



**Bộ Nông nghiệp và
Phát triển nông thôn**

Design of a REDD- Compliant Benefit Distribution System for Viet Nam

UN-REDD PROGRAMME

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List of Acronyms

5MHRP	Five-Million Hectare Reforestation Programme (also the “661 Programme”)
ADB	Asian Development Bank
AR-CDM	Afforestation/reforestation Clean Development Mechanism
AWG-LCA	Ad-hoc Working Group on Long-term Cooperative Action
BDS	Benefit Distribution System
BNDES	National Bank for Social and Economic Development (Brazil)
CCBA	Climate Community and Biodiversity Alliance
CDM	Clean Development Mechanism
CEMMA	Committee for Ethnic Minorities in Mountainous Areas
CER	Certified Emission Reductions
CFM	Community Forest Management
CIFOR	Centre for International Forestry Research
CoP	Conference of the Parties
CPC	Commune Peoples’ Committee
CSO	Civil Society Organization
DARD	Department of Agriculture and Rural Development
DfID	Department for International Development (UK)
DoF	Department of Forestry
DPC	District Peoples’ Committee
EUR	Euros
FC	Forestry Company
FCPF	Forest Carbon Partnership Facility
FDI	Foreign Direct Investment
FIPI	Forest Inventory and Planning Institute
FLEG	Forest Law Enforcement and Governance
FLEGT	Forest Law Enforcement, Governance, and Trade
FLITCH	Forest and Livelihoods Improvements in the Central Highlands project
FONAFIFO	National Forestry Financing Fund (Costa Rica)
FPD	Forest Protection Department
FPDF	Forest Protection and Development Fund
FPU	Forest Protection Unit
FSDP	Forest Sector Development Project
FSSP	Forest Sector Support Programme
GEF	Global Environment Facility
GoV	Government of Viet Nam
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IIED	International Institute for Environment and Development
IUPJL	Izin Usaha Pemanfaatan Jasa Lingkungan
IWG-IFR	International Working Group on Interim Financing for REDD
JICA	Japanese International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
MARD	Ministry of Agriculture and Rural Development
MODIS	Moderate Resolution Imaging Spectroradiometer
MoF	Ministry of Finance
MONRE	Ministry of Natural Resources and the Environment
MoU	Memorandum of Understanding
MPI	Ministry of Planning and Investment
MRV	Measurement, Reporting and Verification
NA	National Assembly
NGO	Non-governmental Organization

ODA	Overseas Development Assistance
PAMB	Protected Area Management Board
PARC	Creating Protected Areas for Resource Conservation in Viet Nam Using a Landscape Ecology Approach project
PEHS	Payment for environmental and hydrological services
PES	Payment for Ecosystem Services
PFES	Payment for Forest Ecological Services
PFMB	Management Board for Protection Forest
PPC	Provincial Peoples' Committee
PROFAFOR	Forests Absorbing Carbon-dioxide Emissions Forestation Program (Ecuador)
RED	Reducing Emissions from Deforestation
REDD	Reducing Emissions from Deforestation and Forest Degradation
REDD+	Reducing Emissions from Deforestation and Forest Degradation, Sustainable Forest Management, Forest Conservation, and Enhancement of C-stocks
R-PIN	Readiness Project Identification Note
SBSTA	Subsidiary Body for Scientific and Technical Advice
SEDP	Social and Economic Development Plan
SFE	State Forest Enterprise
SNV	Stichting Nederlandse Vrijwilligers (Netherlands Development Agency)
SOC	State-Owned Company
TFF	Trust Fund for Forests
UNFCCC	United Nations Framework Convention on Climate Change
UN-REDD	United National Programme to Reduce Emissions from Deforestation and Forest Degradation
VBARD	Viet Nam Bank for Agriculture and Rural Development
VCS	Voluntary Carbon Standards
VER	Verified Emission Reductions
VND	Viet Nam Dong (US\$ 1 = approx VND 18,000)
WB	World Bank

Executive Summary

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+)¹ 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 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 transparent and equitable benefit distribution system (BDS) as a priority for UN-REDD support. This is 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.

Forest cover

In 2008, Viet Nam had 19.2 million hectares of “forest land”, but of this only 13.1 million hectares was forested, with the remainder consisting of denuded hillsides and barren lands. Of the forested land, 10.3 million hectares are natural forest and 2.8 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 covering 8.3 million hectares.

Viet Nam’s forest cover has undergone dramatic changes over the last 50 years. From 1945 to the early 1980s about 50% of its forest was cleared, primarily for agriculture. Forest cover hit a minimum of about 27% around 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 2008 forest cover reached 38.7% (MARD, 2009).

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.

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.

¹UNFCCC is still considering the scope of REDD, although so-called REDD+, which incorporates conservation, sustainable forest management, and enhancement of carbon stocks, has widespread support. In this report, the term REDD is synonymous with REDD+.

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;

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.

Forest administration

At the national level, the Ministry of Agriculture and Rural Development (MARD) is responsible for forest management. Within MARD, two departments are in charge of forestry. The Department of Forestry (DoF) is responsible for forest management, utilization, and development. The Forest Protection Department (FPD) is in charge of forest protection and forest law enforcement. Technical divisions within FPD include divisions of forest protection, nature conservation, and legal inspection, and a special task force.

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.

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 With the assistance of SNV's analysis of low-resolution remote sensing data, the study team estimated that REDD+ could generate about \$80-100 million/year in Viet Nam. However, this potential can only be realized if GoV takes steps to ensure that REDD+ is implemented effectively. This involves: developing a comprehensive REDD+ strategy to generate and sustain emissions reductions at the local level; developing the necessary capacity to measure and report on 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).

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.

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	
Issue to be addressed	<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>

POLICY DECISION 1 (3.3): LEGAL FRAMEWORK FOR REDD+ IN VIET NAM	
Options	<ul style="list-style-type: none"> 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	<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>
Actions required to confirm policy option	<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 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>

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	
Issue to be addressed	<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>
Options	<p>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</p>
Recommended principle or policy to be adopted	<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>
Actions required to confirm policy option	<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</p>

	<p>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	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.

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

POLICY DECISION 5 (5.1): REVENUE RETENTION BY GOVERNMENT	
	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	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.

**POLICY DECISION 6 (5.2):
LOCAL PAYMENT LEVELS AND PAYMENT STRUCTURING**

	<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 b) Base payments on costs incurred and amount of emissions reduced. <i>and</i> a) Make cash payments only; or 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	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.
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	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.
Actions required to confirm policy option	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+.

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	<ul style="list-style-type: none"> 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	
Issue to be addressed	<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>
Options	<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>
Recommended principle or policy to be adopted	<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>
Actions required to confirm policy option	<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.

1. Background and Introduction

As countries prepare for a possible future international mechanism to reduce emissions from deforestation and forest degradation (REDD+²), it is recognized that there are a number of elements that need to be addressed – the “components of readiness”. While there are various ways in which the process can be visualized, the UN-REDD Programme and the World Bank’s (WB’s) Forest Carbon Partnership Facility (FCPF) have developed a unified version of components of REDD+ readiness – see Figure 1.1. In this version of REDD+ readiness, an important element of Component 2 (Prepare the REDD+ Strategy) is the design of an Implementation Framework, which includes the design of a transparent and equitable benefit distribution system (BDS).

Figure 1.1 Components of REDD+ readiness



The UN-REDD Programme is assisting Viet Nam, as one of nine pilot countries, to build its capacity to implement REDD+. In Viet Nam, the design of a transparent and equitable BDS was identified as one of the key priorities for support from UN-REDD (UN-REDD,

² The UNFCCC is still considering the scope of REDD, although the so-called “REDD+”, which incorporates conservation, sustainable forest management, and enhancement of carbon stocks, has widespread support. In this report, the term “REDD” is used also to represent REDD+

2009) by the Government of Viet Nam (GoV). This report describes the results of these efforts to date that have specifically focused on four outputs:

1. Identification of elements of a REDD-compliant BDS;
2. Identification of constraints or barriers that currently prevent such a system being established in Viet Nam;
3. Proposal and, where possible, endorsement of policy options to overcome existing constraints or barriers; and
4. Development of a work programme to implement policy options and to undertake additional analyses, where required.

In order to achieve these outputs, a team of experts (see Annex 1) was convened under the leadership of the Department of Forestry (DoF) of the Ministry of Agriculture and Rural Development (MARD) to undertake the necessary field work, consultations and literature review over the period September-October, 2009. This report summarizes the conclusions of the team, including recommendations on policy options required to create the conditions necessary for a REDD-compliant BDS.

This Chapter provides background information on REDD+ and the situation of the forest sector in Viet Nam. This is followed (Chapter 2) by a review of past and current experiences with benefit sharing in the forest sector in Viet Nam. Chapter 3 provides an analysis of the legal framework and identifies the necessary changes required for a REDD-compliant BDS. Chapter 4 describes a mechanism to receive international funds/revenues in such a way that their use and distribution can be tracked in a transparent manner: In Chapter 5, a basis for revenue retention at different levels of the distribution system is described, together with an approach to benefit structuring. This theme is continued in Chapter 6, which discusses payment structuring in terms of payments versus other benefits; and targeting of individual stakeholders or stakeholder groupings; as well as a basis for equitable performance-based allocation of net revenues (gross revenues minus retained revenues), incorporating also “co-benefits”, such as social benefits and biodiversity benefits. Chapter 7 describes a participatory approach to monitoring of REDD+ investments and payments, including independent audits. A summary of all policy recommendations is provided in Chapter 8, and a proposed work programme to implement the recommendations is described in Chapter 9.

1.1. Background to REDD+, the UNFCCC Negotiation Process, and Implications for BDSs

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 from deforestation (RED) into a post-Kyoto agreement. Subsequently, the Stern Review on the economics of climate change (Stern, 2006), released in 2006, noted that ‘Reducing emissions from deforestation and forest degradation in developing countries’ (REDD) could be a cost-effective route for mitigating the impacts of climate change. This recognition of the potential role and reasonable cost

of REDD led to its inclusion in the “Bali Action Plan” (UNFCCC, 2007), agreed at CoP13 of the UN Framework Convention on Climate Change (UNFCCC) in 2007.

As part of the Bali Action Plan, the discussion broadened further to consider: “*Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries*”, now referred to as REDD+.

Since CoP 13, UNFCCC debates on REDD+ have been held under two Convention bodies. The Subsidiary Body for Scientific and Technical Advice (SBSTA) has been considering methodological approaches to address the most problematic issues associated with REDD+. At the same time, the *Ad hoc* Working Group on Long-term Collaborative Action (AWG-LCA) has been moving towards a mutually agreed text that could form part of a post-Kyoto agreement. AWG-LCA discussions have established that:

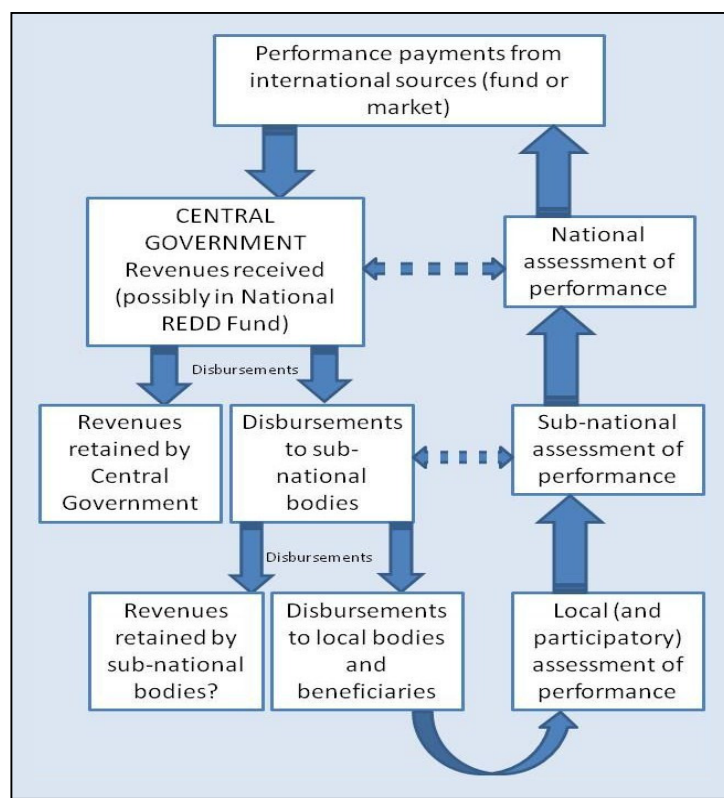
- Policy approaches should be performance-based, so that support for implementation is based on results (i.e. based on measurable and verifiable emissions reductions).
- The REDD+ mechanism should be implemented at the national level, rather than at sub-national levels, taking into account national circumstances. Thus, REDD+ will be unlike project-based approaches such as A/R CDM, or voluntary market carbon conservation projects. Although actual implementation of interventions under REDD+ will necessarily occur locally, and therefore resemble project-based approaches, accounting, reporting and revenue generation will occur at the national level, thus making REDD+ fundamentally different.

