

UN-REDD
PROGRAMME
VIETNAM

CONSIDERATION FOR DESIGN OF A REDD-COMPLIANT BENEFIT DISTRIBUTION SYSTEM FOR VIETNAM

UN-REDD PROGRAMME

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1 | INTRODUCTION

In 2005, in response to a joint proposal from the governments of Papua New Guinea and Costa Rica, the 11th meeting of the Conference of the Parties (CoP) to the United Nations Framework Convention on Climate Change (UNFCCC) began considering the possibility of including the reduction of emissions of greenhouse gasses from deforestation and degradation (REDD+) into a post-Kyoto climate change mitigation agreement. The recognition of the potential cost-effectiveness of REDD+ in reducing emissions led to its inclusion in the Bali Action Plan agreed at CoP13 in 2007.

Viet Nam is one of nine first countries where the UN-REDD Programme is supporting the development of REDD+ readiness. In preparing for REDD+, there are several elements that need to be addressed - the “components of readiness”. Of these, the Government of Viet Nam (GoV) identified the design of a comprehensive benefit distribution system (BDS) as a priority for UN-REDD support. This is an innovative because so few countries have looked at how benefits should be distributed. It is also courageous because, unlike carbon monitoring and other technical challenges, it raises potentially sensitive governance issues.



1.1 FOREST COVER

In 2009, Viet Nam had more than 13.11 million hectares was forested, with the remainder consisting of denuded hill-sides and barren lands. Of the forested land, 10.34 million hectares are natural forest and 2.77 million hectares are plantation. In terms of management, there are three types of forest: special use forests or SUFs (mainly protected areas) covering 2.2 million hectares; protection forests covering 5.7 million hectares; and production forests to be about 8.3 million hectares.

Viet Nam's forest cover has undergone dramatic changes from about 43% to 27% in the period 1943-1990. Between 1990 and 2000, however, as a result of extensive replanting, Viet Nam gained an average of 236,000 hectares of forest per year, equivalent

to a 2.5% annual increase. Between 2000 and 2005, the growth rate was 2.1% per year, and by 2009 forest cover reached 38.1% (MARD, 2010).

However, the national figures mask wide variations in different parts of the country. In the Central Highlands, deforestation is the dominant land use change. In other parts of the country, for example the North-central region, forest loss continues but at a much lower rate and the forest cover is virtually stable.



1.2 FOREST TENURE

According to the Constitution of the Socialist Republic of Viet Nam, all forest resources (including land, trees, and wildlife) are under the ownership of the people. On behalf of the people, the State manages forest resources and legally entrusts the management of forest to specific groups. At present, eight different groups are recognized, namely:

1. State-owned companies (SOCs), formerly known as state forest enterprises (SFEs).
2. Individual households.

3. Management boards for Protection Forest (PFMBs).
4. Management boards for SUF (PAMBs).
5. People's committees (PCs), mostly at the commune level (CPCs).
6. Village communities.
7. Joint venture enterprises;
8. Army units;

In 2008, the areas of natural and plantation forests under different management systems are given below:

Inhectares	SOC	M BPF/SF	Household	Community	CPC	Other	Total
Natural forest	1,635,000	3,900,000	1,900,000	112,000	2,163,000	639,000	10,349,000
Plantations	471,000	499,000	1,248,000	28,000	375,000	149,000	2,770,000
Total	2,106,000	4,399,000	3,148,000	140,000	2,538,000	788,000	13,119,000

The first five of these groups account for well over 90% of all forest areas. In terms of tenure arrangements, SOCs, and households are allocated forest for long-term management (typically 50 years) and are entitled to land use certificates that legalize their control. Although SOCs have recently been restructured and have had to return part of the forest under their management to the state for allocation to the other stakeholders, they still play an important role. In many provinces, particularly in the central and southern parts of the country, SOCs not only manage the forest allocated to them but also control the forest they used to manage.

