either by the service providers or others) be observed by the officials on patrol.

18. In the PES Pilot area, there were 564 households with legal rights to forest land allocated to them by the state. By the end of 2009 however, these households had not received any payment from their forest as the payment had only dealt with forest contracting under state forest companies and forest management boards (Source: direct communication with Lam Dong DARD officials).

5.5.2 Buyers (payers) of the environmental services

Buyers/payers of the environmental services pay for the services generated through the forest protection and conservation work of the local communities. The rights and responsibilities of the service payers are specified in Article 15, Decision 380. They are entitled to request the competent state body (PPC or provincial FPDF) to reconsider the payment for the forest environmental services if the quantity and quality requirements of the environmental services are not met.

The service payers also have responsibilities. They must pay the required amount for the forest environmental services promptly, either directly to the forest owner or indirectly through the provincial FPDF. If they fail to do so, they must make compensation payment.

The payment of the environmental service fee is thus related to the responsibilities as well as the rights of the buyers. The fee payment can be both an incentive and control mechanism. As an incentive mechanism, the service payers can expect a higher quality and quantity of the environmental services they are paying for. As a control mechanism, the business of the service payers may be affected should they fail to pay the regulated fee. In addition, existing laws and regulations relevant to the business of the payers serve as a control mechanism for them to follow the terms of conditions under the PES Pilot.

The payers of the environmental services also benefit through capacity building under the project and through informational activities by ARBCP, IUCN and government bodies. For example, members from the

hydropower plant participated in the study tour to PES models in the US and in various national and regional workshops.

5.5.3 Lam Dong Provincial People's Committee

Lam Dong Provincial People's Committee (PPC) plays a leading and decision-making role in the PES Pilot. The PPC is in charge of the Pilot design and implementation. More specifically, the PPC decides on the scope of the Pilot in the province (i.e. areas to be covered and the list of payees), the rate of payment, and the K coefficients to be applied in the province.

The rights and responsibilities of Lam Dong PPC are specified in Article 18, Decision 380. Lam Dong PPC has the responsibilities to raise awareness on the pilot policy and formulate a detailed plan for the pilot's implementation; identify the pilot sites and assign tasks to relevant departments in the implementation of the pilot, particularly in the areas of forest land allocation, forest contracting, and quantification of the value of environmental services; and to set up the provincial FPDF (see Annex).

5.5.4 Lam Dong Department of Agriculture and Rural Development

Lam Dong DARD plays an important role in the PES Pilot. It is responsible to the PPC for project design and implementation, from technical to financial issues. For example, DARD takes the lead in the technical working group to identify the project areas and the list of payees, quantify K coefficients, conduct forest inventory, and to manage the FPDF. DARD is also in charge of reviewing the forest contracts that the forest owners have with the local communities.

To perform its tasks, DARD has received

substantial support from ARBCP. ARBCP has conducted various capacity building activities targeting DARD, including awareness-raising, training workshops, and study tours.

5.5.5 Lam Dong Forest Protection and Development Fund

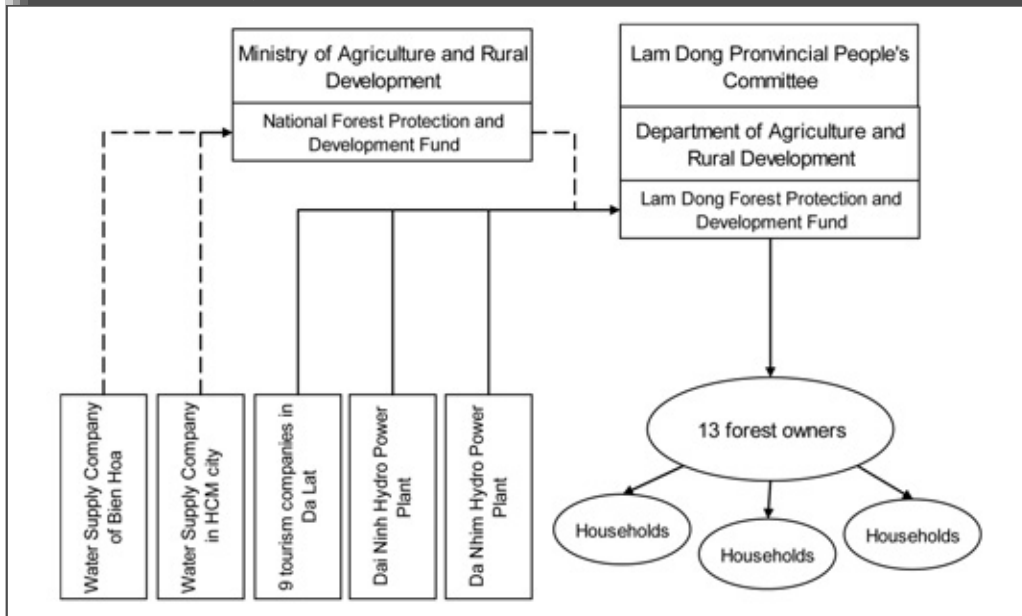
Lam Dong FPDF plays the role of a trust organisation for the payment of PES money. Lam Dong became the first province in Vietnam with an operational FPDF after it was set up by the Lam Dong People's Committee in February 2009 (Decision 333/QD-UBND, 17 February 2009). Inputs to the Fund are from PES fees directly paid by the buyers and via the national FPDF.