These important characteristics of REDD+ are reflected in Figures 1.2, showing a generic REDD+ system, and 1.3, showing how REDD+ may be implemented in Viet Nam. In parallel to the UNFCCC discussions, various authors have analyzed the essential characteristics of a national REDD+ mechanism. For example, a report by the International Institute for Environment and Development (IIED) concluded that “*Effective local institutional capability, and the knowledge and preparedness to put good forestry into practice, will be essential for REDD+. For this to be achievable, effective and equitable local property rights are needed*”. The report goes on to identify some key recommendations, including:

- Shape REDD+ schemes to contribute to improved forest governance, not vice versa.
- Strengthen local resource rights, including customary rights.
- Develop effective arrangements to channel benefits to the local level.

This study thus responds both to the emerging consensus under the UNFCCC discussions, and the technical requirements for an operational REDD+ mechanism at the national level. The design of a BDS, initiated at the request of the GoV, is closely linked to the national REDD+ strategy, the development of which is also supported through the UN-REDD programme in Viet Nam.

Figure 1.2 Basic REDD+ system



In designing a REDD+ Benefit Distribution system, two key issues need to be considered, namely the form of the benefit and the recipient of the benefit. There are a number of options for benefits from REDD+. They may take the form of direct cash payments to stakeholders; improved services (e.g. provision of new or improved health or education facilities; improved rural infrastructure, and so on); increased budget support to initiatives designed to reduce deforestation and degradation; provision of subsidies to encourage appropriate behaviour; reduction of taxes on goods or services, etc. Similarly, beneficiaries might be rural households or communities, governmental or non-governmental organizations, or businesses.

For each country, its national REDD strategy will need to consider all the possible options for measures to reduce deforestation and degradation (including conservation, sustainable forest management and enhancement of forest carbon stocks) and thereby identify the optimum combination of form of benefit and selection of beneficiaries to secure the planned reduction in emissions as effectively and cost-efficiently as possible. In most cases, it is to be expected that several types of benefit distribution will be required in different parts of the country, or to address different drivers of deforestation and degradation.

It is not within the scope of this study to consider all the possible combinations of types of benefit and beneficiaries. However, it is clear that the challenges in implementing a fair, equitable and transparent system of benefit distribution vary according to the selected combination. For example, determining a fair and equitable level of budgetary support to a government department to undertake actions designed to improve forest conservation is a relatively simple matter. The most complex form of benefit distribution concerns benefits (either cash or improved services) provided to rural households or communities, as they are the smallest and most numerous type of beneficiary, and the most distant in terms of institutional hierarchy from a centralized national system for receipt of REDD+ revenues. Therefore, much of the discussion in this report focuses on the challenges of benefit distribution to rural stakeholders (households or communities), since if this can be achieved in a fair, equitable and transparent manner, the simpler forms of benefit distribution should also meet these principles. However, this does not imply that the authors believe that benefits distributed to rural households or communities are necessarily the optimal form of benefit distribution in all cases.

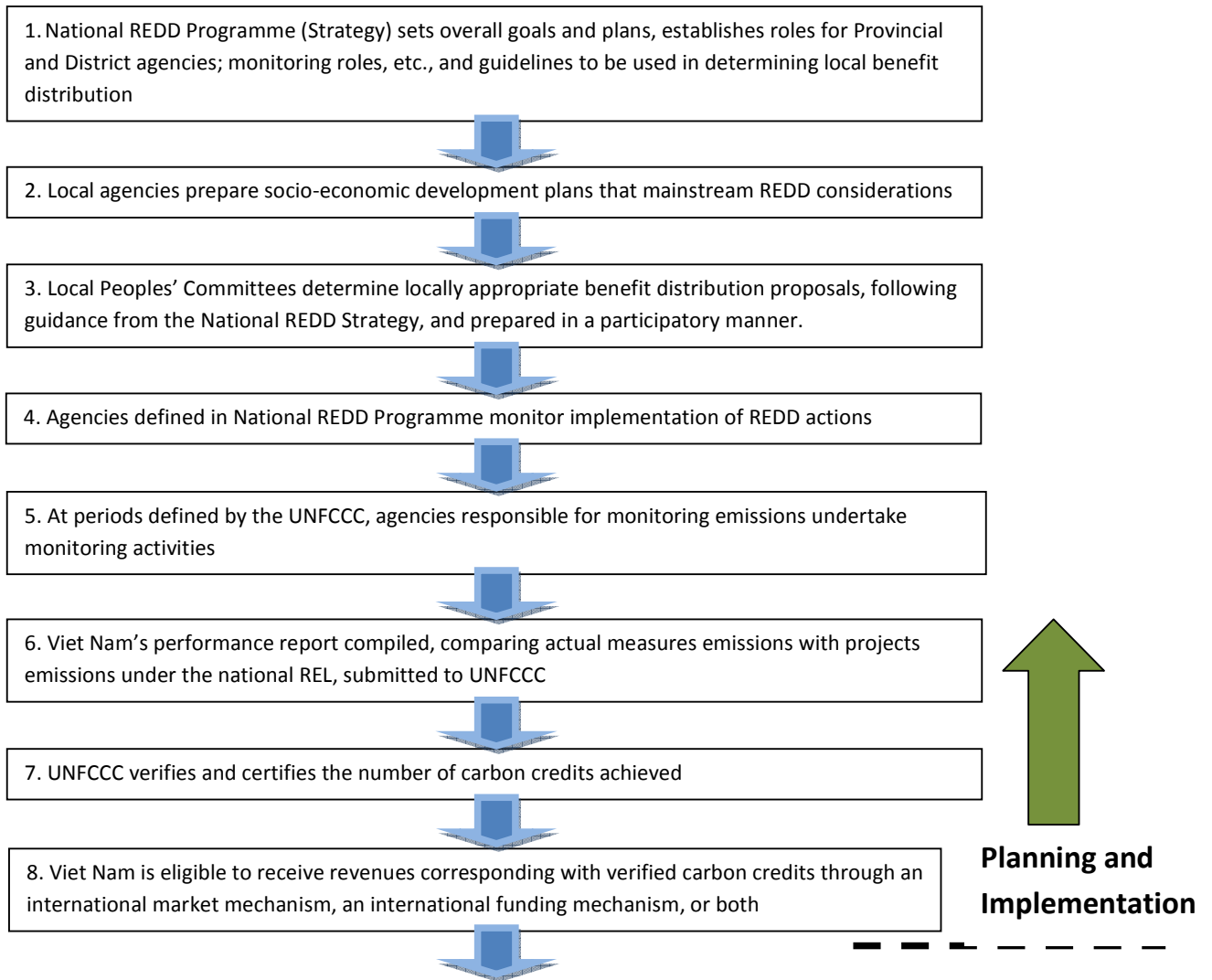
It should also be noted that REDD+ benefit distribution needs to incorporate a gender perspective, to ensure that the needs of women, who frequently form a marginalized group in the forest sector, are taken into account, and that REDD+ can act as an impetus to improved gender equality. Thus, benefits made to households and communities should include safeguards to ensure gender equality.

1.2. REDD+ Implementation and Benefit Sharing

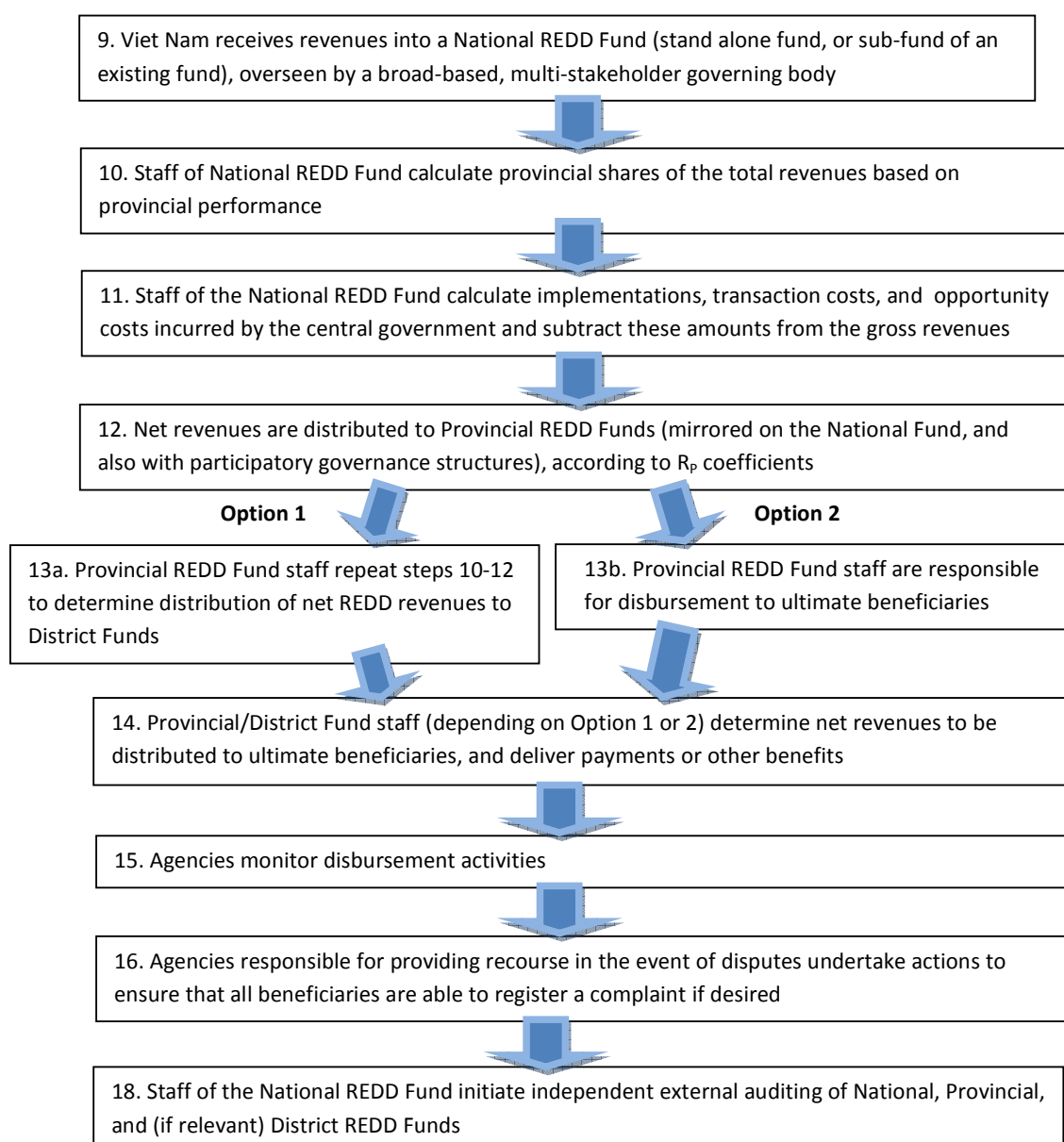
As depicted in Figure 1.1, above, a BDS is only one component of a complete REDD+ regime. The elaboration of a national REDD+ strategy (in Viet Nam, referred to as the National REDD+ Programme), calculation of a Reference Emission Level (REL), and development of measurement and reporting capacities, are essential the other elements in such a regime. Most of these elements present technical challenges, but these challenges are not unique to REDD+ – they apply equally to sustainable forest management and forest conservation initiatives. However, the BDS represents a unique aspect of REDD+ that integrates not only technical challenges, but also governance issues, and associated principles such as equity and transparency.

Davis *et al.* (2009), in a review of 25 Readiness Plan Idea Notes from the FCPF, conclude that countries have paid insufficient attention to the apportionment of revenues among forest governance actors, and that most proposals made to date therefore lack clarity. It is true that few, if any examples of comprehensive REDD-compliant BDSs exist as yet. The Ministry of Forestry in Indonesia has issued a Ministerial Decree (“Permenhut 36”) (Government of Indonesia, 2009), which specifies proportions of revenues to be shared among central, sub-national governments and local stakeholders for C-sequestration Payment for Environmental Services (PES) projects targeting the voluntary market. This is not a proposal for a REDD+ BDS, but is instructive in that proportions to be shared vary

Figure 1.3: REDD+ System in Viet Nam



Benefit Distribution



according to forest category. For example, in the case of community-owned forest, up to 70% of the revenues accrue to the community, whereas in many other types of forest, such as production forests and protected forests, only 20% of the revenues are transferred to communities. The process which led to the establishment of these proportions is not clear, and can therefore be interpreted to have been determined arbitrarily, which in turn might indicate that certain stakeholders might stand to benefit inequitably. This approach to the establishment of a REDD+ BDS has been criticized, for example by Climate Update (May 11, 2009), as lacking clarity or a rational allocation of revenues to different entities. It is evident that REDD+ distribution schemes must make clear to stakeholders the formulae and principles that have been applied in determining how revenues are shared – a transparent and equitable BDS.