PFMBs, PAMBs, and CPCs are typically allocated forest for an unspecified period. Management boards are entitled to receive state budget for forest management. CPCs often serve

as temporary custodians of forest that was formerly managed by SOCs and is in the process of being allocated to other stakeholders (e.g., households or communities). CPCs therefore do not have full tenure rights to the forest under their users. In practice, such areas often turn into "open access" zones as many CPCs do not have sufficient staff to manage the forest under their care.

POSSIBLE REDD+ SYSTEM DESIGN IN VIET NAM

A. PLANNING AND IMPLEMENTATION

1. National REDD Strategy sets overall goals and plans, establishes roles for provincial and district agencies, monitoring roles, etc., and guidelines to be used in determining local benefit distribution.
2. Agencies defined in National REDD Strategy monitor implementation of REDD actions.
3. Local PCs determine locally appropriate benefit distribution proposals, following guidance from the National REDD Programme and prepared in a participatory manner.
4. Local agencies prepare socio-economic development plans that mainstream REDD considerations.
5. At periods defined by UNFCCC, agencies responsible for monitoring emissions undertake monitoring activities.
6. Viet Nam's performance report compiled, comparing actual measured emissions with projected emissions under the national Reference Emissions Level (REL), submitted to UNFCCC.
7. UNFCCC verifies and certifies the number of carbon credits achieved.
8. Viet Nam is eligible to receive revenues corresponding with verified carbon credits through an international market and/or funding mechanism.

B. BENEFIT DISTRIBUTION

9. Viet Nam receives revenues into a National REDD Fund (new stand alone fund or sub-fund of an existing fund), overseen by a broad-based, multi-stakeholder governing body.
10. Staff of National REDD Fund calculate provincial shares of the total revenues based on provincial performance.
11. Staff of National REDD Fund calculate implementation and opportunity costs incurred by the central government and subtract these amounts from the gross revenues.
12. Net revenues are distributed to Provincial REDD Funds (mirrored on the National Fund, and also with participatory governance structures) according to R coefficients.
13. Option A: Provincial REDD Fund staff repeat steps 10-12 to determine distribution of net REDD revenues to District Funds.
- or
13. Option B: Provincial REDD Fund staff are responsible for disbursement to ultimate beneficiaries.
14. Provincial/District Fund staff (depending on option A or B) determine net revenues to be distributed to ultimate beneficiaries and deliver payments and/or other benefits.
15. Agencies monitor disbursement activities.
16. Agencies responsible for providing recourse in the event of disputes take action to ensure that all beneficiaries are able to register a complaint.
17. Staff of National REDD Fund initiate independent external auditing of National, Provincial, and (if relevant) District REDD Funds.



1.3 FOREST ADMINISTRATION

At the national level, the Ministry of Agriculture and Rural Development (MARD) is responsible for forest management. Within MARD, Viet Nam Administration of Forestry (VN Forest) is responsible for forest management, utilization, and development and the Forest Protection Department (FPD) is in charge of forest protection and forest law enforcement.

At the provincial level, MARD is represented by Departments of Agriculture and Rural Development (DARD). In each province, the sub-DoF and sub-FPD, the line agencies of DoF and FPD, are under DARD. At the district level, the economic division (or the agricultural division in some cases) is responsible for forest management. The district Forest Protection Unit (FPU) is independent of the economic division and reports directly to sub-FPD at the provincial level. At the commune level, there is one agriculture and forestry official based in the CPC. This official is supported by a field level forest protection agent from the district FPU. Administration of PAMBs and PFMBs is complicated, as some fall under MARD; others under DARDs, PPCs, or other agencies.



2 | THE STUDY



Viet Nam is well-placed to develop a REDD-compliant BDS as a result of many years of experience with similar systems such as the 661 or 5 Million Hectare Reforestation Programme, which was launched in 1998, and internationally supported payments for forest environmental services (PFES) pilot projects. The focus on BDS also capitalizes on Viet Nam's functioning administration, social stability, and relatively high degree of tenure security. These are assets that Viet Nam can use to gain a competitive edge in a future international REDD+ regime.