Thus far, direct payment has been made by two hydropower plants and nine ecotourism companies. The fees from two water supply companies located in Dong Nai province and Ho Chi Minh City were collected by

the national FPDF and re-distributed to the Lam Dong FPDF. The PES fees were put into a separate bank account at the Vietnam Bank for Agriculture and Rural Development (VBARD). The money did not go into the state treasury as it was not part of the state budget. In terms of disbursement, the fund first went to the 13 state forest companies and management boards located in the pilot sites. They handed over the money to local households based on the areas of forest that the households had protected under the contractual arrangements.

The rights and responsibilities of Lam Dong FPDF are regulated in Decision 380 of the Prime Minister on PES Pilot, Decree 05/2008/ND-CP of the Prime Minister on FPDF in Vietnam, and more specifically in Decision 333/QD-UBND of Lam Dong PPC on provincial FPDF. Accordingly, Lam Dong FPDF has the right to make payments, check the performance of the payees, and reduce

Figure 7: PES money flow in Lam Dong



Source: Cao (2010).

or refuse to make the payments to the payees if forest environmental services are not up to the agreed or regulated standards. They are also able to make proposals to the competent state organisations to change the beneficiary groups and to change payment policy.

The responsibilities of the FPDF include making the payments directly to payees for the forest environmental services they provide; monitoring and supervising the implementation of the field activities; and making a draft budget and payment for forest environmental services to be submitted to the PPC for approval (see Annex).

FPDF staff members benefit from capacity building activities within the scope of the project (e.g. awareness-raising on PES). In addition, they receive technical training under the state system on topics relevant to their work (e.g. accounting, project appraisal). The 10% of PES payment retained for fund administration is an incentive for their work. In addition, as part of the state system, they have the incentive mechanism offered by the state (compensation package) and are also governed by the state control mechanism.

Other actors

Other actors include other departments in the province (e.g. Department of Finance, Department of Natural Resources and Environment and Department of Culture, Tourism and Sport) and their line agencies at national level. Details on their rights and responsibilities are presented in Decision 380 in the Annex.

5.6 Attention to the livelihoods, cultural and social needs of local people

Livelihoods, particularly those of the local forest communities, are a central focus of the PES Pilot, along with the objective of conserving the forest resources. The PES Pilot represents the first time in Vietnam that the issue of local livelihoods has been addressed through direct payment from industries to local communities. After one year of test payments, experience indicates that the PES money is making a substantial contribution to local livelihoods (Box 7). However, it should also be noted that local resources (labour, mostly) invested in the PES Pilot may have reduced income from other sources, which may offer an explanation for the disproportionate increase in total income and income from forest protection in Da Nhim commune (Box 7). This issue deserves further study.

Box 7: PES Pilot project contribution to local income, Da Nhim commune

Da Nhim commune in Lac Duong district was the first pilot site of the PES Pilot project in Lam Dong. The project began with preparatory work in the commune at the end of 2008. PES payment to local households involved in the project started at the beginning of 2009. After one year of implementation, significant improvement of local income was observed.

In 2008, the per capita income of the local people was 9.5 million VND, of which income from forest protection was 2.3 million VND (24.2% of total income). With PES payment, income from forest protection increased in 2009 to 8.35 million VND, though not proportionally as the total income increased to 11.2 million VND. This implied an increase of 18% in total income and over 260% in forest protection. Money from forest protection made up over 74% of the total household income, a remarkable increase compared to 2008.

Source: Da Nhim Communal People's Committee (2010).

The PES policy, by its nature, is meant to address the cultural and social aspects of forest management by emphasising the need to pay attention to the forest rights of local communities. Previous research by the author indicates that devolving forest rights to local communities not only has implications for forest management; it impacts the local culture and the social life of the forest communities (Nguyen 2005). The issue of traditional customs in natural resource management has been discussed in various capacity building activities.¹⁹ However, it is not clear how far the issues of cultural and social needs of local communities have been addressed in the actual implementation of the PES Pilot. As discussed earlier in this paper, the PES Pilot mainly deals with contracting of forest management through state forest companies and forest management boards. Although 564 households among the PES beneficiaries have been assigned legal rights to forests, this devolution of forest management rights did not take place as part of PES. In fact, no forest tenure reform has taken place in association with the PES Pilot (as of the time of writing this paper). Instead, the Lam Dong PES Pilot mainly focused on contracting forest management to local communities. By avoiding a real reform of forest tenure in the province, the PES Pilot has lost an important opportunity to address the cultural and social aspects of the life of local (ethnic) communities.

