



Design of a REDD+- Compliant Benefit Distribution System for Viet Nam: Summary for Policy Makers

UN-REDD PROGRAMME

November 6, 2009

Introduction

Under the leadership of the Department of Forestry/UN-REDD+ NPD, a team of six technical experts, supported by four advisors (see Annex 1), analyzed the requirements for a REDD+-compliant Benefit Distribution System (BDS). The study identified legal, policy and institutional constraints that need to be addressed in order to create such a system, and generated options to address these constraints.

In the course of these analyses, four overall conclusions were reached. These were:

1. An analysis of currently-available data indicates that REDD+ could generate up to \$80-100 million/year to support reducing emissions from deforestation and forest degradation in Viet Nam. However, such **potential can only be realized** if the Government of Viet Nam (GoV) takes steps to ensure that REDD+ is implemented effectively. This involves:
 - agreeing and implementing a comprehensive REDD+ strategy to create and sustain the emissions reductions at the local level;
 - developing the necessary capacity to measure and report emissions reductions; and
 - putting in place a BDS that meets the requirements of international investors and the needs of forest owners and managers.

To secure significant long-term REDD+ income requires careful analysis of issues and options.

2. REDD+ is subject to negotiations under the auspices of the UNFCCC. Although the principles are becoming clearer, **the details remain to be determined**. Therefore, it is not possible at this point to be prescriptive in terms of how REDD+ should be implemented in Viet Nam. Nevertheless, the BDS study was able to identify several clear policy options for GoV consideration at this early stage. In other instances, as the study recognizes, further work is required after CoP15 to identify the most appropriate approach.
3. Although REDD+ shares some of the characteristics of PES as practiced in Viet Nam, the two should not be confused. Both concepts involve rewarding land users for the environmental services they provide, but **there are several important differences**, which are summarized in the table below. These differences mean that REDD+ cannot be managed in the same way as PES.

	PES in Viet Nam	REDD+
1	Local purchasers	Global purchasers
2	Prices determined by local studies	Prices determined by global market or fund
3	Weak performance-based conditionality	Strong performance-based conditionality, determined by international community
4	Monitoring procedures determined by local purchasers	Monitoring procedures determined by international agreement
5	PES funds can be co-mingled (e.g., water and ecotourism)	REDD+ funds cannot be co-mingled
6	Purchasers of services (e.g., dam operators,	Purchasers must be attracted and retained

water utility companies) can be legislated
--

4. Given the much stronger link between performance and payment under REDD+ than with PES schemes as practiced in Viet Nam (line 3 in the table), the following criteria will be critical in determining the appropriate GoV policy response:
- **Performance-linkage:** The expectations of the international community are that there will be a very clear link between performance and payment. REDD+ revenues must therefore reward actions that reduce carbon emissions from deforestation and forest degradation without co-mingling with other revenue types.
 - **Additionality:** Payments will be made only for those activities that would not have otherwise occurred in the absence of REDD+ funding. Therefore REDD+ requires a monitoring system that unambiguously identifies the emissions reductions that have taken place as a result of REDD+ interventions.
 - **Equity:** For PES the distribution of benefits can be fixed to meet social and political objectives as determined solely by Vietnamese policy makers, but for REDD+ the expectations of international investors, and their concept of equity also need to be satisfied. Thus, the interpretation of equity for PES and REDD may differ, and the study identified an approach to account for these differences (see Policy Decision 6).
 - **Transparency:** In order to secure and retain the confidence of international investors, rigorous monitoring and accounting processes need to be implemented to support REDD+. This includes participatory monitoring of REDD+ activities and benefits distribution, and independent monitoring of REDD+ revenue management.

The first two of these conclusions are straightforward since they merely imply that GoV should take its time in designing a REDD+ system that's in line with international REDD+ rules. The third conclusion is simply a matter of fact, not of opinion. The fourth conclusion, however, implies the need for GoV to reform several policies that will otherwise limit its ability tap into significant REDD+ revenues. Some of these reforms would be relatively easy to accomplish, others more difficult. The next section therefore focuses on the policy options of the four dimensions of conditionality described above. These options are clustered under three categories: legal, institutional, and governance.