A REDD-compliant BDS is one which addresses the principles, and meets the expectations of the international community in terms of equity, transparency, additionality, and performance-relatedness, while managing REDD+ revenues in an effective and efficient manner. To assist GoV to design such a REDD-compliant BDS, a team of national and international consultants was convened under the leadership of DoF to prepare a study of BDS issues and options. Field work, literature review, and stakeholder consultations were carried out from September to November 2009. The study identified constraints that need to be addressed in order to create a REDD-compliant BDS, and ways to address them. It reached three overall conclusions. These were:

1. According to an estimate made by SNV on the basis of low-resolution remote sensing data, REDD+ could generate about \$80-100 million/year in Viet Nam - 3-4 times current Overseas Development Assistance (ODA) support to the forestry sector. However, this potential can only be realized if GoV takes steps to ensure that REDD+ is implemented effectively. This involves: developing a comprehensive national REDD+ programme to generate and sustain emissions reductions at the local level; developing the necessary capacity to measure, report, and verify emissions reductions; and putting in place a BDS that meets the requirements of international investors and the needs of forest managers.

2. REDD+ is subject to negotiations under the auspices of the UNFCCC. Although the principles are becoming clearer, the details remain to be determined. It is therefore not possible at this point to be prescriptive in terms of how REDD+ should be implemented

in Viet Nam. Nevertheless, the 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 to identify the most appropriate approach.

3. REDD+ has much to learn from PFES projects, but 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 mean that REDD+ may not be managed in the same way as existing PFES schemes. Differences include the fact that under PFES as currently practiced in Viet Nam, purchasers of environmental services are local companies whereas the buyers of REDD+ credits would be predominantly foreign entities.

This report summarizes the draft study's conclusions and recommendations in 17 "Policy Decisions" which need to be taken in order to establish a REDD-compliant BDS. The 10 most significant Policy Decisions are listed below, clustered under three themes: legal, institutional, and governance. To provide context, the design of a possible REDD+ system in Viet Nam is shown on the following page. The Policy Decision boxes address issues that impinge the benefit distribution section (steps 9-17).



3 | LEGAL ISSUES



POLICY ISSUE #1

WHAT'S AT STAKE?

REDD+ is new to Viet Nam and national laws and implementing regulations contain gaps and ambiguities that need to be addressed. Since addressing these reforms will take time and the international REDD+ rules are under negotiation, a major recommendation is that GoV pilots mechanisms to implement REDD+ in several provinces over the next 2-3 years. Based on the results and lessons learned, it should prepare a REDD-specific legal document that establishes an efficient and equitable BDS and defines the rights, roles, and responsibilities of all stakeholders. A clear legal framework will also give international investors greater confidence in, and enhance the value of, emissions reductions generated in Viet Nam.

Of special concern is clarification of who can benefit from REDD+. Globally, unclear land rights and uncertainty over land title are considered major threats to effective REDD+ implementation. Disempowered communities could suffer from loss of access to forest resources, the unequal imposition of the costs of forest protection, and they could be ineligible for REDD+ benefits if they do not enjoy formal title. There is particular concern over the role of local communities. Under the 2004 Forest Protection and Development Law, village communities are eligible to be allocated forest. But Viet Nam's Civil Code does not recognize communities as legal bodies. This means that according to the Civil Code, they cannot enter into contractual arrangements (unlike households), which may limit their ability to participate in REDD+.

POLICY DECISION 1 (3.3):

LEGAL FRAMEWORK FOR REDD+ IN VIET NAM

<p>Issue to be addressed</p>	<p>REDD+ is new to Viet Nam, 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 PFES, 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.</p> <p>Therefore in order to facilitate REDD+ implementation, the legal framework in which 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.</p> <p>Three specific legal issues to need to be addressed as a priority in Viet Nam: (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.</p>
<p>Options</p>	<p>a) Implement REDD+ by interpreting only existing legal instruments, without legal reform</p> <p>b) Enact specific legal instruments to ensure clarity concerning REDD+ and administration of REDD+ revenues, without undertaking broader legal reform</p> <p>c) Undertake a broad legal reform which addresses all aspects of REDD+ governance and administration of REDD+ revenues.</p>
<p>Recommended principle or policy to be adopted</p>	<p>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 PFES 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+.</p>
<p>Actions required to confirm policy option</p>	<p>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).</p> <p>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 5.2, below) to provide incentives for SOC reform.</p>



POLICY ISSUE #2

WHAT'S AT STAKE?