Viet Nam is well-placed to develop a REDD-compliant BDS as a result of many years' experience in similar systems, such as the "661 Programme" (Government of Viet Nam, 1998), and the recent trial of Payment for Forest Environmental Services (PFES) systems under "Decision 380" (Government of Viet Nam, 2008b) – see Chapter 2. These and other initiatives have generated important lessons concerning the design of BDSs. However, the special characteristics of REDD+ need to be considered in interpreting those lessons for the design of a REDD-compliant system. For example, payment to individual households is considered feasible in the context of PFES payments for water conservation, which are paid over a relatively compact area, where each household's contribution to the total benefit can be determined in a relatively objective way. Applying the same principles over a much larger area, where the relative contribution of individual stakeholders is much more difficult to determine, is highly problematic.

The International Working Group on Interim Financing for REDD+ (IWG-IFR) has provided their vision of phasing of REDD+ readiness. This involves:

- Phase 1: Initial REDD+ readiness, comprises of REDD+ strategy preparation through an inclusive multi-stakeholder consultation process, and initial investments in MRV capabilities
- Phase 2: Implementation of enabling policies and measures according to the REDD+ strategy leading to emissions reductions verifiable through proxy-based indicators
- Phase 3: Participation in the UNFCCC compliance system (whether offsets, funds, or other mechanisms) enabled by IPCC-compliant MRV systems

The IWG-IFR is heavily focused on MRV, and refers to BDSs (termed "payment processing capacity") in the context of "participation enablers", which it anticipates will be undertaken during Phase 2. However, it does note that these phases may differ from country to country, and in any case, proposes that proxy-based payments, which require "payment processing capacity", would start as early as 2010. The challenges of building capacity for Benefit Distribution should not be under-estimated, nor should capacity solutions be rushed. One of the key conclusions of this report is that the development of a BDS for Viet Nam should start immediately, but should also be based on lessons derived from at least 2 years of pilot studies in several provinces.

These pilots would also generate lessons required for design and implementation of other elements of a comprehensive REDD+ regime, which likewise require careful analysis. The BDS needs to be viewed in the context of an overall REDD+ system (see Annex 2). While there is no point in having a BDS established until other REDD+ elements are in place, allowing REDD+ credits to be generated, the necessary institutional and policy changes take time to achieve, so an early start on such a challenging topic is justified.

1.3 Forests in Viet Nam

Viet Nam covers an area of 330,991 km², with a complex topography characterized by mountains, high plateau, plains and rivers, of which the two most significant are the Red River and the Mekong. The climate is monsoonal, with an average temperature of 24-27°C and rainfall averaging 1,500-2,500 mm, falling predominantly in the rainy season from May to October.

Population density is the highest in South East Asia reaching up to 1,000 people km⁻² in the Red River Delta (the average figure being 232 people km⁻²), though population density in the mountains is much lower. About 80% of the population lives in rural areas, and 75% practice agriculture and forestry as their predominant livelihoods.

Since 1986 the government has pursued the "*doi moi*" policy of economic development, encompassing a combination of policy and institutional modifications associated with liberalization and reform. This policy is credited with catalyzing dramatic economic development in the country with annual GDP growth during the 1990s and early 2000s ranging between 6% and 9% per year.

Forest area, forest types, and trends

Land classified as "forest land" amounts to 19.2 million hectares, but of this only 13.1 million hectares are forested (2008 data), with the remainder consisting of denuded hillsides and barren lands. Of the forested land, 10.3 million hectares are natural forests, and 2.8 million hectares are plantations. Forest land-use falls under three categories, namely special-use forests (mainly protected areas), 2.2 million hectares; protection forests, 5.7 million hectares; and production forests, 8.3 million hectares.

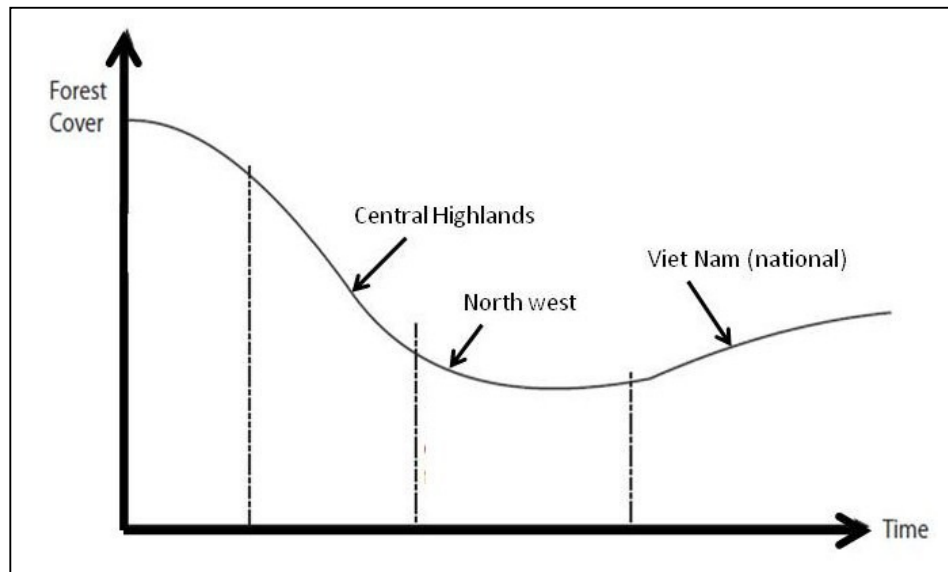
Forests are unevenly distributed throughout Viet Nam, ranging from 5% of the land area in the Mekong and Red River deltas to 35% in the north-central, and coastal south central regions, and 56% in the Central Highlands. Forest types are diverse, and include pine forests, broad-leaved forests, mixed coniferous stands, moist and dry dipterocarp forests in the uplands; and lowland dipterocarp forests, mangroves, bamboos, and mixed stands of hardwoods and bamboos in lower areas, flats and wetlands. The quality of forest is also highly variable.

The history of changes in forest area in Viet Nam is dramatic. During the period of 1943 to 1983 about 50% of its forest was cleared during four decades of intensive utilization. Forest coverage hit a minimum of about 27% around 1990. However, between 1990 and 2000, Viet Nam gained an average of 236,200 hectares of forest per year, equivalent to a

2.5% increase per year. Between 2000 and 2005, the rate of increase was about 2.1% per annum. This resulted in percentage forest cover growing to 38.3%, or around 3,568,000 hectares by 2008.

These figures indicate that Viet Nam has progressed to the far right-hand side of the forest transition curve (see Figure 1.4), with forest area increasing. However, the national figures mask wide variations in the situation in different parts of the country. In the Central Highlands, deforestation (and forest degradation) continues to be the dominant land-use change. In other parts of the country, for example, the north-central region, deforestation also continues, but at a much lower rate – a stable forest area has virtually been reached.

Figure 1.4: Forest transition curve (adapted from Angelsen, 2007), with Viet Nam information added



Agencies and institutions responsible for socio-economic development planning and forest management in Viet Nam

The state management system in Viet Nam

The current state management system of Viet Nam includes four levels, namely central, provincial, district and communal. At the central level, the National Assembly is the highest organ of state power. The Government is the executive body of the National Assembly. Members of GoV include 22 ministries and ministry-equivalent organizations.

At the provincial level, the Provincial People's Council is a provincial state body elected by and representing the local people. The PPC is elected by the People's Council as an executive organ of provincial state administration. PPC is responsible to implement the constitution, laws and formal orders of state organs at the central level and the resolutions of provincial People's Council within the province for the sake of socio-economic development measures and national defense and security. To assist PPC to realize its

tasks, there are professional agencies, which are line departments of central level ministries or ministry-equivalent organizations.

At the district level, District People's Council is the highest state body in the district. It is represented by District People's Committee (DPC), which has the task of law execution within the district. DPC is assisted by professional agencies.

At the communal level, Communal People's Committee (CPC) is the elected body of Communal People's Council. CPC is in charge of executing constitution laws, formal orders and resolutions from the superior state body or communal People's Council.

Socio-economic development planning in Viet Nam

The socio-economic development plan (SEDP) is a combination of plans from all sectors, including forest management. In general, all state agencies and levels of administration are responsible for the SEDP and budget plan preparation. The MPI and MoF and their line agencies at the local level take the lead in the process, including preparation of guidelines for plan preparation, providing needed support for the preparation of plans, synthesizing the plans and coordinating with concerned agencies in plan allocation.

There are several bases for the preparation of the SEDP: (1) the national Strategy for Socio-Economic Development (the current strategy covers the 10 years 2001-2010), (2) socio-economic development master plans, (3) five year socio-economic development plans, and (4) a review of the current socio-economic situation. Preparation of annual the SEDP takes around seven months, from June to December, with the following major benchmarks:

- *June:* GoV Directive is issued outlining the socio-economic objectives and tasks for the coming year and assigning the responsibilities to different agencies. MPI and MoF prepare a guiding framework for all ministries, sectors, agencies and levels of state administration to prepare their SEDP and budget plan.
- *June and July:* Socio-economic and budget planning by all ministries, sectors, agencies and levels of state administration. All communes and socio-economic sectors at the district level prepare their own SEDPs, and the budget required to implement these plans. The workplans of the national target programmes (see the discussion later) are also integrated in the SEDP of the concerned agencies/ level of administration. All communal and sectoral plans at the district level are synthesized by the line agencies of MPI and MoF in the district. District SEDPs and budget plans are compiled by line agencies of MPI and MoF at the provincial level.
- *August:* MPI and MoF synthesize all the provincial SEDPs and budget plans and prepare the proposal for budget allocation.
- *September:* MPI and MoF send the SEDP and proposed budget plan to the GoV for review and submission to the National Assembly (NA) for approval.
- *October and November:* The NA meets and the SEDP and budget plan are approved by the NA.
- *November:* GoV allocates the SEDP and budget plan to different sectors, ministries, provinces and concerned agencies based on the NA's determination. MPI and MoF then provide guidance on the SEDP and budget plan.

- *December*: The SEDP and budget plan are allocated to lower levels of administration on the basis of the SEDP and budget plan assigned by the GoV and the guidance by MPI and MoF. By 31 December, the SEDP and budget plan for the next year are allocated and clear to all agencies and levels of state management.

Forest management institutions in Viet Nam

The structure of state forest management in Viet Nam is set up from central (national) to communal levels with functional agencies and administrative bodies of the state (see **Error! Reference source not found.**). At the national level, MARD, as part of the GoV, is responsible for management of forest resources³. Within MARD, two departments are in charge of forestry issues; Department of Forestry (DoF) and Forest Protection Department (FPD)⁴:

- DoF is responsible for forest management, utilization and development. Within DoF, there are three technical divisions responsible for forest management, forest development, and forest utilization. DoF is based in Hanoi and has one representative office in Ho Chi Minh City⁵.
- FPD is in charge of forest protection and forest law enforcement. Technical divisions within FPD include division of forest protection, division of nature conservation, division of legal inspection, and a special task force. FPD headquarters in Hanoi and has three regional offices⁶.

At the provincial level, the DARD – the line agency of MARD and a member of PPC – is in charge of forestry issues in the province. The sub-department of forestry and sub-department of forest protection – 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, utilization and development. The district 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 CPC. This person is supported by field level forest protection agent from the district FPU. At the field level, the national forest resources (around 13.1 million ha) are currently being managed by eight major groups of actors (see Table 4-2). Details on each group follow:

- State-owned companies: SOCs are set up and owned by the state. Forests under management of SOCs are mostly for production purposes. SOCs may also be responsible for management of protected forest. Although SOCs have recently undergone a reform process⁷ and have had to return a part of the forest area formerly

³ Decree No 01/2008/ND-CP dated 3 January 2008 of the Prime Minister.

⁴ Following Decree 75/ ND-CP dated 10 September 2009 of the Prime Minister, which comes in effect from 1 November 2009, DoF and FPD are to be merged into a General Department of Forestry under MARD.