Policy Options

Legal

POLICY DECISION 1 Legal framework for REDD in Vietnam	
Issue to be addressed	REDD is new to Vietnam, and international requirements concerning management of REDD revenues are likely to require approaches to governance and a degree of legal certainty that have not been encountered in similar schemes such as PES, or the 661 programme. Furthermore, REDD brings with it legal concepts that are novel to Viet Nam, such as ownership or rights to forest carbon. Therefore in order to facilitate REDD implementation, the legal framework in which

POLICY DECISION 1 Legal framework for REDD in Vietnam	
	REDD operates should be equitable, effective and efficient in order to meet international expectations. It should clearly define rights, particularly those of communities living in and around forest areas, a financial mechanism that allows REDD funds to reach the local beneficiaries, the fund's governance structure, how funds are monitored, roles, rights, and responsibilities of major stakeholders, etc. Three specific legal issues to need to be addressed as a priority in Vietnam: (1) The rights to carbon, land and forests, particularly forest allocation and associated land use rights; (2) The coordination of the action of the government authorities involved with REDD, in particular MARD and MONRE; and (3) Ensuring that all legitimate beneficiaries are recognized, in particular addressing the legal status of local communities.
Options	a) Implement REDD by interpreting only existing legal instruments, without legal reform b) Enact specific legal instruments to ensure clarity concerning REDD and administration of REDD revenues, without undertaking broader legal reform c) Undertake a broad legal reform which addresses all aspects of REDD governance and administration of REDD revenues.
Recommended principle or policy to be adopted	A phased approach to legal reform is recommended. Consistent with its commitment to international leadership on REDD, the GoV should in a first stage, and pending the clarification of the international REDD legal framework, plan to issue a REDD specific decree that addresses governance issues associated with international funding of REDD, so as to ensure that implementation of REDD is consistent with Vietnamese law. This decree should be issued after a pilot phase (over at least 2 years) during which REDD modalities would be tested. This approach is similar to how PES has been implemented with a decree being prepared following a 2-year pilot phase. The GoV should also accelerate the other legal reforms required to ensure effective implementation of REDD
Actions required after CoP 15	As soon as possible, the GoV should develop plans for piloting REDD in a small number of provinces and districts, and establish a system to ensure that lessons are captured and analyzed in preparation for the issuance of a decree on REDD at some time in the future (target 2012 or 2013). A detailed workplan for addressing the other required legal reforms should be developed in the first 3 months of 2010. Consideration should also be given to the use of instruments such as "R-Coefficients" (see Policy Decision 6, below) to provide incentives for SFE reform

POLICY DECISION 2 Classification of REDD+ revenues and creation of a dedicated REDD+ fund	
Issue to be addressed	An appropriate off-budget mechanism needs to be identified which meets international expectations regarding transparency, equity and performance linkage. This implies the need to "fire-wall" REDD revenues to prevent co-mingling with other sources of funding. The mechanism also needs to be able to accommodate the disbursement of REDD revenues to sub-national and local levels, as well as to follow strict monitoring and performance requirements.

POLICY DECISION 2 Classification of REDD+ revenues and creation of a dedicated REDD+ fund	
	Several possible mechanisms exist. One example is the FPDF, created in part to manage PES revenues, and incorporating a national FPDF mirrored by provincial funds and, potentially, District funds. The TFF is another example of an off-budget financial mechanism already existing in the forest sector. The principle of transparent governance of REDD+ revenues implies the need for broad participation in the governance of the revenues which may be difficult to meet under current arrangements.
Options	a) REDD+ revenues are managed through a sub-fund of the FPDF b) REDD+ revenues are managed through a newly-created REDD Fund
Recommended principle or policy to be adopted	Given limitations in participatory governance of the FPDF, the GoV should commit to the establishment of a new, REDD+ Fund. This could be modeled on the TFF, so as to allow participatory governance, and with equivalent provincial and district funds. The GoV should also commit to ensuring that the REDD+ Fund is to be governed by a broad-based multi-stakeholder board, and subject to independent external audit.
Actions required after CoP 15	International examples of REDD+, or Climate Change Funds (e.g. in Indonesia) should be studied, together with existing financial instruments in Viet Nam, such as the TFF, so as to identify the characteristics and necessary actions required for the creation of a Viet Nam REDD+ Fund.