Since REDD+ is a performance-based funding mechanism there has to be a link between the revenues received and payments to forest managers, the ultimate beneficiaries. This implies that the REDD+ funds should be held off-budget. If they enter the state budget they could not be earmarked to reward performance and would also be subject to complex state budgeting rules. The financial mechanism that links the central level to the ultimate beneficiaries needs to be transparent and have a governance structure that includes all relevant stakeholders.

No such financial mechanism currently exists in Viet Nam. The Forest Protection and Development Fund (FPDF) was established in 2008 in order to mobilize public and private funding for forestry activities. To date, provincial FPDFs have been established in two provinces, Son La and Lam Dong, where they have received funding from PFES projects. There are also provisions to extend the FPDF to districts and/or work through the Viet Nam Bank for Social Policies, which has a branch in every district. Because the FPDF is state-owned, however, there is no scope for civil society participation in the fund management, which is a likely REDD+ prerequisite.

An alternative model is the Trust Fund for Forests (TFF), which was established in 2004 with funding from Sweden, Finland, Switzerland, and The Netherlands. The TFF is managed by the Forest Sector Support Partnership (FSSP), which was set up in 2001 to improve donor coordination in the forestry sector, reduce transaction costs, and ensure that donor support is aligned with GoV administration and planning systems. Most donor support to the forestry sector is now channeled through the FSSP.

POLICY DECISION 2 (3.1):

CLASSIFICATION OF REDD+ REVENUES AND CREATION OF A DEDICATED REDD+ FUND

Issue to be addressed	<p>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.</p> <p>Several possible mechanisms exist. One example is the FPDF, created in part to manage PFES 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.</p>
Options	<p>a) REDD+ revenues are managed through a sub-fund of the FPDF</p> <p>b) REDD+ revenues are managed through a newly-created REDD+ Fund</p>
Recommended principle or policy to be adopted	<p>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.</p> <p>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.</p>
Actions required to confirm policy option	<p>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.</p>



4 | INSTITUTIONAL ISSUES



POLICY ISSUE #3

WHAT'S AT STAKE?

Forest management in Viet Nam is highly decentralized with both provinces and districts playing important roles. In terms of national coverage, the proposed REDD+ pilot phase is an opportunity to stratify provinces and districts to identify those where REDD+ activities should be targeted, e.g., where opportunity costs of REDD+ are relatively low and/or degraded land can sequester carbon rapidly.

In terms of at which sub-national level REDD+ revenues should be managed and disbursed, there will remain an inevitable trade-off between efficiency and equity. Efficiency in terms of minimizing transaction costs would be maximized by minimizing the number of levels. But equity considerations call for careful targeting and monitoring, implying the involvement of district and even commune governments. A two-step process is recommended, working first down to the provincial and then, as experience is gained, to the district level. Below these levels, funds would be transferred to the ultimate beneficiaries (households, communities, etc.).

POLICY DECISION 3 (4.2):

SUB-NATIONAL LEVELS AT WHICH REDD+ REVENUES SHOULD BE MANAGED

<p>Issue to be addressed</p>	<p>The national government will receive REDD+ funding from the international community (see Policy Decision 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.</p> <p>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 make it harder to ensure efficiency and equity in the disbursement, because of the “distance” between the source and target of the funds.</p>
<p>Options</p>	<p>a) REDD+ revenues managed at national and provincial levels</p> <p>b) REDD+ revenues managed at national, provincial and district levels</p> <p>c) REDD+ revenues managed at national and district levels</p>
<p>Recommended principle or policy to be adopted</p>	<p>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.</p>
<p>Actions required to confirm policy option</p>	<p>Piloting of REDD+ revenue management structures in a small number of provinces 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 PFES pilots have not yet had to address this issue of disbursement from national down to local level.</p>



POLICY ISSUE #4

WHAT'S AT STAKE?