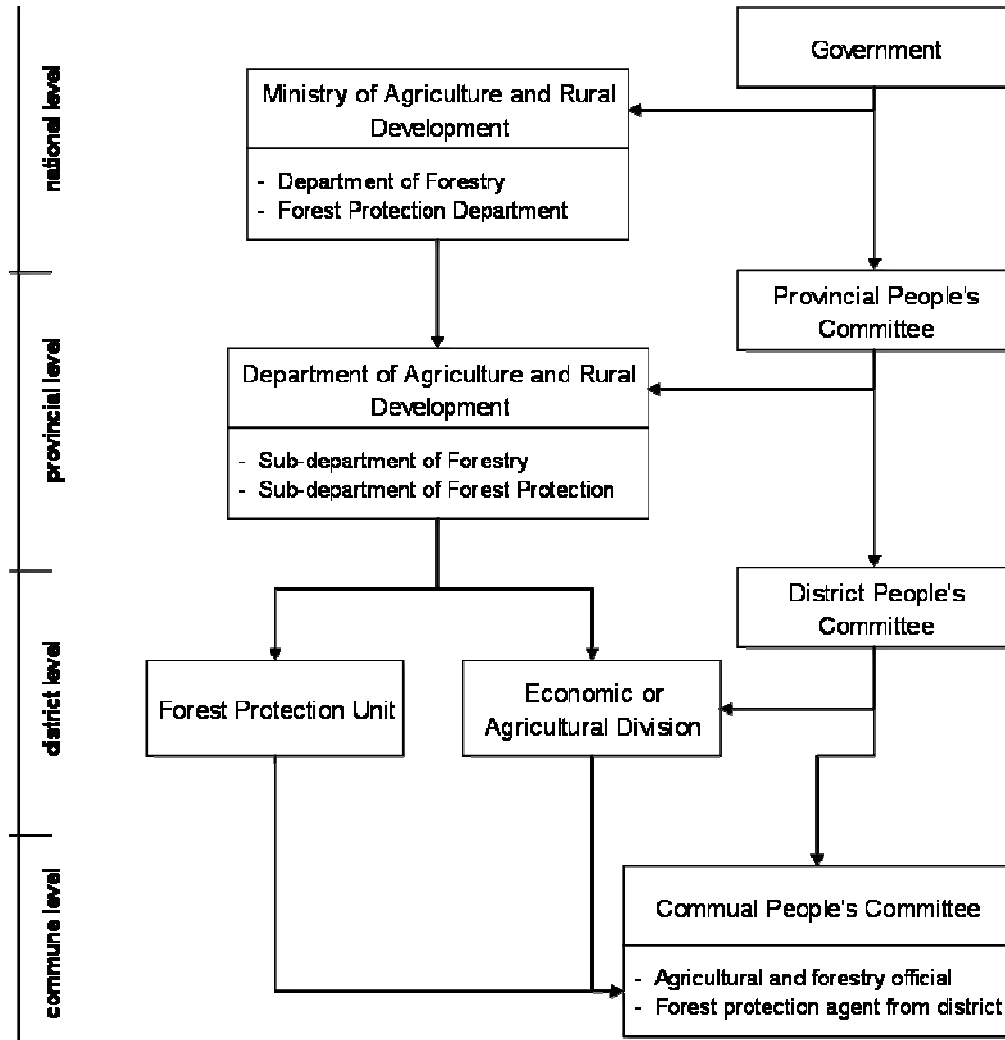
⁵ Decision No 21/2008/QD-BNN dated 28 January 2008 of MARD Minister.

⁶ Decision No 22/2008/QD-BNN dated 28 January 2008 of MARD Minister.

⁷ Decree 200/2004/ND-CP dated 3 December 2004 by the Prime Minister on restructuring, reforming, and developing the SFE system.

under their management to the state for allocation to the other stakeholders, they still play a very important role. In many provinces, particularly in the Central

Figure 4-3: Structure of forest management institutions in Viet Nam



and Southern parts of the country, SOCs not only manage the forest areas allocated to them but also involve in managing the forest formerly under their management, which 'informally' competes with the district and commune level forestry officials that have the responsibility. Under national forestry programmes (e.g. 661 Programme – see discussion later), SOCs can also receive budget from the state to contract local people for protecting their forest.

- **Protected area management boards:** This group includes PFMBs and PAMBs. They are both state organizations and receive funding from the state (mostly from provincial governments) for managing their forests. PFMBs have the task to manage forest areas that are classified for protection purposes and PAMBs focus on managing the conservation forests (e.g. SUFs, forest areas designated as having high values of

biodiversity or cultural significance, including National Parks). Similar to SOCs, PFMBs and Although land allocation in SUF's is not permitted, PAMBs are able to contract local households to protect their forests under national forestry programmes.

- Other economic entities: main actor in this group mainly refers to joint-venture companies working in forestry field. They are in charge of safe-guarding the protection forests and commercializing the production forests allocated to them.
- Individual households: Individual households managing forest classified in this group are those who received forest land from the state along with forest land use title. They are different from households protecting forest under contract with SOCs, PFMBs or PAMBs as mentioned above, who receive cash payment for the protection work but do not have title to the forest land.
- Communities: Although various forms of community-based forest management have traditionally been practiced by ethnic minority groups all over the country, this group refers to communities receiving forest land from the state with official land use title. Such titles in theory guarantee the legal recognition of the rights and benefits of the community members with regard to the forest resources.
- Other organizations: actors in this group are mostly mass organizations (e.g. Youth Union, Women's Union, and Farmers' Association) that receive forest from the state for management. They also have land use title to this forest land.
- The armed forces: The armed forces are mostly in charge of forest areas used for national security purposes.
- Communal people's committees: CPCs serve as temporary custodians of forest areas that were formerly managed by SOCs and which are 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 areas under their management. In practice, such areas often turn into informal "open access" zones, as many CPCs do not have sufficient staff to take care of the forest.

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. The State manages forest resources and legally entrusts the management of forest to specific actors. At present, eight major groups of stakeholders are involved in forest activities (Nguyen, 2006):

9. State enterprises, mostly SOCs;
10. Joint venture enterprises;
11. Individual households;
12. Management boards for protection forest (PFMBs);
13. Management boards for special-use forest (PAMBs);
14. Army units;
15. People's committees (PCs), mostly at the commune level (CPCs).
16. Collectives, such as groups of households and communities;

These eight stakeholder groups are represented in three forest tenure arrangements:

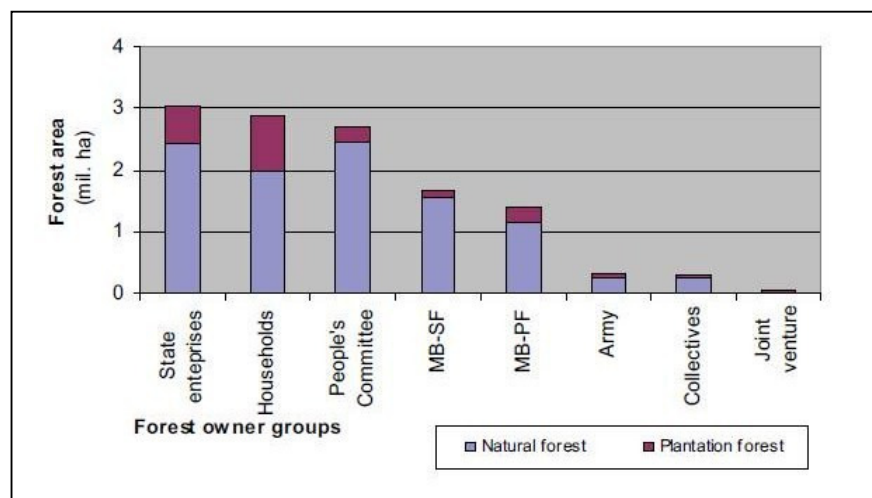
- Private tenure: This applies to the first three stakeholder groups listed above, and is the most common form of tenure. Forest is allocated to its tenure-holder for long-term management (typically 50 years). Most forest tenure holders under this arrangement are entitled to a legal land-use certificate.

- State tenure: This applies to groups 4-7 in the list above. Forests are typically allocated for an unspecified period. For special-use or protection forests, the tenure holders are entitled to receive State budget for its management.
- Common tenure: This arrangement is found in forest managed by collectives that are legally recognized by the State (the final stakeholder group in the list above). Currently, only a small area of forest falls under the common tenure arrangements.

In addition to these three types of tenure, forest contracting applies when a State rights holder signs a contract with an organization, household, group of households or village to protect the forest. The rights of tenure remain with the contractor. The contractee is entitled to cash remuneration for protecting the contracted forest area. Contracts are usually for one year and renewable based on the satisfactory performance of the contractee.

Overlapping forest tenure arrangements frequently occur in practice; for example, a forest area may formally be under the State tenure, but in practice is considered to be under common tenure. This may result from a lack of attention to local traditions and the legitimate interests of different stakeholders. State enterprises, individual households, and People’s Committees are the three largest tenure holders (Figure 1.4). At the other extreme, the army, collectives, and joint ventures hold relatively tiny areas of forest.

Figure 1.4 Forest tenure holders in Viet Nam (from Nguyen, 2006)



1.4 Conclusion

The negotiations on a future UNFCCC framework have not been finalised. There are many aspects to be discussed and refined but it is clear that for REDD+ to play a role in altering the trend of greenhouse gas emissions that a start can be made on the components of readiness. A BDS is only one component of a complete REDD+ regime represents a critical aspect of REDD+ that has been initiated by the GoV but is a concern and consideration of governments and other actors worldwide. With its rich history of forest management and shared benefits from those forests Viet Nam is in a unique position to analyse experience to date and put that analysis forward for the information of others facing this global challenge.

2. Lessons and Experiences from Existing Initiatives in Viet Nam

For more than a decade Viet Nam has been implementing a number of initiatives designed to improve forest management, conservation, and forest governance, while generating benefits to local stakeholders. Collectively, these initiatives offer numerous lessons which are valuable in considering what may be feasible in Viet Nam for a REDD+ BDS. This chapter reviews all of the relevant current and past initiatives, focusing in particular on governance structures, the process of allocating benefits, payment structuring, and linkages between benefits and performance.

National programmes absorb a significant share of fiscal transfers from the central government to sub-national governments. They complement the regular transfers, also known as ‘administration fund’, from which sub-national government cover staff salaries and operating costs. The two most well-known and relevant projects are the 5MHRP in forestry, more often referred to as the “661 Programme” (Section 2.1), and the so-called Programme 135 (Section 2.2), which funds poverty alleviation measures in poor communes⁸.

The Forest Protection and Development Fund and pilot PFES (Decision 380) are discussed in Section 2.4. Donor-funded programmes, including those funded by the WB, Asian Development Bank (ADB), and KfW are discussed in Section 2.3, and GTZ-funded community forestry projects in Section 2.6. Donor coordination through the Trust Fund for Forests is described in Section 2.5, the government’s community forestry programme in Section 2.7, and Clean Development Mechanism) CDM and voluntary carbon projects in Section 2.8.

Box 2.1: Roles of sub-national agencies in the 661 Programme

Role of PPC:

- make decision on the investment norms for protected forest plantation projects, production forest plantation projects by non-state organizations and cooperatives
- allocate funds to local projects based on the structure and funds decided by higher levels
- take the responsibility for the program implementation within the province
- prepare annual report on fund use and settle payment for completed projects
- based on recommendations by DARD and DoF, decide on costs and technical requirements for seedlings to serve as the basis for settling the payment of plantation projects

Role of DARD:

- oversee implementation of the program within the province
- in collaboration with DoF and other actors, appraise the annual payment reports of completed projects
- in collaboration with DoF, guide the contract settlement for plantations
- provide technical guidance

Role of District People’s Committee:

- make decision on investment norms for production forest plantation projects by households and communities
- make decision on the establishment of project management board at district level

Source: (MARD 2008)

2.1: The 661 Programme

⁸ Decision 135/1998/QĐ-TTg of the Prime Minister dated 31 July 1998

The 5MHRP, or 661 Programme, was launched in 1998 following the Prime Minister's Decision 661/QD-TTg. The Programme was conceived to make a major contribution to the overarching goal of increasing Viet Nam's forest cover from around 9 million hectares (28% of the total land) to 14.3 million hectares (43%) by the year 2010. Of the five million hectares forest to be established, two million hectares were planned as protection forests and three million hectares as production forests. The Programme was considered an integral part of the strategy for rural development generally, and forest sector development more specifically (MARD 2001).

The overall programme implementation responsibility lies with MARD. The Ministry of Finance (MoF) and Ministry of Planning and Investment (MPI) play roles in the process of programme planning and implementation. Provincial level authorities, i.e. Provincial Peoples Committees (PPCs) are in charge of programme implementation within their provinces (see Box 2.1). On the basis of established cost norms, the central government calls upon sub-national entities, such as district FPU and Forestry Companies, to prepare proposals for 661 projects. The proposals are reviewed by provincial management units and forwarded to the national management board for approval. Provincial management units expend significant efforts in the process to lobby for the allocation of 661 Programme funds to projects within their jurisdiction. The ultimate allocation of 661 Programme funds thus reflects as much political factors as technical and economic considerations.

After eight years of implementation (1998-2005), the 661 Programme had achieved some important results (see Table 2.1). These efforts contributed to the increase of forest cover from 33.2% in 1998 to 37% in 2005 nationwide (Government of Viet Nam 2006). However, performance was uneven; for example, large areas of bare land remained in the Northeast region. Most targets were not achieved except for forest protection and plantation of protection forest, (Standing Committee of National Assembly 2006).

Table 2.1: Plan and achievements of the 661 Programme between 1998 and 2005

Items	Unit	Targets till 2010	Planned for 1998-2005	Actual 1998-2005
<i>Forest protection through contract</i>	ha	2,000,000	2,000,000	2,416,412
<i>Regeneration through restoration</i>	ha	1,000,000	1,000,000	763,582
<i>Forest plantation:</i>	ha	3,000,000	2,000,000	1,424,135
- <i>Protection & special use forest</i>	ha	1,000,000	610,000	644,812
- <i>Production forest</i>	ha	2,000,000	1,390,000	664,556
<i>Cash crops and fruit trees</i>	ha	1,000,000		114,767
<i>Investment fund</i>	Bill. VND	33,000		7,935

Source: Standing Committee of National Assembly (2006).