5.7 Consultation mechanism

It is not possible to determine whether an effective consultation mechanism was in place for the PES Pilot, due to the

absence of information. Although various stakeholders were involved in the whole process of PES Pilot implementation, local actors, particularly those at the commune and village levels, were involved only in a limited manner in the decision making.

5.8 Conflict management mechanism

There is no specific mention of a conflict resolution mechanism in the project. As with any government policy, the handling of any conflict that may arise during the implementation of the PES Pilot is regulated by the Law on Complaint and Denouncement of 1998 and its revisions in 2004 and 2005, and guided by Decree 136/2006/ND-CP of the Prime Minister, dated 14 November 2006.

5.9 Summary

To summarise, this section provided a discussion on the implementation of the PES Pilot project in Lam Dong province. From its start in 2007 to the present, the Pilot project has set up the necessary infrastructure and capacity for PES implementation. Benefits have been generated for different groups of stakeholders, including state forest agencies and local communities. Importantly, the Pilot is well embedded in the national policy framework. The experiences from the Pilot have contributed to the formulation of the national PES Decree, which will be implemented at the national level.

A number of issues remain to be resolved. Among these are: the need for

19. This information is from direct communication with an ARBCP staff member and with the Lam Dong Sub-DOF staff members.

an operational consultation mechanism that promotes the effective participation of local stakeholders; a working conflict management mechanism that responds to problems arising from project implementation; the forest tenure rights of local communities; and the performance-based payment of PES funds to local service providers.

This paper provided an analysis of the PES Pilot in Lam Dong province, Central Highlands Region, Vietnam. Its objectives are to contribute to a better understanding of how PES can be applied to the forest sector in developing countries, and to extract lessons for one specific type of PES, namely REDD+.

The analysis sought to shed light on the market, policy and governance failures in the Pilot area that underlie deforestation and forest degradation; the process of designing the Pilot from the perspectives of informed and meaningful stakeholder participation and transparency of decision making; and the likely *effectiveness* and *equity* of the strategies that the Pilot sets out.

On the first issue, there have been various factors contributing to the deforestation and forest degradation in Lam Dong, including market drivers (especially the increase in the coffee price over the last decade), policy drivers (state policy on forest administration and production in the 1980s and 1990s, re-settlement schemes, illegal logging and rubber planting), and governance drivers (lack of necessary attention to local stakeholders, particularly local communities, in various aspects of decision making and implementation).

The PES Pilot project is among various initiatives launched to deal with the negative impacts of these drivers. The formulation of the PES Pilot policy was based on independent analysis conducted by ARBCP as well as other research results. The consultation undertaken during the process of formulating the PES policy appeared to be inclusive. It covered a large number of stakeholders, particularly the important ones, i.e. the potential buyers (companies that use the environmental services in the intended pilot site), and the potential sellers (forest managers in Lam Dong, including local communities). However, only a limited number of actors in the seller group were consulted and the extent to which the local people consulted represent their whole communities is uncertain.

While it is impossible to fully assess how transparent the PES Pilot formulation process was, it was observed that the buyers would be happier if their rights as buyers were more clearly indicated, and if they were involved in the process of quantifying the environmental fees. Similarly, greater transparency and perhaps effectiveness and equity would be achieved by involving the sellers in the quantification of the benefits. While comprehensive participation of all actors in the process of project formulation

may not have been fully achieved, it is important to recognise that considerable effort was made to consult different stakeholders.

The review of the Pilot project and its implementation indicated that the project has been effective in achieving the planned target of piloting PES in the province, analysing the lessons learned and contributing to the formulation of the full PES Decree within a short period of time. The Pilot project was fully embedded in the system of PES policy in Vietnam as well as in the local administration system. The promulgation of Decree 99 on PES in September 2010 is an indication of an effective process.

There is still room for improvement in the equity aspect of the pilot. The project has improved the income of local people from the forests; however, the mechanism for a pro-poor payment distribution has not been discussed. In addition, though the project design paid attention to the issue of (tenure) rights of smallholders, this has not been taken into full account in the implementation of the Pilot. The PES Pilot mainly deals with forest contracting through state forest companies and forest management boards. No forest tenure reform took place under the PES Pilot. Furthermore, due to the absence of an effective consultation mechanism for the PES Pilot, local actors, particularly those at the commune and village levels, were involved only to a limited extent in the decision making.

6.1 Lessons for REDD+

There are several lessons for REDD+ that can be drawn from the PES Pilot in Lam Dong. First, under the PES Pilot communities were given the role to protect forests and were paid for this role. This raises the question of whether communities could be paid for contributing to REDD+ objectives. If so, precisely what roles for communities might be envisioned?