Institutional

POLICY DECISION 3 Sub-national levels at which REDD+ revenues should be managed	
Issue to be addressed	The national government will receive REDD+ funding from the international community (see Policy Box 2). These revenues will then need to be disbursed to those who have incurred costs in reducing emissions, with distribution to the ultimate beneficiaries, particularly people living in and around forest areas who have changed their behavior in response to REDD incentives. There are trade-offs to be considered in this regard. The greater the number of hierarchical levels at which revenues are managed, the less cost-effective the mechanism is likely to be. There will tend to be higher implementation costs, and a higher the risk of rent-seeking and corruption. On the other hand, fewer hierarchical levels makes it harder to ensure efficiency and equity in the disbursement, because of the “distance” between the source and target of the funds.
Options	a) REDD+ revenues managed at national and provincial levels b) REDD+ revenues managed at national, provincial and district levels c) REDD+ revenues managed at national and district levels
Recommended principle or policy to be adopted	Option C (REDD+ revenues managed at national and district levels) is not recommended, as it bypasses the province, which is an important administrative level for forest management and planning. For initial piloting of REDD+, Option A may be initially adopted. However, once experience has been developed, provided the additional transaction costs are not prohibitive, and especially when appropriate capacity has been built at province and district level, including the establishment of district level funds, Option B should be adopted.
Actions required after	Piloting of REDD+ revenue management structures in a small number of provinces

POLICY DECISION 3 Sub-national levels at which REDD+ revenues should be managed	
CoP 15	and for capacity building at province and district level should be undertaken over a period of at least 2 years to gain lessons concerning the costs, efficiency and effectiveness of management of REDD+ revenues at multiple levels. Note that PES pilots have not yet had to address this issue of disbursement from national down to local level.

POLICY DECISION 4 Institutions to be involved in monitoring of REDD+ interventions and actions	
Issue to be addressed	As noted in Policy Decision 8, there are four different types of monitoring required for REDD+, and the diversity of skills and expertise required is therefore broad. For monitoring of emissions, technical agencies such as FPD and FIPI must be involved, given the experience they have in forest resource monitoring at national and local level. For monitoring of actions and disbursements at sub-national levels, the Provincial (and possibly the District) Peoples' Committees need to be involved. Mass organizations such as the Farmers' Association, Women's Union and Youth Union may also be potential candidates for monitoring of REDD+, especially as they have branches down to commune/ village level. The need for comprehensive monitoring needs to be balanced with the transaction costs. Care needs to be taken to avoid any conflict of interest between the monitoring agency and recipients of REDD funding.
Options	a) Monitoring of different aspects of REDD+ is assigned to different technical agencies in line with their mandates and competencies b) A comprehensive and seamless monitoring process be established to ensure effectiveness and efficiency across the different types of monitoring and at all levels from national to local
Recommended principle or policy to be adopted	At the national level, a REDD+ Monitoring Body should be established to oversee and coordinate all independent monitoring matters related to REDD+. Members of this body should come from Government Inspection, Ministry of Finance, an independent financial auditing company (e.g. Vietnam National Independent Auditing Company Limited), FPD, FIPI, and Vietnamese civil society organizations (e.g. Education for Nature-Vietnam). Except for the secretariat, members of this body may work part-time in the initial stages. At the provincial level, a similar structure should be established. It is not necessary that members of the provincial body come from within the province. For example, civil society organizations or sub-FIPI can be based outside the province. To save on costs, lower level bodies would not be created—the provincial bodies would be responsible for monitoring down to the local level.
Actions required after CoP 15	Following CoP15, an assessment of monitoring costs should be undertaken through a review of current monitoring processes, taking into account the higher standard of monitoring expected under REDD+. Results of this assessment can then be used in developed a detailed proposal for a national and provincial REDD+ monitoring bodies. The proposal will then be subjected to broad consultation, and may subsequently be revised to take account of the results of the consultative process.

POLICY DECISION 5 Revenue retention by government	
Issue to be addressed	Administration of a benefit distribution system incurs implementation and transactions costs. These costs clearly need to be covered from the REDD+ revenues. However, the majority of costs associated with REDD+ are incurred by those who take actions or change their behaviour in order to reduce emissions (these are termed “opportunity costs”). The most efficient and effective use of REDD+ revenues requires that such costs are met to a reasonable extent, and that therefore as much of the revenue as possible is passed on to those who have incurred opportunity costs associated with taking actions to reduce forest degradation and deforestation. At present there are no estimates of the actual costs of administering a REDD+-compliant benefit distribution system (costs associated with administration of the 661 programme are not useful for comparison).
Options	a) Allocate based on actual costs incurred in administration of REDD+; or b) Allocate according to certain norms which represent a flat fee or percentage of total funds.
Recommended principle or policy to be adopted	The GoV should make a policy statement that the proportion of REDD+ revenues to be retained by government (at different levels) will be limited to the actual costs of administering the system, plus any opportunity costs incurred by the government itself in reducing emissions.
Actions required after CoP 15	The magnitude of these costs, and indicative retention levels, will be determined by further studies to be conducted after CoP15.