Experience in benefit sharing and participatory monitoring shows that meeting the requirements of equity, effectiveness, efficiency, and transparency will depend on what is measured, the data source, and who carries out the monitoring. The role of institutions responsible for monitoring will need to be clear and their work well executed to ensure the credibility of REDD+ in Viet Nam.

A wide range of data and information will need to be collected, analyzed, and reported. An important consideration is therefore to determine the degree of participation required for each monitoring function, and the organizations that need to be engaged in the process. Given this, the main policy decisions concern the degree of participation involved in different monitoring functions, and the institutional arrangements for each. In other words, where do the appropriate expertise and experience reside that can be applied to monitoring and, if they do not exist, how can they be developed.

POLICY DECISION 4 (7.2):

INSTITUTIONS TO BE INVOLVED IN MONITORING REDD+ INTERVENTIONS AND ACTIONS

Issue to be addressed	<p>There are four different types of monitoring required for REDD+:</p> <ul style="list-style-type: none">• Monitoring of emissions (C-stocks)• Monitoring of REDD+ interventions and actions• Monitoring of revenue disbursement• Monitoring of financial transactions (auditing) <p>The range of expertise required is therefore broad. For monitoring of emissions, technical agencies such as FPD and the Forest Inventory and Planning Institute (FIPI) must be involved given their experience in forest resource monitoring at national and local levels.</p> <p>For monitoring of actions and disbursements at sub-national levels, the provincial (and possibly district) PCs need to be involved. Mass organizations such as the Farmers' Association, Women's Union, and Youth Union may also be involved in REDD+ monitoring since they have branches down to commune/village level.</p> <p>The need for comprehensive monitoring needs to be balanced with the transaction costs. Care also needs to be taken to avoid any conflict of interest between the monitoring agency and recipients of REDD+ funding.</p>
Options	<p>a) Assign monitoring of different aspects of REDD+ to different technical agencies in line with their mandates and competencies.</p> <p>b) Establish a comprehensive monitoring process to ensure effectiveness and efficiency across all types of monitoring and at all levels from national to local.</p>
Recommended principle or policy to be adopted	<p>Option B is recommended. GoV should establish a REDD+ Monitoring Body to oversee and coordinate all REDD+ monitoring. Members of this body should come from Government Inspection, Ministry of Finance, an independent financial auditing company (e.g., Viet Nam National Independent Auditing Company Ltd.), FPD, FIPI, and Vietnamese civil society organizations. Except for the secretariat, members of this body may work part-time in the initial stages.</p> <p>At the provincial level, a similar structure should be established. It is not necessary that members of the provincial body come from the province. For example, civil society organizations or sub-FIPI may be based outside the province. To reduce costs, lower level bodies would not be created; the provincial bodies would be responsible for monitoring down to the local level.</p>
Actions required to confirm policy option	<p>The GoV should carry out an assessment of monitoring needs and costs 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 to develop a detailed plan for national and provincial REDD+ monitoring.</p>



5 | GOVERNANCE ISSUES



POLICY ISSUE #5

WHAT'S AT STAKE?

Although the main goal of the BDS is to ensure that those who are directly responsible for undertaking actions to reduce deforestation and forest degradation are rewarded and compensated, the government (and possibly other groups) will also incur costs in establishing, administering, and overseeing such a system. These costs need to be covered by REDD+ revenues.

For a REDD-compliant BDS, permissible levels of revenue retention will have to be defined. The two instances where specific allowances for retention are provided for in relation to extra-budgetary, national-level conservation funds (Programme 661 and PFES payments) both allow for a fixed percentage of payments to be retained by government, but do not set a common precedent or follow the same procedure. In neither case is the retention level based on the actual costs of managing and administering the funds, but seems to have been set somewhat arbitrarily.