As in the PES Pilot, under REDD+ communities could be paid for protecting forests that are under threat and for implementing sustainable management in the forests they harvest. The PES Pilot suggests that communities can play a protection role not only in community forests, but also forests under other forms of tenure, such as protection and conservation forests. Communities could also be involved in forest measurement to provide the necessary data for ground-based carbon stock assessment and monitoring. This notion is supported by research conducted under the Kyoto Think Global Act Local project²⁰ financed by the Netherlands Development Corporation, and is being explored further by IGES and its partners under an action research project in several countries in the region. In Vietnam, it is being tested under the UN-REDD Programme in Lam Dong province. Another option is to establish volunteer village fire brigades to prevent and suppress land fires, as in Indonesia. These and other roles can be envisioned that would take REDD+ beyond the distribution of payments to communities as passive beneficiaries, to payments for important roles played by the communities. Participation of communities

20. <http://www.communitycarbonforestry.org/> (accessed 13 April 2011).

in REDD+ design and implementation could build their sense of ownership for REDD+ strategies and in doing so contribute to the permanence of net emissions reductions and reduce the likelihood of emissions displacement (see also Nguyen et al. 2010).

The issue of forest tenure will also be important for REDD+. The PES Pilot in Lam Dong did not take up the issue of devolution of forest rights to local stakeholders (local communities). Most of the people from the communities involved in the PES Pilot participated through contracts with the 'forest owners', i.e. representatives of the state on forest management at the local level. Over the short term, this has not posed any challenges to the PES Pilot. Over the long term, however, the lack of tenure rights may lead to a sense of insecurity among the local people due to uncertainty over securing forest protection contracts each year. For REDD+, forest tenure is particularly important as it will influence the allocation of carbon rights. Without devolution of forest tenure rights to local communities, their benefits from REDD+ could be uncertain and their access to forests for their daily needs could be restricted as more powerful actors try to capture the financial benefits from REDD+.

Another important issue is the timing of payments from PES. The PES Pilot has been able to attract the participation of the local communities as it offers quick payments for their forest conservation work. In contrast, the payments for REDD+ are unlikely to be realised so quickly, which may pose a challenge to encouraging local community participation in REDD+ activities. Systems that provide both early payments and later performance-based payments may be appropriate.

These final observations suggest that REDD+ requires its own pilots to test various approaches to generate fair and sustainable outcomes through local incentives, consultation and participation.

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Annex: Decision 380 on PES Pilot

English translation available at <http://www.vietnamforestry.org.vn>

THE PRIME MINISTER

No: 380 /QĐ-TTg

SOCIALIST PUBLIC OF VIETNAM
Independence-Freedom-Happiness

Hanoi, April 10, 2008

DECISION

On

**The Pilot Policy for Payment for Forest
Environmental Services**
THE PRIME MINISTER

Based on the Government Organisation Law dated on December 25, 2001;

Based on the Forest Protection and Development Law dated on December 03, 2004

Based on the Decision number 18/2007/QĐ-TTg dated on February 05, 2007 by the Prime Ministry on approving the Strategy for Forestry Development in Viet Nam to 2020;

Considering the suggestion from the Minister of Agriculture and Rural Development,

DECIDES Chapter I GENERAL STIPULATION

Article 1. Purpose

To establish the basis for the development of the legal framework for a national policy on payment for forest environmental services to be applied in the whole country, where the responsibilities and benefits of the payers and payees of forest environmental services (here after referred to as forest environmental services: FES) are clearly defined and to socialize the forestry sector, gradually establishing sustainable economic basis for protecting the environment and ecosystems, improving quality of service provision, especially ensuring water supply for electricity production, for clean water production, and ecotourism business activities.

Article 2. Scope of stipulation

1. This decision stipulates the types of forest environmental services; norms of payment for use of services; the management of the money collected from FES provision; rights and responsibilities of the payees and payers of forest environmental services, and the responsibilities of the government agencies to the implementation of the policy on payment for forest environmental services.

2. The timeframe for the application of the pilot policy for payment for forest environmental services is 02 years, starting from the date this Decision comes into force. The pilot policy is to be applied within the areas of Lam Dong, Son La, Dong Nai, Hoa Binh, Binh Thuan, Ninh Thuan and Ho Chi Minh City .

Article 3. Target of stipulation

1. The organisations using services and having to pay for forest environmental services in this decision including:
 - a) The Dai Ninh Hydropower plant in Binh Thuan province;
 - b) The Da Nhim Hydropower plant in Ninh Thuan province;
 - c) The Hoa Binh Hydropower Plant of the Vietnam General Electricity Company;
 - d) The Suoi Sap Hydropower Plant situated in Phu Yen district of Son La province;
 - đ) The Water Supply Company of Ho Chi Minh City (SAWACO)
 - e) The Water Supply Company of Bien Hoa City of Dong Nai Province;
 - g) Phu Yen and Moc Chau Branches of the Son La Water Supply Company, Son La Province;
 - h) Organisations and individuals conducting ecotourism business in the areas of the special use forests and protection forests within the administrative boundaries of Lam Dong and Son La provinces.
2. All forest owners in the headwaters areas of the Dong Nai and Da river watersheds within the administrative boundaries of Lam Dong and Son La.
3. Governmental agencies relevant to the collection, submission, management, and use of money collected from payment for forest environmental services having headquarters based in Lam Dong, Son

La, Dong Nai, Ninh Thuan, Binh Thuan, and Hoa Binh provinces and Ho Chi Minh City.