POLICY DECISION 6 Local payment levels and payment structuring	
Issue to be addressed	Local-level payments for avoided deforestation should ideally both compensate the expenditures and opportunity costs incurred, as well as providing clear incentives to land and resource users. Current procedures for calculating payments for forest conservation and the provision of environmental services in Viet Nam do not reflect the variation in supply costs, or balance the need for monetary and non-monetary incentives. Due to the highly specific nature of opportunity costs, there are practical limitations on making these estimates for all potential REDD participants. Payment structuring can also be designed to meet multiple socio-political goals in parallel with rewarding performance. This is the intent of the “K-factors” developed during the pilot PES programmes. As REDD+ is expected to address local social and economic needs while rewarding performance for reducing emissions, similar considerations need to be incorporated into REDD+ payment structuring. However, REDD+ considerations will not be the same as those applicable to PES as there are additional actors influencing the criteria used for payment structuring, notably potential international investors
Options	a) Apply standardized cost norms; or b) Base payments on costs incurred to generate reduced emissions while using payment structuring to address other socio-political goals. <i>and</i> c) Make cash payments only; or d) Combine cash payments and non-monetary benefits.

POLICY DECISION 6 Local payment levels and payment structuring	
Recommended principle or policy to be adopted	Consistent with its stated goals of compensating for the provision of environmental services and stimulating sustainable rural development, GoV should commit to ensuring that REDD+ benefits are shared with forest land and resource users in a manner that is equitable and provides a strong incentive to make the reductions permanent. These levels and nature of benefits provided should reflect opportunity costs and losses incurred in avoiding deforestation, both monetary and non-monetary. Although it may be most practical to use a standardised formula to compute payments, it is more equitable to apply weightings. “R-Coefficients” (analogous to K-factors used in PES) would be an effective tool to reflect variation in the costs of generating emissions reductions between different areas and groups and to allow additional social and political goals to be addressed. R-coefficients will not be identical to K-factors, as REDD+ involves additional actors whose views on equity will influence REDD+ payment structuring.
Actions required after CoP 15	Assessment of broad opportunity cost norms for different areas, groups, production systems and ecological conditions; Design of R-Coefficients to be used at each level of benefit distribution

POLICY DECISION 7 The types of forestland owners eligible to receive REDD+ benefits	
Issue to be addressed	Most benefit distribution programmes in Viet Nam target payments to individual households, Forestry Companies, and PAMBs. However, there are problems with such an approach, including unclear, contested or overlapping rights to forest carbon and the possibility of conflict resulting from some households receiving benefits and other not. Many of these problems of rights can be avoided by targeting benefits to village communities, which may better positioned to produce rapid gains in carbon stocks than other types of forest manager. However, currently targeting communities faces a legal constraint as the community is not a legally recognized entity under the Civil Code (see Policy Decision 1, above).
Options	a) GoV continues to favor payments to Forestry Companies, PAMBs and individual households at the risk of missing out on potential carbon gains and benefits to rural poor. b) GoV creates a level playing field for communities by refining the legal framework and creating supportive implementation structures. c) GoV gives priority to village communities in the distribution of REDD+ payments in order to access additional carbon finance at the international level and to contribute to poverty alleviation
Recommended principle or policy to be adopted	GoV should address the legal constraints that prevent village communities being eligible to receive REDD+ payments under the same conditions as Forestry Companies, PAMBs and individual households. This will allow GoV to maximize the carbon revenues received from the international community and simultaneously add to the overarching goal of poverty alleviation.
Actions required after CoP 15	The Gov should commission independent evaluations of experience from community forestry projects, including the community funds established under the KfW-6 project and the TFF-funded Community Forestry Pilot Program. The evaluations should inform

POLICY DECISION 7 The types of forestland owners eligible to receive REDD+ benefits	
--	--

	the formulation of enabling legislation on community forestry and corresponding measures to strengthen the capacities of MARD to support community forestry. In addition, together with international donors, GoV should identify a number of community forestry initiatives to serve as pilots for community-based REDD+
--	---

POLICY DECISION 8 Strengthened law enforcement for a performance-based distribution	
--	--