In order to be effective and fair, while minimizing the likelihood of unnecessary or inappropriate diversion of funds, the level of revenues retained by government under the REDD+ BDS should accurately reflect effort, performance, and delivery. It should be enough to cover the costs of administering and managing the system, and may also allow for a small premium to encourage and reward compliance.

POLICY DECISION 5 (5.1): REVENUE RETENTION BY GOVERNMENT

Issue to be addressed	Administration of a payment distribution system incurs administration and management costs. This needs to be balanced with the requirement of ensuring that the major portion of REDD+ funds are used as efficiently and effectively as possible to reduce deforestation. In relation to national-level government-administered funds in Viet Nam, there are currently no standard procedures for determining permissible management fees.
Options	a) Allocate based on costs incurred and emissions reductions delivered; or b) Allocate according to a flat fee or percentage of total funds.
Recommended principle or policy to be adopted	The specified amount or percentage of revenues retained by government should be performance-based, and set at a level which approximates closely to actual transactions and implementation costs, plus a small incentive for participation in REDD+.
Actions required to confirm policy option	<ul style="list-style-type: none"> • As part of its commitment to establishing a world-class payment distribution system, the GoV should indicate that the revenues to be retained by government will be limited to actual implementation and transactions costs, against agreed budgets; • The magnitude of these costs, and indicative retention levels, will be determined by further studies to be conducted.



POLICY ISSUE #6

WHAT'S AT STAKE?

If local-level payments are to be effective in reducing deforestation and forest degradation, they will need to be high enough to offset any opportunity costs that forest users incur, and at the same time provide clear incentives to participate in REDD+. These costs and incentives may be both monetary and non-monetary, and will vary substantially between different forest users and sites in Viet Nam.

For REDD+ revenues, an appropriate formula for local benefit distribution will need to be agreed. Current procedures for calculating payments for forest conservation (under Programme 661) and the provision of environmental services (under PFES projects) neither incorporate full opportunity costs nor allow for a mix of financial and non-financial incentives. Rather, they are set administratively.

The approach of using weightings (“K-factors”), which have been used to calculate household-level PFES payments, provides a useful model for REDD+, albeit with some modification. The use of weightings can permit payment levels to vary to reflect variations in direct and opportunity costs, and can also allow payment levels to address co-benefits, such as poverty alleviation and biodiversity conservation. Payments need to reflect both the costs of reducing deforestation, forest degradation and costs for enhancement activities and the amount of emissions reduced.

POLICY DECISION 6 (5.2):

LOCAL PAYMENT LEVELS AND PAYMENT STRUCTURING

Issue to be addressed	<p>Local-level payments for avoided deforestation and forest degradation, and for conservation, sustainable forest management and enhancement of carbon stocks, should ideally compensate the direct and opportunity costs incurred and provide 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 REDD+ participants.</p> <p>Payment structuring can also be designed to meet social goals in parallel with rewarding performance. This is the intent of the K-factors developed by PFES pilot projects. As REDD+ is expected to address local social and economic needs while rewarding performance in reducing emissions, similar considerations should be incorporated into REDD+ payment structuring. However, REDD+ considerations will not be the same as those applicable to PFES as there are additional actors influencing the criteria used for payment structuring, notably international investors.</p>
Options	<p>a) Apply standardized cost norms; or</p> <p>b) Base payments on costs incurred and amount of emissions reduced.</p> <p>and</p> <p>a) Make cash payments only; or</p> <p>b) Combine cash payments and non-monetary benefits.</p>
Recommended principle or policy to be adopted	<p>The level and nature of benefits provided should reflect opportunity costs and losses incurred in avoiding deforestation and forest degradation, and for conservation, sustainable forest management and enhancement of carbon stocks, both monetary and non-monetary; although it may be most practical to use a standardised formula to compute payments, this should allow for weighting to reflect variation in the costs of generating emissions reductions between different areas and groups and under different production systems and ecological conditions.</p>
Actions required to confirm policy option	<ul style="list-style-type: none">• Consistent with its stated goals of compensating for the provision of environmental services and stimulating sustainable rural development, the GoV should reiterate its intention to ensure that REDD+ benefits shared with forest land and resource users will be set at equitable and effective levels.• Further work will require broad opportunity cost norms to be investigated for different areas, groups, production systems and ecological conditions;• Further work will include design of checks and balances and guidance on calculation of payment weights ("R-Coefficients", similar to the "K-factors" used in current PFES schemes).