Article 4. Terminologies

In this decision, the following terminologies are understood as:

1. Forest Environmental Service is the provision and sustainable use of values of forest environment (water regulation, soil protection and avoidance of sedimentation of reservoir, protection against flood and flash flood, biodiversity conservation/ aesthetic value, etc.).
2. Forest owners stipulated in this document includes those specified in the Forest Protection and Development Law; the organisations, households, and individuals directly manage, protect, and develop forest; the organisations, households, individuals, rural communities allocated long-term forest protection by the representatives of the government's forests. Forest owners are eligible to apply this PES Pilot policy include:
 - a) The Management Boards of protection forests, the Management Boards of Special Use Forests;
 - b) Economic organisations;
 - c) Households and individuals within the country;
 - d) The village communities.
3. Payment for forest environmental services is an economic relation where the users of FES pay to the providers of FES according to the government's stipulations in this decision.
4. The norm for payment for forest environmental services (unit price of services) is the amount of money that a user of FES has to pay to a provider of FES per one unit of use of FES or per one unit of corresponding product according

to the stipulations of the government or according to the agreement between the two parties.

5. Fee for tourism visit in this decision is the amount of money tourists have to pay for the Management Boards of Special Use Forests, the Management Boards of Protection Forests, and other forest owners.

Article 5. Types of forest environmental services

Types of services applied in this pilot policy include:

- a) Services of water source regulation and provision
- b) Services of soil protection, reduction of erosion, protection against sedimentation of reservoirs;
- c) Services of ecotourism services.

Article 6. Forms of payment for forest environmental services

- a) Direct payment for forest environmental services: is that users of FES (payers) pay directly to providers of services (payees).
- b) Indirect payment for forest environmental services: is that users of FES pay indirectly to providers of FES through a government organisation as stipulated at Item 2, Article 10 of this decision.

Article 7. Principles of payment for forest environmental services

1. The direct payment for FES is carried out by the payers and the payees based on the agreed upon contracts between the two parties following the market principles.
2. Norm of payment for use of the forest environmental services is stipulated by the Government, is publicly disclosed, and is adjusted when necessary.

3. Organisations and individuals using forest environmental services have to pay for use of the forest environmental services to payees of the forest environmental services and the payment does not substitute the water resource tax or other charges according to the stipulations of the laws.
4. The payments for use of forest environmental services are added to the production costs of products of users of the forest environmental services.

**Chapter II
DETERMINING THE NORMS
OF PAYMENT FOR FOREST
ENVIRONMENTAL SERVICES**

Article 8. Norm of payment for use of forest environmental services

1. For hydropower plants
The norm of payment for forest environmental services, applied for hydropower production establishments subject to the regulation at points a,b,c, and d of Item 1 of Article 3 of this decision for the pilot timeframe, is 20 VND/kwh of commercial electricity.
2. For the water production and supply establishments
The norm of payment for the forest environmental services applied for the domestic water production and supply establishments subject to the regulation at point đ, e, and g, Item 1 of Article 3 of this decision for the pilot timeframe is 40 VND/m³ of commercial water.
3. For organisations and individuals conducting tourism business stipulated at point h, Item 1 of Article 3 of this decision, the norm for payment for use of the forest environmental services is 0.5-2.0% of the tourism revenue of the period.

The People's Committees of Lam Dong and Son La are assigned to consider and stipulate the specific percentage of tourism revenue that each tourism business has to pay.

4. Charging the visiting fees for Protection Forests and Special Use Forests.
 - a) Management Boards of Protection Forests and Management Boards of Special Use Forests (hereafter referred to as Forest Management Boards may charge tourists for visiting fees.
 - b) The People's Committees of Lam Dong and Son La Provinces are assigned to approve and adjust visiting fees appropriately for each time period per authority.

Article 9. Determining the payment for forest environmental services.

1. For the case of direct payment: the amount of money a payer has to pay for FES is paid directly to the payee, based on the agreed upon contract between the two parties.
2. For the case of indirect payment
 - a) For the case of hydropower production establishments:
The money for use of FES that must be paid for the payment period (VND) is the product between production of commercial electricity of the payment period (kwh) and the norm of payment for FES per 1 kwh (20 VND/kwh).
 - b) For the domestic water production and supply establishments
The money for use of FES that must be paid for the payment period (VND) is the product between the production of commercial water of the payment period (m³) and the norm of payment per 1m³ of commercial water (40 VND/1m³)
3. For organisations and individuals

conducting tourism business

The amount of money for payment for use of the forest environmental services is the percentage of the tourism revenue of the tourism business (including value-added tax) in the payment period (year, quarters) according to Item 3 of Article 8 of this decision.