Issue to be addressed	Forest law enforcement continues to be weak in Viet Nam. In particular, issues such as illegal logging and encroachment have the effect of counteracting other initiatives undertaken to reduce emissions. Without more effective forest law enforcement, the risk exists that stakeholders who are successful in reducing emissions go unrewarded due to the non-performance of others who are responsible for illegal activities.
Options	a) GoV accepts that payments to stakeholders who undertake REDD+ interventions are diluted or possibly eliminated due to non-performance of others under the current forest law enforcement regime. b) GoV develops operational structures that offer effective law enforcement to households and communities
Recommended principle or policy to be adopted	GoV should develop operational structures for effective forest law enforcement in the medium term. These will most likely include a Central Forest Inspectorate with a hotline for reports on illegal operations and complaints about local law enforcement activities. In the short term, GoV may have to define the conditions (such as timely reporting) under which payment recipients are exempt from liability for non-performance due to factors beyond their control.
Actions required after CoP 15	Recent experiences with community-based law enforcement require assessment and translation into national regulations. The new General Department of Forestry and forest protection units at the district and provincial levels will need technical assistance to improve their law enforcement capacities. The REDD+ pilots should make appropriate law enforcement a central component of project design from the beginning. They will indicate ways to determine the liability of forest managers under different circumstances

POLICY DECISION 9 Participatory Monitoring	
---	--

Issue to be addressed	For REDD+, monitoring is potentially a key and essential means of checking on compliance with standards, norms and procedures and identifying enforcement requirements. Monitoring will be required of (1) emissions; (2) actions undertaken to reduce emissions (to meet the requirement of additionality); (3) revenue disbursements; and (4) financial transactions (auditing). Local people can effectively and efficiently record information about numerous variables and events affecting their livelihoods. Participatory monitoring creates a culture of questioning (or social control) and acts as a catalyst for learning about the landscape and the cycle of planning, action, assessment and learning. Participatory monitoring also builds confidence in the overall system and a sense of equity and transparency.
-----------------------	---

	The community and local people can play a role in monitoring of emissions, but are be especially valuable in identifying, implementing and reporting/enforcing the interventions and tasks required for REDD+. Participatory monitoring will strengthen their understanding and support commitment while providing a degree of comfort to investors and offset purchasers that local people are engaged and the REDD+ in the community is sustainable. Participatory monitoring will likely add value to the carbon offsets generated by activities. However, GoV has limited experience with participatory monitoring approaches. There is a wide range of approaches that have been tried and applied for communities and local people to participate in monitoring and the collection of information on their environment. At this stage there is no preferred or idea method identified.
Options	a) GoV accepts the value of participatory monitoring and embraces the concept as a means of ensuring transparency and equity for REDD+ in Viet Nam; or b) GoV continues to practice non-participatory monitoring for all variable requiring monitoring under REDD+, with monitoring conducted by parties and persons from outside the local area
Recommended principle or policy to be adopted	Consistent with its stated goal of international leadership on REDD+, GoV should embrace the concept and value of participatory monitoring for REDD+, and develop widely disseminated principles to govern such monitoring.
Actions required after CoP 15	Undertake a review and identify participatory monitoring methods that have a history of effectiveness. From this review, develop, consult, refine as necessary, and then widely disseminate principles to be applied for participatory monitoring related to REDD+.

POLICY DECISION 10 Design of a socially acceptable recourse mechanism	
Issue to be addressed	Any BDS, however well designed, will inevitably give rise to complaints by those who think that they have not been rewarded appropriately and/or are losing out to free-riders who receive benefits but have made no contribution to forest protection and reduced carbon emissions
Options	a) Recourse mechanism that is entirely managed by government. b) Recourse mechanism that includes civil society participation.
Recommended principle or policy to be adopted	Given the importance of managing complaints to ensure that the BDS rewards those who deserve to be rewarded on the basis of emissions reduction and to generate information that can be used to improve the BDS, a credible recourse mechanism is required. GoV should commit to establishing a recourse mechanism that allows complaints to be managed transparently and efficiently, and to considering how civil society organizations can be most appropriately integrated into such a mechanism following further analysis.
Actions required after CoP 15	Following CoP15, a more detailed analysis of the possible institutional structure of a participatory recourse mechanism needs to be undertaken. This should lead to a communication strategy through which information on the proposed recourse mechanism is widely disseminated to all stakeholders