POLICY ISSUE #7

WHAT'S AT STAKE?

Existing initiatives in Viet Nam to channel payments to rural poor have suffered from the phenomenon of “elite capture” by which influential individuals or organizations secure a disproportionate amount of the payments and the rural poor receive little or nothing. This is reflected, for example, in the allocation of forest to households. Entities responsible for allocation, especially SOCs, have tended to retain high value forest and allocate poor quality forest to households, especially the poorest ones. However, initiatives such as the PFES pilot project in Lam Dong and the KfW community forestry projects have demonstrated the advantages of payments to communities, where greater equity in local payments can be achieved. If a REDD-compliant BDS fails to address the risks and adverse consequences of elite capture, local stakeholders will lose interest in participating in REDD+. If a large number of stakeholders fail to participate, the entire REDD+ system risks failure. Careful thought should therefore be given to which forest users should be eligible to receive REDD+ payments, and under which circumstances the more powerful stakeholder groups may or may not be eligible.

POLICY DECISION 7 (3.2):

TYPES OF FOREST OWNERS ELIGIBLE TO RECEIVE REDD+ BENEFITS

Issue to be addressed	<p>Most benefit distribution programmes in Viet Nam target payments to individual households, SOCs, 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.</p>
Options	<p>a) GoV continues to favor payments to SOCs, PAMBs and individual households at the risk of missing out on potential carbon gains and benefits to rural poor.</p> <p>b) GoV creates a level playing field for communities by refining the legal framework and creating supportive implementation structures.</p> <p>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</p>
Recommended principle or policy to be adopted	<p>GoV should address the legal constraints that prevent village communities being eligible to receive REDD+ payments under the same conditions as SOCs, 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. The GoV should also establish a policy for PFMBs and PAMBs that REDD+ revenues will only lead to a reduction in state budget support if the total revenues of the PFMB or PAMB plus their “normal” level of budget support exceeds their estimated costs; whilst establishing safeguards to ensure that this does not create an adverse incentive to slow forest allocation.</p>
Actions required to confirm policy option	<p>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 Programme. The evaluations should inform 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+.</p>



POLICY ISSUE #8

WHAT'S AT STAKE?

REDD+ requires some form of local technical support capacity to promote compliance with contracts, help prevent and resolve conflicts, and intervene to protect forest managers against powerful outsiders. FPD is primarily responsible for forest protection in Viet Nam. In practice, however, it focuses heavily on the suppression end of law enforcement, which results, on average, in about 55,000 forest crimes cases being recorded every year. Most of these do not address large-scale forest clearances, but instead involve forest degradation through the removal of very small amounts of timber; and often reflect the ambiguous nature of existing regulations that criminalize timber taken for subsistence needs. From a REDD+ and forest conservation perspective, this approach is inadequate; the risk of detection is so low and the punishment so light, that there is no effective deterrent against further illegal activities. The REDD+ and Forest Law Enforcement and Governance (FLEG) agendas are therefore two sides of the same coin.

POLICY DECISION 8 (3.4):

STRENGTHENED LAW ENFORCEMENT FOR 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 to confirm policy option	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 ISSUE #9

WHAT'S AT STAKE?

The principles that will determine the international acceptability of REDD+ are those that will confirm its effectiveness in reducing emissions. In particular, the principles of performance, additionality, equity, and transparency must be demonstrated. A REDD-compliant BDS must satisfy each of these principles, and monitoring provides the basis for demonstrating that each principle has been satisfactorily addressed.