4. Payment periods are year and quarter.

Chapter III MANAGEMENT AND USE OF MONEY COLLECTED FROM FOREST ENVIRONMENTAL SERVICES

Article 10. Arrangement for payment for forest environmental services

1. For the case of direct payment:

Payees of forest environmental services organize the collection of money for use of forest environmental services from organisations and individuals using FES according to contracts or through visiting fees.

2. For the case of indirect payment

a) Payees of the forest environmental services are responsible to declare by themselves the amount of money for payment for the forest environmental services and submit the money to where they open their accounts to transfer to Forest Protection and Development Fund of Lam Dong and Son La provinces. Organisations and individuals, who have to pay for FES, based in Lam Dong and Son La provinces, are responsible for making declaration and submitting the payment for FES to the local Forest Protection and Development Fund who will be responsible for paying directly to the payees.

b) Forest Protection and Development

Fund of Lam Dong and Son La Provinces open their separate sub-accounts for payment for forest environmental services.

- c) Fund for Forest Protection and Development of Lam Dong province and the Fund for Forest Protection and Development of Son La province can use the money collected from FES based on the percentage of forest area at headwaters area of Lam Dong within the Dong Nai watershed and the Da river water shed as stipulated by the Ministry of Agriculture and Rural Development.
- d) The Forest Protection and Development Fund of Lam Dong and the Forest Protection and Development Fund of Son La are responsible for paying directly to the payees of services stipulated at Article 13 of this Decision;

Article 11. Use of money collected from payment for forest environmental services.

- 1. For the case of direct payment

For the money collected from payment for forest environmental services, after fulfilling the financial duties according to the stipulations of the laws, the payees have all the right to decide on the use of this money for investing into forest protection and development, improving quality of forest environmental services, and improving livelihoods.
- 2. For the case of indirect payment
 - a) The collected money from payment for forest environmental services could be used as followed:
 - Leaving 10% for the Forest Protection and Development Fund
 - 90% will be paid for forest protection activities of the payees of the forest environmental services.

If the payees of forest environmental services are state organisations, they can use 10% the total for management costs and 80% will be used to pay for the contracts for forest protection to the contracted households and individuals and rural communities..

Article 12: Payees of forest environmental services

- 1. Forest owners stipulated at Item 2, Article 3 of this decision.
- 2. The list of specific types of forest owners who are organisations is considered and decided by the Provincial People’s Committee per recommendation from the People’s Committee at district level after being appraised by the Department of Agriculture and Rural Development.
- 3. The list of forest owners who are households, individuals, and rural communities is considered and decided by the People’s Committee at district level per recommendation by the agency specialized in forestry at district level.

Article 13: Determining the norm of payment to payees of forest environmental services

- 1. **Basis for determining the norm of payment**
 - a) The total of payment for FES collected from those having to pay is stipulated at Article 9 of this Decision (VND);
 - b) The total forest area (special use forest, protection forest, and production forest) of the river basin at the time of being monitored/checked and confirmed as basis to pay for forest environmental services (ha);
 - c) Forest area, current status and origin of forest and forest quality at the time of being monitored/checked and confirmed as basis to pay for forest

environmental services (ha);

2. Determining the amount of payment to forest owners

The amount of payment to the payee of FES in a year (VND)

||
Norm of payment for 01 hectare of forest (VND/ha)

×
Area of forest managed and used by payees of FES (ha)

×
Coefficient K

- a) Norm of payment for 01 hectare of forest (d/ha) is determined by the total amount of payment for forest environmental services collected (after subtracting the reasonable management costs as stipulated at Article 11 in this decision) divided by the watershed's total forest area at the time of being monitored/checked and confirmed as basis to pay for forest environmental services (ha)
People's Committees of Lam Dong and Son La stipulate the forest area of the watershed that applies this pilot policy.
- b) Forest area used and managed by payees of the forest environmental services: is the area allocated, leased, contracted for a long term the forest use right at the time of declaration for payment.
- c) Coefficient K: depends on the forest type (protection forest, special use forest, production forest); status of forest (rich, average, poor, regenerating forests); origin of forest (natural, planted) specifically stipulated by the People's Committee of Lam Dong and Son La based on the forest checking results confirmed by responsible authority agency.

Article 14 Responsibilities and rights of the provincial Fund for Forest Protection and Development in paying for forest environmental services to forest owners.

1. Responsibilities:

- a) Representing those getting paid for forest environmental services, making draft budget and payment for forest environmental services then submitting to the Provincial People's Committee for approval after getting appraisal document from the Department of Agriculture and Rural Development and Department of Finance.
- b) Monitoring, supervising the implementation of forest environmental services;
- c) Making payments directly to payees for forest environmental services.