In 2006, programme objectives were revised.⁹ For the period of 2006-2010, the programme aims to:

- Protect the existing forest areas, particularly the natural forest. The area of protection and special use forest to be contracted for protection per year is 1.5 million ha.
- Plant 1,000,000 ha of forest, of which 250,000 ha are protection and special use forest and 750,000 ha are production forest.
- Restore 803,000ha of protection and special use forest through regeneration, of which 403,000 ha are existing regenerated forest and 400,000 ha are to be restored.

Preparation of budget proposals and distribution of funds to sub-national entities under the 661 Programme proceeds as follows (see also Box 2.):

- *Planning:* The district level programme management board works with stakeholders (e.g. project developers¹⁰, forest owners, local authorities) to develop a workplan and budget proposal, which is a part of the overall socio-economic plan of the district. District workplans and budget proposals are submitted to the province. Large project developers, usually Protected Area Management Boards (PAMBs) work directly with

Box 2.2: Norms in the use of state budget under the 661 Programme

The estimated budget requirements for this period (2006-2010) total around VND 15 trillion (around US\$ 940 million); of which VND 5 trillion are from state budget and VND 10 trillion are non-state budget.

The following norms apply in the use of state budget under 5MHRP:

- Protection of forest through contract: 100,000 VND per ha per year.
- Support to plantation of (protected) forest: 6 million VND per ha.
- Infrastructure construction: 10% of the total state budget per year.
- Transfer of technology and forestry extension work: 2% of the total state budget per year.
- Management costs: 10% of the total state budget per year, of which 0.7% for national level, 1.3% for provincial level and 8% for the project developers.
- Forest management (training and allowances for commune forest officials, organization of forest fire prevention and control, propaganda, etc.): 5% of the total state budget per year.

Source: Decision 100/2007/QĐ-TTg of the Prime Minister, dated 6 July 2007

the provincial programme management board. Provincial workplans and budget proposals are submitted to the national level.

- *Budget distribution:* Once the national workplan and budget are approved by the NA, the Government Programme Steering Committee will inform MoF and MPI. MPI will inform MARD and related programme bodies at the national level, and its line agency at the provincial level of the approved plan and budget. At the provincial level, Department of Planning and Investment (DPI) will inform related bodies of the programme within the province about the approved plan and budget.

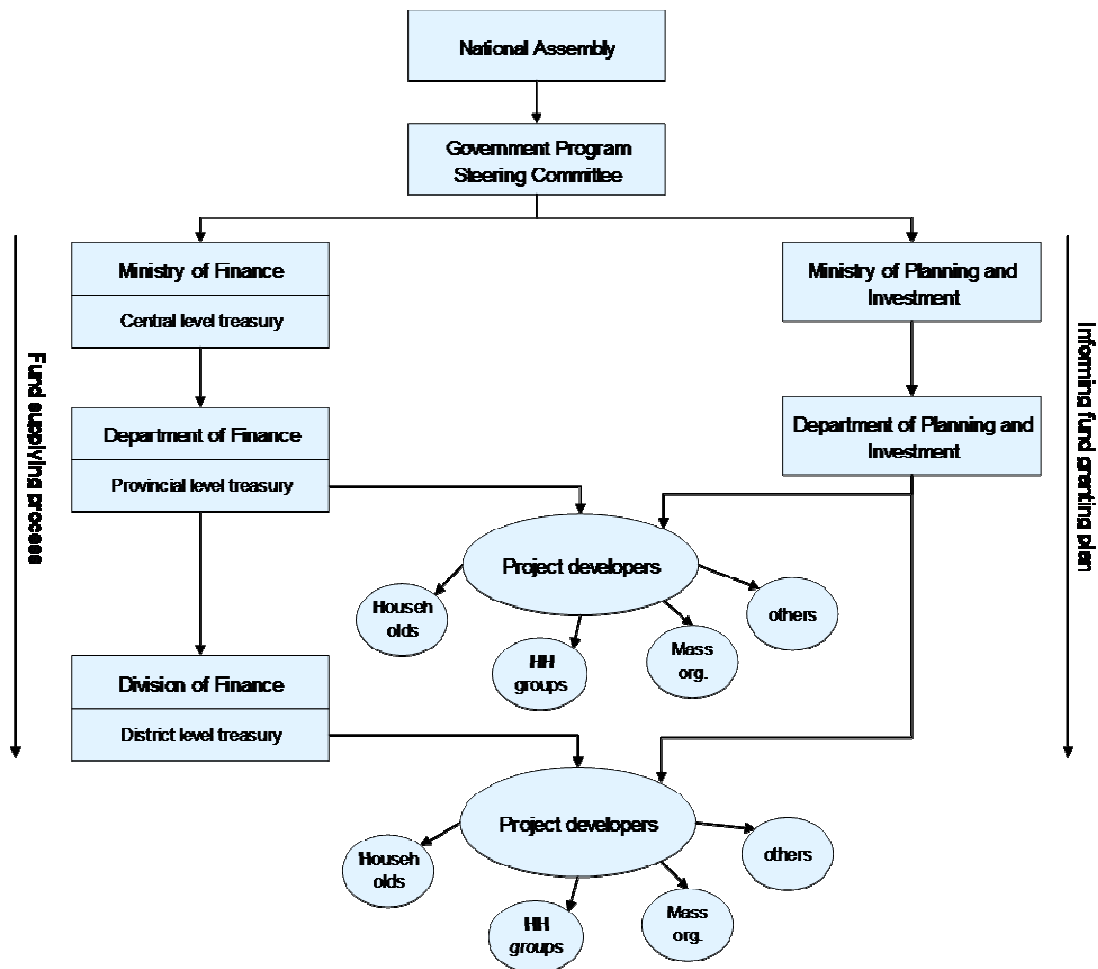
In terms of actual budget flows, funds are transferred from central state treasury to its equivalent body at provincial level (Figure 2.1). Project

⁹ Determination No 73/2006/QH11 of the National Assembly dated 29 November 2006.

¹⁰ Project developers are various, including forest companies, district FPU, PAMB and district Economic/ Agriculture Divisions

developers can request an advance from the state treasury to implement activities under their approved workplan and settle the payment by the end of the year. The budget may be disbursed directly from the provincial level treasury to project developers, or funds may be transferred via the district level treasury. Project developers at both provincial and district level will then pay the money to different stakeholders who protect or plant forest under contractual arrangements with them.

Figure 2.1: Budget flows under the 661 Programme



Source: adapted from Salmi, Nguyen, and Le (1999, Figure 3.1)

In general, budget planning and disbursement within the 661 Programme remains rather top-down. Targets, cost norms and budgets per component are decided at the national level. Funds are available only for those activities defined by the central government and cannot be used to support agricultural intensification in a village to alleviate agricultural pressure on forest. Ultimate beneficiaries of the programme (i.e. the rural communities) do not have any say in this process (see also Salmi, Nguyen, and Le 1999).

Provincial authorities (i.e. PPCs) have the power to decide on specific projects within cost norms set by the national policy. In some cases, PPCs lower the cost norms for forest

protection in contracts with local households in order to cover a larger of forest area with the allocated budget. Nevertheless, PPCs do not have the flexibility to shift the budget from one category to another or to exceed the norms set by the national policy.

An evaluation of the programme indicated that there are several bottlenecks in the current budget planning and allocation (MARD 2001):

- Government agencies including SOCs continue to control the majority of planning and implementation processes.
- The process is overwhelmed by the command and control-oriented procedures.
- Provinces must resort to political processes (and political patronage) to ensure access to programme funding.
- Monitoring and evaluation of programme implementation and budget is weak. Clear objectives, criteria and indicators are lacking, which prevents transparent monitoring and evaluation. In addition, once approved, there are few, if any checks to prevent funds being used for projects other than those foreseen in annual workplans.

Payment structuring

Individual households benefit through projects that are typically executed by district-level Forest Protection Units, the Economic or Agricultural Division of a district PC, a Forest Company or a PAMB. For plantation establishment on production forest land, project executing agencies provide individual households with free seedlings and, in some cases, fertilizer equivalent to up to VND 2 million per ha (around US\$110). They provide inputs and cash payments equivalent to a total of up to VND 6 million per ha (US\$330) for new plantations on protection forest land. They also pay households up to VND 100,000 (US\$5) per ha a year for the protection of natural forests.¹¹

Forestry State-Owned Companies (SOCs) and PAMBs receive a large share of 661 Programme funds in the form of grants for the above-mentioned payments to households as well as loans. Loans account for a greater proportion of 661 finances than projects providing payments to households. Little is known about the use of loans by Forestry Companies and PAMBs as well as their performance. There is only circumstantial evidence that 661 funds remain critical for the operation of PAMBs.¹²

Over the past two decades there have been efforts to reform SOCs, reflected in a recent change in name from State Forest Enterprises to SOCs. Yet not all have shown commitment to implement national reform legislation. As a result, many SOCs continue to survive on 661 Programme funds, taking advantage of the national policy decision to allow them to retain up to 5,000 ha of protection forest and receive 661 funds for their protection (Ogle and Nguyen 2005).

¹¹ These are the centrally defined cost norms. In practice, households receive less, as project executing agencies use some of the funds for training courses and other extension activities. In a district of Phu Tho province, the latter absorbed 25-30% of the allocated funds for production-oriented plantations (Sikor 2009; To 2007).

¹² A 2002 IUCN report mentions that Yok Don National Park received VND 1.5 billion (US \$93,000) from the 661 Program in 2000 and 2001 each. They used 75% of that for protection payments to households in 2001.

Linking benefits to performance

The 661 Programme fails to create a solid linkage between payments for reforestation and actual performance. The problems are three-fold. First, performance measurement focuses on the establishment of plantations, that is, the number of seedlings planted and their survival rates in the first year of planting. There is no attempt to measure the success of programme in the medium or long term. Second, project officials would have a hard time to levy fines on households, as fines are notoriously hard to collect from villagers in Viet Nam. Officials could also not request the return of project support, as that was delivered in kind and had no further value after planting. Third, project executing agencies have no incentive to report project failures, as that would lead to a reduction in the funds allocated to them. An official from Ba Vi National Park told the consultants “If all the trees planted on the land [inside the park] survive, there would be 10 layers of trees on the land already... if this is the case, there is no funding for the Park anymore” (To 2007). Project officers typically report sufficiently high survival rates (the required 90%) when they inspect plantations. As a result, a significant number of plantations established with support by the 661 Programme have failed (e.g., Sikor 2001; To 2007).

The last problem also applies to the forest protection payments made in 661 projects. The projects usually contract individual households or household groups to protect specific forest parcels from encroachment. Households receive cash payments of VND 100,000 (US\$5) per hectare in the case of successful protection. Project officials inspect the contract areas annually before payments are made and report their findings in writing. Yet once again, officials have no incentive to report violations of the contracts, as those would bring about a cut in budget allocation. In addition, some households collude with the officials to receive payments from the project despite low performance so that payments could be shared between the two. As a result, the project officials certify households’ compliance with their contractual obligations – unless encroachments on contracted forests are easily detectible by higher-level officials (e.g., if they are next to a road) (Sikor 2001; Wunder et al. 2005; To 2007).

Analysis

The 661 programme demonstrates the impressive capacity of Viet Nam’s government to implement central programmes. Yet experience with its implementation also reveals significant problems associated with such centralized programmes.

A key problem is that project resources are spread too thin. The Programme provides limited support to forest protection and tree plantations due to high targets in terms of area covered and households supported, even after MARD increased some of the national cost norms in late 2007.¹³ The free inputs supplied are unlikely to provide sufficient incentives for households to plant new trees unless they have decided to do so anyway (Sikor 2009). Also, many 661 projects could benefit from better planning, capacity building, monitoring and checking, and the purchase of additional equipment and

¹³ For example, the annual payments for the protection of natural forest increased from VND 50,000 (US\$3) to VND 100,000 per ha (US\$5).

vehicles (van der Poel 2007). Similarly, it is highly doubtful that the protection payments cause any changes in local forest management practices that go beyond those due to the enforcement of forest protection regulations (Wunder et al. 2005).

Another key problem constraining the effectiveness of the 661 Programme is its centralized structure. The allowable activities, implementation procedures, cost norms, etc. are all decided at the central level. Local people have no influence on project design and planning (van der Poel 2007). They become mere hired labor in the case of the protection of natural forest, contracted on an annual basis to PAMBs and other state units which hold legal title to the land. Moreover, payments to individual households does not match communal forms of forest management that are found in many upland communities. As a result, significant discrepancies arise between the contracts awarded by project executing agencies, on the one hand, and forest management activities and the actual distribution of protection payments, on the other (Sikor 2001; To 2007).