The term “participatory monitoring” describes activities that involve local people who have, in a number of cases, demonstrated that they can cost-effectively record information about their landscape on a systematic basis. For example, participatory monitoring of timber and non-timber forest products has used vegetation samples, transects, fire calendars, field diaries, community workshops, rainfall measurements, etc. Many of these methods are relevant to REDD+. Experience shows that monitoring creates a culture of questioning and acts as a catalyst for learning about the landscape and the cycle of planning, action, and assessment. For REDD+, monitoring is an essential way to check on compliance and identify enforcement requirements.

**POLICY DECISION 9 (7.1):
PARTICIPATORY MONITORING**

<p>Issue to be addressed</p>	<p>Local people can 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.</p> <p>Local people can play a role in monitoring emissions, but are especially valuable in identifying, reporting, and enforcing the interventions and tasks required for REDD+. Participatory monitoring will strengthen their understanding and commitment while providing a degree of comfort to investors that REDD+ is sustainable. Participatory monitoring may add value to the carbon offsets generated. However, GoV has limited experience with participatory forest monitoring approaches.</p> <p>There is a wide range of approaches that have been tried for local people to participate in monitoring. At this stage no preferred method has been identified.</p>
<p>Options</p>	<p>a) Participatory monitoring; bringing the advantages of community engagement and ensuring the involvement of a critical stakeholder at the local level; or</p> <p>b) Non-participatory monitoring by parties and persons from outside the local area</p>
<p>Recommended principle or policy to be adopted</p>	<p>Option A is recommended. Consistent with its stated goal of international leadership on REDD+, GoV should embrace the concept of participatory monitoring and implement principles governing such monitoring.</p>
<p>Actions required to confirm policy option</p>	<p>GoV should review participatory monitoring methods with a demonstrated history of success. Based on this review, GoV should prepare principles for participatory REDD+ monitoring.</p>



POLICY ISSUE #10

WHAT'S AT STAKE?

Any BDS, however well designed, will inevitably give rise to complaints. It is necessary to build in a recourse mechanism so that complaints can be independently reported and addressed. This is needed to ensure the credibility of the BDS.

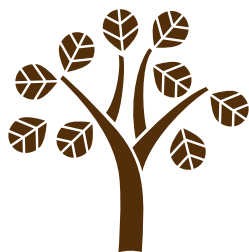
In Viet Nam, citizens' complaints have to be submitted to the responsible government agency. But if the same agency is responsible for the BDS, then a conflict of interest arises. One option is for a centrally located point of contact to receive complaints. Such a system has two advantages. Since it would be far removed from the field it would be less prone to local interference. This would increase its credibility. A central contact point would also facilitate the collection and monitoring of complaints, which may provide important insights into the performance of the BDS. This would encourage an approach that instead of seeking to suppress complaints uses the information to fine tune and improve the system.

Viet Nam's political system provides space for public complaints. Groups and individuals can complain about local government officials, particularly when it comes to urban and industrial pollution. They can also speak to the media. Vietnamese newspapers frequently run stories about public complaints against corrupt or incompetent officials. Some Vietnamese Non-governmental Organizations (NGOs) have established telephone hotlines that have succeeded in increasing public participation in reporting environmental crimes and monitoring government response. Whether such a model is viable for REDD+ is debatable, but some sort of mechanism needs to be established.

POLICY DECISION 10 (7.4):

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 reducing 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	Option B is recommended. Given the importance of managing complaints to ensure that the BDS rewards those who deserve to be rewarded on the basis of emissions reductions and to generate information that can be used to improve the BDS, a credible recourse mechanism is required. GoV should consider establishing a recourse mechanism that allows complaints to be managed transparently and efficiently and how Vietnamese civil society organizations can be most appropriately integrated into such a mechanism.
Actions required to confirm policy option	The GoV should undertake a more detailed analysis of the appropriate institutional structure of a participatory recourse mechanism. This should lead to a communications strategy through which information on the proposed recourse mechanism is widely disseminated to all stakeholders.



FOR MORE INFORMATION

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