In case the payee of forest environmental services has contracted agreement of forest protection and development, payment will be based on the acceptance checking documents of the contracted agreement.

- In case the payees of FES have been granted with a long-term contract for forest protection with a document authorizing the forest owner (the Management Boards of forests, the Forest Management Units representing government's ownership of forests), the Forest Protection and Development Fund shall pay to the forest owner who will then transfer to the payees of FES.

2. Rights

Having the right to reduce the payment or refuse making payment if the forest environmental services do not meet the standards, quantity and quality per contracted agreement. In case there is no contracted agreement, basing on the stipulation of the People's Committee at

provincial level;

Chapter IV

RESPONSIBILITIES AND RIGHT OF PAYERS AND PAYEES OF FOREST ENVIRONMENTAL SERVICES

Article 15. Responsibilities and rights of payers of forest environmental services.

1. Responsibilities

- a) Paying for forest environmental services sufficiently and promptly to the forest owner according to contract (for the case of direct payment) or submitting money to the Provincial Forest Protection Fund (in case of indirect payment)
- b) If failing to fulfill their responsibilities as contracted or stipulated by the Provincial People Committee, then making compensation payment directly to forest owners or via Forest Protection Development Fund.

2. Rights

Having the right to request the People's Committee at provincial level or through the Forest Protection and Development Fund to reconsider the payment for the forest environmental services in case the forest owners fail to meet the requirements for quantity and quality of the forest environmental services provided.

Article 16. Responsibilities and Rights of the payees of forest environmental services.

1. Duties

- a) Make sure forests are protected in term of quality and quantity and developed as per plans and planning schemes; In case there are external factors that are likely to cause negative impacts on the

provision of the forest environmental services, forest owners have to notify the the forest environmental services users and actively carry out appropriate measures to prevent or mitigate impacts.

- b) Having to use the amount of payment collected as stipulated in Item 2 Article 11 in this decision;
- c) Forest owners who own planted forest and are paid for the forest environmental services, within 12 months after harvesting the forests, must replant forests according to the stipulations of the laws.
- d) Having no right to destroy the forest or change the user purpose of the forest illegally.

2. Rights

- a) Having the right to request the contracted forest environmental service users (for the case of direct payment) or the provincial Forest Protection and Development Fund to pay for the forest environmental services according to the stipulations of this decision (for the case of indirect payment).

Chapter V

IMPLEMENTATION ARRANGEMENT

Article 17. Responsibilities of the relevant Ministries and agencies

1. The Ministry of Agriculture and Rural Development shall take lead and collaborating with the Ministries: The Ministry of Investment and Planning, Ministry of Finance, Ministry of Natural Resource and Environment, Ministry of Industry and Trade, and the relevant Ministries and agencies
 - a) To conduct research on scientific basis and international experiences of the

development of payment for forest environmental service policy.

- b) To provide guidelines to the provinces for making plan and implementing the pilot policy, developing the projects within the pilot policy as stipulated at Item 1, Article 18 of this Decision.
 - c) After 02 years of pilot implementation since date of the policy coming into force, the Ministry of Agriculture and Rural Development takes lead and collaborates with the ministries and agencies and the local areas involved in the pilot implementation to evaluate, refine, and finalize the policy for payment for forest environmental services to submit to the Prime Minister for issuing a national policy to be applied to the whole country.
2. The Ministry of Information and Communication:
Propagandizing to raise awareness of people on the practical meaning and the importance of the responsibilities of the people in contributing money and labor to the protection of the living environment of the community in order to implement the policy on payment for FES.

2. Responsibilities of the relevant ministries and agencies

Within the scope of function, responsibilities and authorities, the Ministries and agencies actively collaborate with the Ministry of Agriculture and Rural Development to implement the decision by the Prime Minister, and at the same time commanding the subordinate agencies to implement the decision by the Prime Minister on the pilot policy for payment for forest environmental services.

Article 18. Responsibilities of the people committees at provincial level.

1. Responsibilities of the Provincial People's Committees of Lam Dong and Son La.
 - a) Propagandize the pilot policy and formulate a detailed plan for implementing the Decision by the Prime Minister on the policy for payment for forest environmental services in Quarter II, 2008;
 - b) Identify specific sites for the pilot implementation of payment for forest environmental services.
 - c) Instruct Department of Agriculture and Rural Development to take a lead and collaborate with Department of Natural Resources and Environment and Department of Finance to develop and submit the following proposals, projects based on the agreement of Ministry of Agriculture and Rural Development, Ministry of Natural Resources and Environment and Ministry of Finance:
 - land/forest allocation
 - forest protection contract
 - defining value of forest environmental services
 - management and use mechanisms of payment for forest environmental services
 - conducting surveys and categorizing and listing payees, payers of forest environmental services in the pilot area
 - d) Establish Provincial Forest Protection Fund according to the Decision number 05/2008/ND-CP dated on January 14, 2008 by the Government;
 - đ) Organizing the evaluation of the implementation of the pilot policy of payment for forest environmental services in the area.
2. Responsibilities of the People's Committees of the provinces of Dong

Nai, Ninh Thuan, Binh Thuan, Hoa Binh and Ho Chi Minh City.