661 projects have also been found to be subject to elite capture. For example, the administration of Ba Vi National Park contracted a few influential people for the establishment of tree plantations on park land located next to a village. Not a single villager received a reforestation contract for land that villagers had used customarily for the cultivation of food crops and livestock husbandry until the expansion of Ba Vi National Park. Villagers instead were forced to team up with the contract holders under very unfavorable contractual conditions (To, 2009). In another case in Phu Tho province, a village head was able to capture all payments made from the 661 budget for the protection of a natural forest located on the village territory. Over time, he included relatives and close friends in forest protection, but other villagers did not participate and consequently continued to extract trees from the forest (To, 2007).

The problems hampering the 661 Programme generate two important lessons for Viet Nam's future REDD+ Programme. First, the Programme needs to distinguish clearly between the entities implementing actions and those monitoring their performance. The lack of such separation leads to conflicts of interest within the agency in charge of implementation and monitoring. Second, payments delivered by state agencies are impossible to recover once they have been disbursed originally. Viet Nam's future REDD+ programme either needs to make payments *ex post* or find a new way of making them conditional upon performance.

Centralized bureaucratic allocation may not meet the requirements of a REDD-compliant BDS. Centralized bureaucratic allocation is likely to lead to significant inefficiencies in the allocation of REDD+ funds. Uniform payments would lead to a situation where payments are too high in some areas, as they exceed forest managers' opportunity costs, and too low in other areas in order to cause a change in forest management (see Section 5.4). For similar reasons, centralized decision-making are unlikely to facilitate the allocation of REDD+ funds to the areas with the highest potential for increases in carbon stocks. However, such an approach may be considered the politically most convenient mechanism, as the principle of uniform cost norms is well established.

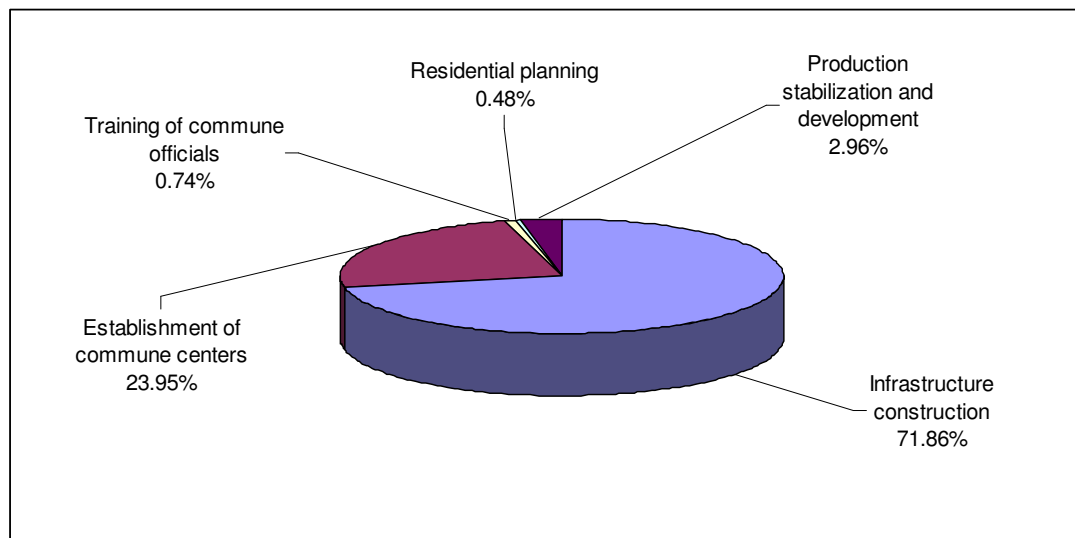
2.2: The 135 Programme

The socio-economic development programme for special difficult, mountainous and remote communes, known as Programme 135 for short was launched after Decision 135/1998/QĐ-TTg of the Prime Minister dated 31 July 1998. For the period of 1998-2005, the Programme had the following objectives:

- To eradicate the number of chronic hungry households by the year 2000; to reduce poor and hungry households by 4-5% annually, to provide clean fresh water to people, control dangerous epidemics and diseases, and to build roads to residential centers
- By the year 2005, to reduce poverty and hunger in special difficult, mountainous and remote communes to 25%, secure over 70% child enrolment in schools, and provide training in production.

By the end of 2004, the Programme covered 2,374 communes in 52 provinces; of which 2,240 communes were funded through the national budget and 134 communes from local budgets. A total amount of around 7,228 billion VND were spent on the programme during this period, most of which were for infrastructure construction (see Figure 2.2). In general, the Programme contributed to the reduction of poverty rate in Viet Nam from 37.4% in 1998 to 19.5% in 2004 and of the food poverty rate from 15% to 6.9% in the same period.

Figure 2.2: Use of funds from Programme 135 for the period 1998-2004



Source: Anonymous (2005)

Analysis

An assessment of the Programme 135 conducted by The UK Department for International Development (DfID) in 2006 for the period of 1999-2005 indicates that (cited in Van de Poel (2007, p. 24):

- Leakages occur in resource use which we have estimated to be about 20-25 % based on our assessment of procurement and administrative practices.
- Several sources of leakage of funds were identified at the provincial level including the possibility of overlap in allocation of resources for managing the programme.
- The district level is another source of potential leakage of resources. District officials award contracts on behalf of the communes who have very little knowledge of the amount of resources and what they are entitled to have. Most of the problems at the national and provincial levels cascade to the district level in the sense of opacity of financial reporting, accountability, weak procurement, and the lack of monitoring and evaluation capacity.

The study also reveals confusion and variation in the management of the funds at the provincial level and below:

- At the Provincial level there is opacity in how the programme is managed. The province might retain P135 funds and manage communal projects at that level. In the sample we examined, it was not transparent whether those funds were maintained separately from the mainstream recurrent and capital expenditures of the province or they were merged with the rest of provincial funds.
- Most funds are still controlled at the province level or district levels despite the intention to decentralize the programme to lower levels of government. The degree of decentralization of the programme implementation differs from one province to another. In some cases provinces and districts undertake the project planning, implementation and monitoring with little role delegated to the commune level.
- At the commune level there is very little knowledge of public financial management issues. Asymmetry of information between the province/district level and the communes results in a situation where commune leaders hardly know in advance what public resources should be due to them. Record keeping at the commune level is very basic or very limited. The Central Treasury system does not extend to this level. There was no identified system of formal record keeping at the communes the consultants visited. There was also no formal reports produced for onwards transmission even though there seem to be an extended administrative connection with the district on weekly basis on all kinds of ad hoc issues.

In addition, there was weak financial reporting and analysis within the Programme.

“There was no evidence that financial management reports were produced at the provincial level ... Provincial steering committees are required to combine both the implementation progress and the disbursement figures of the treasury and to report to CEMMA¹⁴ on quarterly, semi-annually and annually. This, however, was witnessed by CEMMA as a difficult task for steering committees as reports are usually not on time, do not contain the full required indicators, and are not accurate.”

¹⁴ Committee for Ethnic Minorities and Mountainous Areas (CEMMA) was appointed by the Government to take the overall implementation responsibility of Program 135

2.3. World Bank, Asian Development Bank and KfW-funded reforestation projects

Reforestation projects supported by the WB, ADB and KfW provide alternative experiences on how government can provide direct support to individual households. The Forest Sector Development Project (FSDP) funded by the WB has the objective to establish plantations on 66,000 ha in four provinces located along Viet Nam's Central Coast by 2010. Total investment is US\$59 million, including US\$33 million allocated to the Bank for Social Policies for loans to be disbursed to individual households. Currently, households can get loans for up to VND 15 million per ha (US\$830) for duration up to 15 years if they commit to establish tree plantations for a minimum rotation period. The maximum area for which a household can take out a loan is 10 ha, and the minimum area eligible for a loan is 0.5 ha. Participating households also receive extension support in the form of training courses and information materials.

The ADB-funded Forest and Livelihoods Improvements in the Central Highlands project (FLITCH) is investing a total of US\$91 million in the five provinces making up the Central Highlands and three districts of Phu Yen province between 2007 and 2014. It aims to help establish new plantations on 30,000 ha and protect 98,000 ha of natural forest, among other activities. The project supports individual households to plant trees by providing free seedlings and fertilizer equivalent to US\$500 per ha. Upon harvest, recipient households are required to contribute US\$150 per ha to a commune investment fund.

KfW has supported seven mid-sized reforestation projects in Viet Nam since the mid-1990s. The sixth KfW-funded project (hereafter referred to as KfW-6) currently operates in 4 provinces of central Viet Nam with total funding of US\$18 million.¹⁵ Like the previous KfW-funded projects, KfW-6 assists individual households in the establishment of "production forest with protective functions". It provides free tree seedlings and fertilizer to households and deposits financial payments on savings books at the Bank for Social Policies. The savings books amount to VND2.0-3.4 (US\$110-190) million per ha depending on the planted species. The maximum area eligible for funding is 2 ha per household, the minimum being 0.5 ha.

Linkage to performance:

The various reforestation projects funded by KfW have developed a novel mechanism to finance household plantations on a conditional basis. They initially provide free tree seedlings and fertilizer to households. They also establish savings books for the participating households at the Bank for Social Policies to compensate for their labor inputs¹⁶. Households receive the savings books 3 months after planting if the survival rate is at least 80%. They can withdraw up to 20% of the deposited funds right away, and then an additional 15% every year up to year 6. The projects reserve the rights to freeze or terminate savings books in case of household non-compliance with the required management practices. It has direct leverage on the funds remaining in the savings books, as those are released gradually to households. Yet it is likely to face difficulties

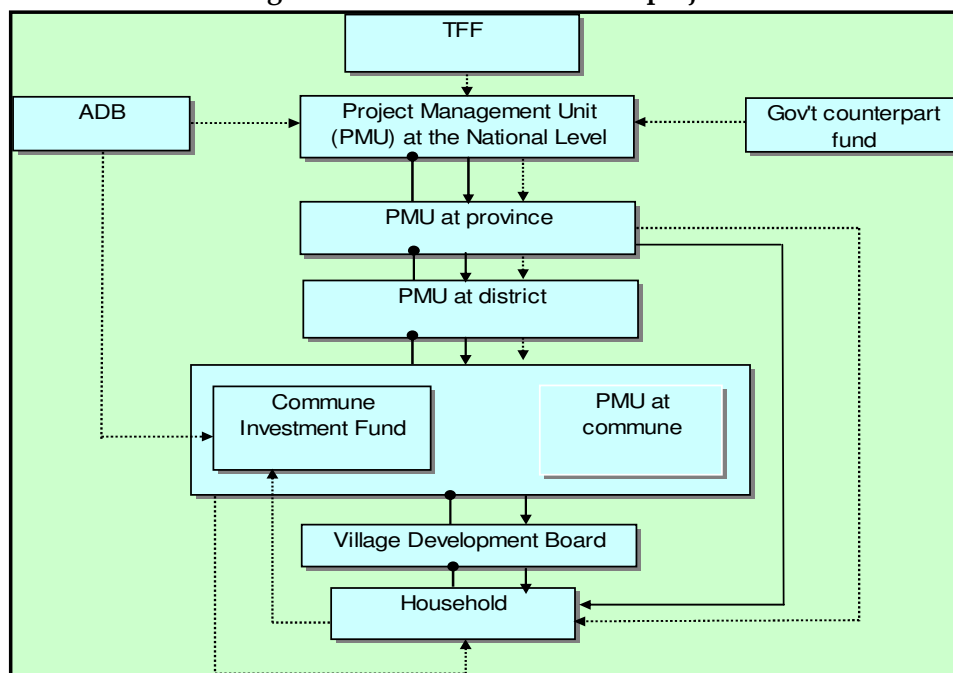
¹⁵ A seventh project is currently being initiated for Hoa Binh and Son La provinces.

¹⁶ The authors have unfortunately been unable to receive any documentation on the community component of KfW-6, although that exists. Assessment of the gained experience should be one of the priority tasks in the follow-up to this study.

demanding the repayment of withdrawn funds. The KfW projects thus achieve a limited conditionality of the provided support by staggering the grant in multiple installments.

The FLITCH project (Figure 2.3) is currently in the process of assisting the establishment of investment funds managed by commune-level Project Management Units.¹⁷ According to the guidelines issued by MARD in September 2009, the commune investment funds will receive funding from various sides and disburse the available finance locally. ADB will disburse seed grants of US\$20,000 per commune. Once households begin to harvest plantations established with financial support from the project, they will have to contribute US\$150 per hectare (equivalent to 20% of the support received from the project) to the investment fund. As for the disbursement of funds, villages will be able to apply for support to investment that falls within certain predefined categories. Their eligibility will depend on their poverty status, the size of the village population, and distance from the commune center. The more disadvantaged a village is the higher will be the priority given to that village.

Figure 2.3: Structure of FLITCH project



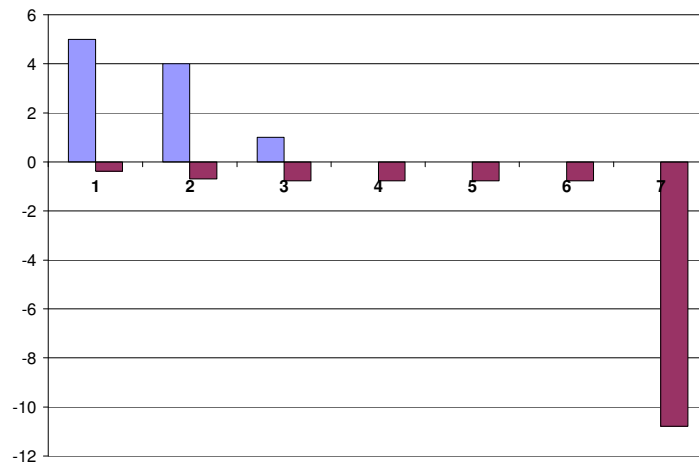
- Legend
- ▶ Technical support/supervision
 -▶ Flow of money
 - Reporting/annual action plan

Under the WB-funded reforestation project on the Central Coast, households can request loans from the Bank for Social Policies for up to 75% of total investment costs for duration of up to 15 years. They receive the loan in three instalments: 50% at the point of planting,

¹⁷ The FLITCH project is not the first donor-funded project to use commune investment funds. It would be very useful to review the experience gained with such funds under the World Bank-funded Northern Mountains Development Project, for example.

40% in the second year, and the remaining 10% in the third year. Project staff inspect the tree plantations each time before instalments are disbursed. Households make annual payments on the due interest, but are not required to repay the principal before the end of the loan period. The underlying assumption is that the eventual sale of timber generates the required revenues for households to repay the loan (see Figure 2.4).

Figure 2.4: Loan model with a single repayment



Analysis

These donor-funded reforestation programmes have tackled the problems hampering the 661 Programme with some success. They allocate funds to project activities that could not be funded under the 661 Programme.¹⁸ They undertake additional steps to prepare plantation investments, such as land allocation, participatory land use planning, site mapping, area measurement and rechecking. They improve the capacity of local extension staff, train households, monitor project progress, and practice quality control. These additional activities tend to raise the effectiveness of external support, as indicated by a comparative evaluation of 661 and KfW-supported plantations in 2005.¹⁹ Moreover, some activities, such as area measurement and rechecking, reduce the possibilities of elite capture.

At the same time, the additional activities raise the transaction costs incurred in the direct provision of support to individual households. Some of these costs, such as those associated with land use planning and site mapping, occur regardless of whether the external support is given to individual households, groups or entire village communities. Yet other costs increase significantly when external support is targeted to individual households. For example, the costs of land allocation, area measurement, rechecking and training are significantly higher for a project dealing with 200 individual households than one working with 4 groups of 50 households each or another one targeting the entire

¹⁸ See van der Poel (2007) for an insightful comparison of the 661 and KfW project approaches.

¹⁹ Hans Mühle, December 2005. Report on the evaluation focusing on a comparison between 661 Programme and KfW project approaches. Second draft. Cited in van der Poel 2007.

village community. This is particularly true in areas with household forest holdings as small as 0.5 ha (the minimum size in the FSDP and KfW-6).

In addition, the effectiveness of the large reforestation projects is restricted by similarly centralized project structures as the one found in the 661 Programme. For example, local government officials in Dak Lak openly voiced their frustrations with the centralized planning and budget allocation procedures under the FLITCH project to the authors (see Figure 5.2).²⁰ Commune officials and village leaders are requested to prepare village plans every year in August or September but see their plans revised if they do not meet the approval of PMUs at the commune, district or provincial level, or if they do not comply with the requirements imposed by the government and ADB. Once they have prepared the required plan, villagers have no further influence on the project but are relegated to the role of a passive recipient of free inputs. Due to the cumbersome and time-consuming nature of the planning process, inputs are sometimes delivered at the wrong time (e.g., tree seedlings outside the planting season). Moreover, villagers and local government officials at the commune and district levels do not perceive any ownership in the project and provide minimal support. The projects retain the principle of centralized administrative allocation.

The WB loan model is also possible for REDD+ payments, i.e., that households take up a loan and, if successful, eventually repay the loan from any carbon credits earned. The obvious disadvantage of the model is that it makes households bear all the incurred risks. Households are liable to loan repayment regardless of any unforeseen biophysical or socio-economic events. If they cannot repay the loan at the end of its duration, the applicable interest rate increases by one half. More importantly, households face the risk of losing their Land Use Right Certificate deposited with the Bank as collateral.

It remains unclear at this point how the commune investment funds will function in practice due to their novelty. While ADB is about to disburse seed money to funds, there are no viable procedures in place for fund management at the commune level. Similarly, there are no guidelines on how villages develop project proposals and eventually distribute available funds among member households. More importantly, commune officials and village leaders voice concerns that the highly centralized project structure will severely constrain the space for local decision-making and make the disbursement of investment funds unpredictable. Thus, the commune investment funds are very different from the community forest funds established by the KfW-6 project and other community-based forest management initiatives piloted across the country. Moreover, there are good reasons for skepticism about the future performance of commune-level investment funds. Their ability to support community-based forest management requires thorough evaluation before they can be considered a suitable model for the disbursement of REDD+ finance to local communities.

In sum, the KfW-funded projects and WB-funded reforestation programme reveal possibilities of how *ex post* payments based in performance can be combined with the *ex*

²⁰ Interviews with staff from Dak Lak provincial Department of Agriculture and Rural Development on September 27, 2009.

ante provision of financial means to make the necessary investments. Neither initiative solely relies exclusively on *ex post* disbursements to link payments to performance. Neither disburses payments *ex ante* as simple transfers. They share the same underlying idea, even though they chose different mechanisms to implement it in practice. The different mechanisms imply significant differences in the distribution of risk. The loan model puts all risks on forest users in principle, as those are obliged to repay the loans even if plantations fail. It may be difficult in practice, however, to recover loans in case of non performance, as it is politically unfeasible for the Bank to collect land use rights certificates. The conditional savings books distribute the involved risks more evenly between the bank, the state and the forest user. Moreover, the threat to stop further payments in the case of non-compliance is more credible than the threat to seize land use right certificates.

2.4 The Forest Protection and Development Fund and Pilot PFES

On 14 January 2008, the Prime Minister issued Decree 05/2008/ND-CP on the Forest Protection and Development Fund (FPDF), creating the legal conditions for the establishment of FPDFs at national and sub-national levels. The FPDFs fall outside the regular socio-economic development planning and budgeting process, as they are conceived as a novel public-private partnership. The fund aims:

- To mobilize available resources in the society for the protection and development of forest resources and to contribute to the socialization of forestry
- To improve the sense of responsibility with regard to forest protection and development of people who benefit directly from the forest and those whose actions may have direct impacts on forest resources
- To enhance the efficiency in forest management, utilization and protection

At the national level, the FPDF was established in November 2008 through Decision 114/2008/QD-BNN. The FPDF is a state owned financial institution based at MARD and directly responsible to the Minister of MARD. The Fund is chaired by a council consisting of members from MARD and representative from MPI and MoF. Under the council are the Fund Administration Board, based at DoF, and Fund Inspection Board (Figure 2.5). Sources of funding for national level FPDF include:

- Seed money from the budget state of 100 billion VND to kick start the fund
- Voluntary contribution from domestic and international organizations and individuals
- Trust funds from domestic and international organizations and individuals

To date, provincial FPDFs have been established in only two provinces, namely Son La²¹ and Lam Dong²². Fund governance at the provincial level mirrors that at national level: the Fund is chaired by a management council, under which are Fund Administration Board and Fund Inspection Board (Figure 2.5). Provincial FPDF is a state own financial

²¹ Following Decision 1535/QD-UBND of the Chairman of Son La PPC dated 08 June 2009.

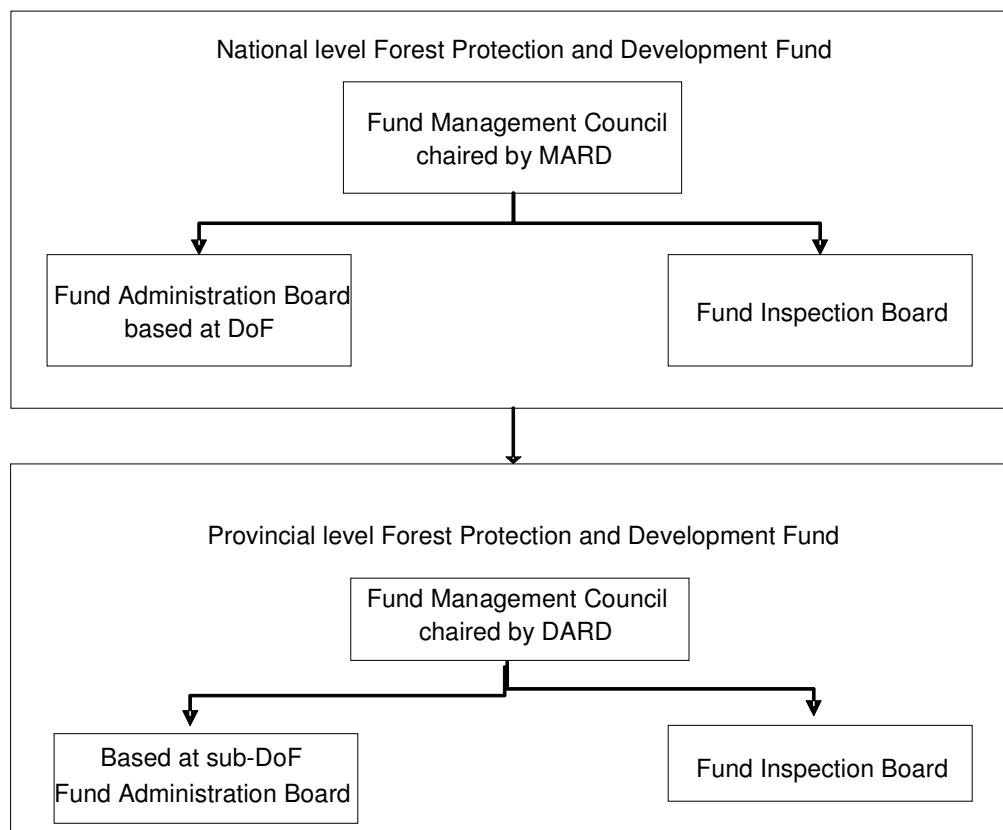
²² Following Decision 333/QD-UBND of the Chairman of Lam Dong PPC dated 17 February 2009.

institution directly reporting DARD. PFES revenues accruing from within the province are paid directly into the provincial FPDF; whilst revenues accruing from land and resources that cross provincial borders (e.g. a multi-province watershed) are paid initially into the national FPDF, then re-allocated to provincial FPDFs.

Therefore, provincial FPDFs are financed from:

- Seed money from provincial state budget to kick start the fund
- Compulsory contribution from different stakeholders
- Voluntary contribution from domestic and international organizations and individuals
- Trust funds from domestic and international organizations and individuals
- Support from the national FPDF

Figure 2.5: Organizational structure of Forest Protection and Development Fund



Source: based on Decree 05/2008/ND-CP dated 14 January 2008

The Lam Dong People's Committee set up the provincial FPDF in February 2009, after Decision 333/QD-UBND dated 17 February 2009. The fund has a kick-start amount of 10 billion VND contributed from state budget. Estimated inputs for the Fund are coming from two hydro power plants, two water supplies companies and nine tourism companies (see below). By September 2009, the Fund had received financial of around VND 24.5 billion. This was just a little more than half of the total payments of VND 47.3 billion

collected every year from the service buyers, which was calculated based on the production capacity of the power plants and estimated contribution from the tourism company. Part of the money will come from two water supply companies located in Dong Nai province and Ho Chi Minh City, from which fees are to be collected by national FPDF and re-distributed to Lam Dong.

Son La was the second province to set up FPDF. The plan for FPDF was approved in April 2009 and the Fund was officially set up on 8 June 2009 following Decision 1535/QD-UBND of the Chairman of Son La PPC. Fund's operations regulation approved in July 2009 and Fund Management Council set up in August 2009. Inputs for Son La FPDF are expected to come from three buyers who are benefiting from environmental services provided by Song Da (Black River) Watershed. One of these, the Hoa Binh Hydro-Power Plant derives benefits from outside Son La province, the PFES fee will be collected by national FPDF and reallocated to Son La FPDF based on its area of forest. Ten percent of the fee collected will be retained at the national level to cover overhead costs.

The two remaining buyers pay their fees directly to Son La FPDF. The total estimated fee to be collected from in Son La province is about 39.9 billion VND (from 397,292 ha of forest). Currently, no money has been channeled to the Fund. The reason for the delay is Suoi Sap Hydro-Power Plant has requested Son La PPC and MARD for exemption from the payment as 1) until now electricity has not been generated, and 2) the company already signed a contract with Viet Nam Energy Group with a fixed selling price for electricity, which does not include the PFES fee. Suoi Sap Hydro-Power Plant has asked Son La PPC and MARD to help negotiate with Viet Nam Energy Group to readjust the selling price. No success has been gained so far though.