- a) Raising awareness of the inhabitants in implementing pilot policy of forest environmental services
- b) Collaborating with related ministries, agencies to give command and checking the submission of money for payment for forest environmental services of the businesses in the area according to the stipulations at Article 3 of this Decision;

Article 19. Responsibilities of the people’s committees at district and commune levels in the areas implementing the pilot policy.

1. Organizing the studying sessions, raising awareness and implementing the pilot policy on payment for forest environmental services for those directly implementing this pilot policy.
2. Making a list of households eligible for receiving payment for forest environmental services.
3. Participating in the supervision of the implementation of the pilot policy for payment for the forest environmental services in the area according to the command and guidelines by the Provincial People’s Committee.

Article 20. Responsibilities of organisations, households, individuals and inhabitant communities at the district and village levels..

Organisations, households, individuals, and village and commune communities subject to the regulation of the pilot policy on payment for FES are responsible for strictly observing the stipulations on responsibilities, duties, and rights of their own and are liable before the law for the implementation of the pilot policy for FES

as stipulated in this Decision.

Article 21. Reporting requirements

On 6 month basis, the relevant Ministries, agencies, and the Provincial People’s Committees of Lam Dong and Son La must report to Ministry of Agriculture and Rural Development the status of the implementation of their government management responsibilities within the scope of their assignment in the implementation of the pilot policy for payment for forest environmental services to compile and report to the Prime Minister.

Article 22: Budget for the pilot implementation of the policy

1. The Ministry of Investment and Planning and the Ministry of Finance shall allocate support fund for the development of the projects stipulated at Articles 17, 18, and 19 of this Decision.
2. Ministry of Agriculture and Rural Development, in collaboration with relevant ministries and agencies will solicit the financial support, techques and experiences from the other countries, international organisations (Winrock, GTZ...), individuals inside and outside the country to implement the pilot policy on PES, at the same time, making estimated budget for the Ministry of Agriculture and Rural Development’s activities in implemeting the content of this decision to submit to the Prime Minister for approval.
3. The Provincial People’s Committees of Lam Dong and Son La are assigned to prepare a plan and a budget estimate for the development of proposals and projects and other activities to implement pilot the policy in the province, submitting to the Prime Minister for approval after the appraisal from Ministry of Agriculture

and Rural Development.

During the time when the budget for the pilot program has not been submitted to the Prime Minister for approval, the Ministry of Agriculture and Rural Development and the People's Committees of Lam Dong and Son La provinces could advance fund from the ministry's budget or the local budget to pay for the costs for the development of the projects and the costs of the pilot activities, then get reimbursement from the approved budget.

Chapter VI EXECUTION ARTICLES

Article 23. This Decision comes into force since the date of signing

Article 24. The Ministry of Agriculture and Rural Development and the relevant Ministries and agencies; the Chairs of the Provincial People's Committees of Lam Dong, Son La, Dong Nai, Ninh Thuan, Binh Thuan, Hoa Binh, and Ho Chi Minh City are responsible for carrying out this Decision.

THE PRIME MINISTER



**Institute for
Global Environmental
Strategies**

HEADQUARTERS

2108-11 Kamiyamaguchi, Hayama
Kanagawa, 240-0115, Japan
Tel +81-46-855-3700 | Fax +81-46-855-3709

TOKYO OFFICE

Nippon Press Center Bldg. 6F, -2-1 Uchisaiwai-cho, Chiyoda-ku
Tokyo, 100-0011, Japan
Tel +81-3-3595-1081 | Fax +81-3-3595-1084

KANSAI RESEARCH CENTRE

East Building 5th Floor, Disaster Reduction and Human Renovation Institution
1-5-2, Kaigan-dori, Waki-no-hama, Chuo-ku, Kobe, Hyogo, 651-0073 Japan
Tel +81-78-262-6634 | Fax +81-78-262-6635

KITAKYUSHU URBAN CENTRE

International Village Center 2F
1-1-1, Hirano, Yahata-Higashi-Ku, Kitakyushu City, JAPAN 805-0062
Tel +81-93-681-1563 | Fax +81-93-681-1564

BEIJING OFFICE

(SHINO-JAPAN COOPERATION PROJECT OFFICE)

IGES Sino-Japan Cooperation Project Office
Sino-Japan Friendship Center for Environmental Protection #508 Room
No.1 Yuhuanlu, Chao Yang District, Beijing, 100029 China
Tel +86-10-8463-6314

BANGKOK OFFICE

(IGES Regional Centre)

604 SG Tower 6F, 161/1 Soi Mahadlek Luang 3.
Rajdamri Road, Patumwan Bangkok, 10330, Thailand
E-mail regionalcentre@iges.or.jp



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