There are also funds known as FPDF set up at the local (mostly commune level). For example, 38 communes under the Community Forest Management Pilot Project (see below) have set up the communal FPDF with 4,000 EUR provided by the Project as seed money (Enters and Nguyen 2009). However, such funds are only meant to cover the activities that the Project has planned. It is not clear what the future of such funds would be when the seed money is used up as there is no plan on how it is maintained after the end of the Project.

In April 2008, GoV issued Decision No 380/QD-TTg on piloting PFES in Lam Dong and Son La provinces. Both PFES schemes have begun operations over the past year with external technical assistance. GTZ assisted the Son La scheme through its national forestry programme. The Lam Dong scheme received technical assistance from Winrock International under the Asia Regional Biodiversity Conservation Programme. Fees collected from payments for PFES are put into a separate bank account at Viet Nam Bank for Agriculture and Rural Development (VBARD). The money does not go into the state treasury as it is not part of the state budget.

The Son La pilot PFES scheme covers a total of 105,000 ha of forestland in two districts. Using funds collected from two water supply companies and two hydro-power plants,

the scheme intends²³ to pay a total of 7,585 forest owners for the protection of forest on a total of 12,227 plots at an average rate of VND 100,000 (US\$5) per ha (Pancel and Huong 2009).²⁴ This corresponds with an average payment of VND 1.4 million (US\$78) per forest owner. This average number is highly misleading, though, as there is a high variation in the size of forest holdings in the two districts. A little more than 6,000 forest owners are individual households with small forest parcels. Very few of them receive more than VND 500,000 (US\$28) a year from the PFES scheme. At the other end of the spectrum are PAMBs and SOCs, which may not account for a large number of payment recipients but own a large share of the forestland in the two districts.²⁵ Moreover, the payments are adjusted in reflection of variation in the provision of ecosystem services.

The scheme operates through a nested structure of management boards at commune, district and provincial levels (see Figure 2.6). The boards include members from the government, social organizations and local people. Commune-level management boards establish inventories of individual households and household groups owning forest on their territory, make contracts with them and authorize the disbursement of payments via the Bank for Social Policies. The two district-level management boards handle contracts with village communities. The provincial board takes care of all transactions with social organizations. This project management structure and associated regulations originate from decisions made by the province. Son La PC also set up a PFES steering committee

Box 2.3: Distribution of PFES funds under Lam Dong FPDF in 2009

The total 47.3 billion VND (to be) collected as PFES fees will be distributed as follows:

- 10% of the total or 4.731 billion VND is retained by (provincial) FPDF to cover its expenses
- 10% of the remaining fund (9% of the total) or 4.258 billion VND goes to 13 forest owners to cover their management costs
- the remaining 90% (81% of the total) or 38.326 billion VND is used to pay for the costs of forest protection; of which
 - 20.8 billion VND is to pay local households for protecting 114,866.3 ha of forest in the pilot sites (four districts of Lac Duong, Don Duong, Duc Trong, Da Teh and Da Lat city)
 - 17.526 billion VND is kept as reserve fund

Source: Decision 2091/QD-UBND of Lam Dong PPC, dated 19 August 2009

led by a Vice Chairman and including representatives from relevant provincial departments, the PCs of the two pilot districts, and selected communal PCs (Pancel and To 2009).

The Lam Dong PFES scheme pays groups of households to protect forests. They receive the payments on the basis of contracts signed with PAMBs, which hold legal titles to a large share of protection forestland in the province. The contracts require the groups to patrol the contracted forest on a regular basis. They receive 90% of the total revenue collected for the provision of environmental services in return. This amounts to an average of VND 270,000 (US\$15) per year in the Da Nhim watershed, which is significantly more than the VND 100,000 (US\$5) paid annually under the 661 Programme.²⁶ As in the Son La scheme,

²³ At the time of writing of this report, no actual payment has been made in Son La. This is confirmed by the staff from provincial Department of Forestry.

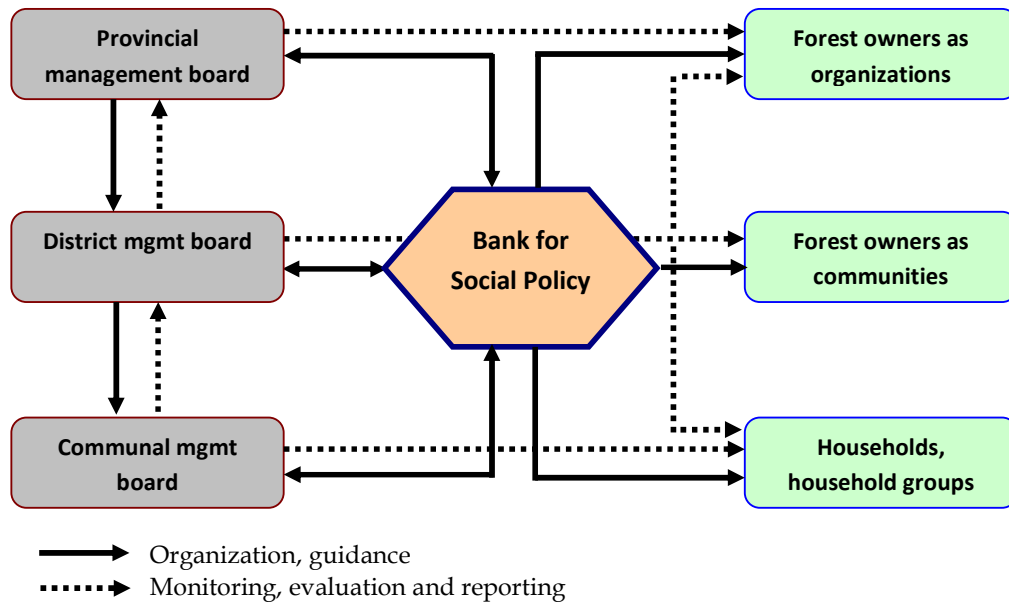
²⁴ The payments amount to 90% of the collected fund, leaving 10% for the operation of the scheme (Pancel and Huong 2009).

²⁵ Statistics on the distribution of forestland by the kind of forest owner are unfortunately not available.

²⁶ The authors do not know that the average payment is per household for the lack of data. Observations during a visit to Da Nhim suggest that households receive contracts for 10-30 ha each. This would amount to annual payments in the range of VND 2.7-8.1 million (US\$150-450), which would be much above the average payment received by households in the Son La scheme and make a significant contribution to local livelihoods.

actual payments vary in reflection of differences in the provision of ecosystem services.

Figure 2.6: Nested governance in the Son La PFES scheme



Source: Pancel and To, 2009

The disbursement of payments to household groups takes the following steps (see also Box 2.3):

- A PAMB signs a contract with the FPDF for the protection of a specified area.
- The PAMB develops a list of households living in the respective watershed area on the basis of past and existing forest protection activities. Its staff compiles brief inventories of the forestland protected by households on the basis of data collected in 2004-05.
- The PAMB crosschecks the household lists and forestland inventories with village leaders and the commune People’s Committee. Together they compile inventories for new households and divide the households into different groups.
- The district-level Forest Protection Unit certifies the accuracy of the updated forestland inventories. The district People’s Committee approves the inventories and forwards them to the FPDF for use in the contracts signed with the PAMB.
- The PAMB signs forest protection contracts with the heads of household groups for duration of one year.
- The PAMB disburses the applicable payments to the household groups through its commune-level units under supervision of village leaders and commune People’s Committee. All member households countersign the disbursement of funds.
- The PAMB and groups inspect the contracted forest once a quarter.

Payment structuring

Based on the recommendation of Lam Dong DARD, the PPC issues Decision 2091/QD-UBND dated 19 August 2009 on the distribution of the PFES money. Accordingly,

payment will be made to local households protecting forests in the pilot areas as followed (see more details on the use of this fund in Box 2.3):

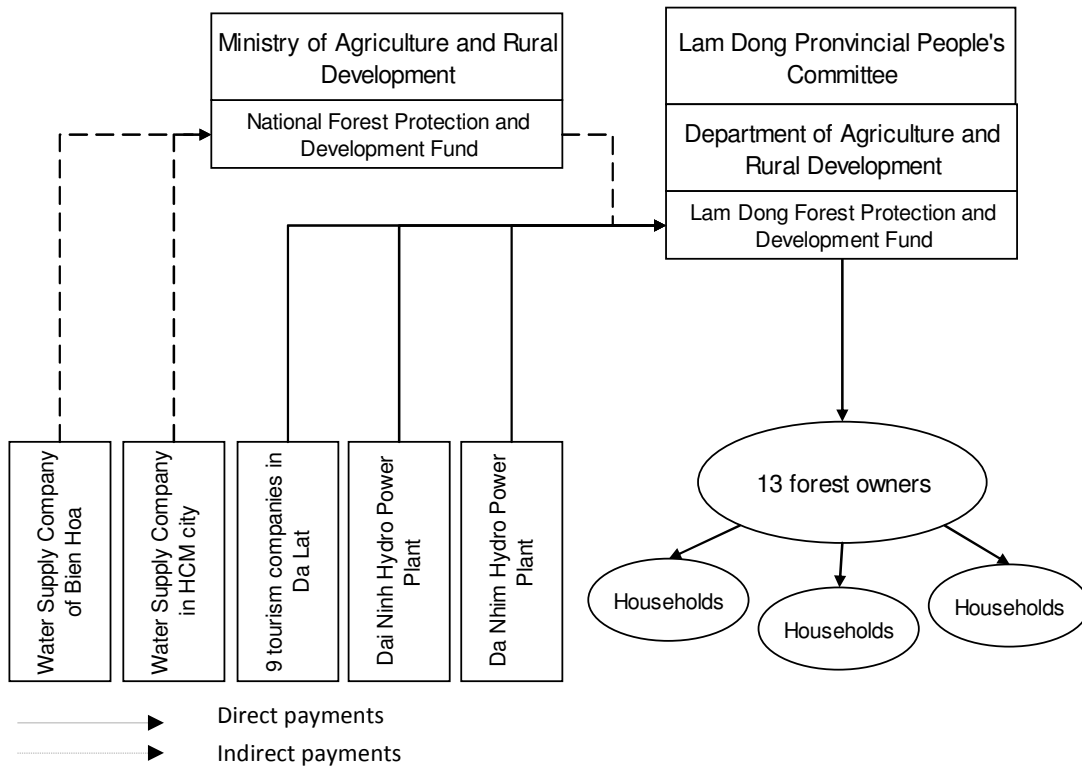
- Catchment area for Da Nhim Power Plant: 290,000VND/ ha/ year
- Catchment area for Dai Ninh Power Plant: 270,000VND/ ha/ year
- Catchment area for Dong Nai river: 10,000VND/ ha/ year

The variation in the payments to be made in the pilot sites is largely due to the difference in the amount of money generated from the forest (i.e. collected from the PFES service buyer) in each site.

The PFES schemes use coefficients, the so-called K-factors, to determine the appropriate level of payment in relation to the ecosystem services rendered. The K-factors are not decided by the central government but by sub-national governments in reflection of the particular ecosystem services provided by local forests. For example, the payments in Son La focus on the functions of forests to store water and protect soils. The level of payment differs between planted and natural forests on the premise that they have different capacities to store water and protect soils. This finds reflection in the calculation of payments through different k-factors used for planted and natural forests. Similarly, the level of payment differs between forests designated for production and protection, as protection forests are assumed to protect soils better than production forests. As a result, payments targeted at protected natural forests receive a K-factor that is almost double the one applicable to production-oriented plantations (Pancel and To 2009).

In terms of disbursement (Figure 2.7), the funds first go to 13 State-owned Companies (SOC)s and PAMBs (known as forest owners) located in the pilot sites. These actors will then hand over the money to local households based on the areas of forest that they protect under the contractual arrangements. Till date, fund disbursement has only been undertaken in Da Nhim commune of Lac Duong district by Da Nhim Protected Forest Management Board (PFMB).

Figure 2.7: Flows of PFES money in Lam Dong FPDF



Linking benefits to performance

In theory, payments made under PFES schemes are tied to performance (e.g., Wunder 2005). Yet in practice, very few schemes link payments to measured performance (Bond et al. 2009: 10).²⁷ Many suffer from constraints on human and financial resources that severely limit their capacity for effective monitoring either through remote imagery or field inspections. The PFES schemes being developed in Viet Nam have explored ways to link payments to measured performance, even though their attempts remain very preliminary due to the novelty of the two schemes. The Son Lan and Lam Dong scheme in principle disburse payments to forest managers *ex post*, that is, after the performance was delivered. Yet, neither the Son La nor the Lam Dong scheme measures actual performance in terms of hydrological services.²⁸ They instead rely on the monitoring of forest management practices through inspections on the ground.²⁹ In addition, time has to show if they will effectively exclude non-performing forest managers from payments.

The two schemes have developed different institutional structures for the disbursement of payments and monitoring of performance. The Son La scheme appears to separate the entities handling payments from those monitoring performance.³⁰ FPU undertake

²⁷ Virtually no scheme measures the actual provision of ecosystem services. If there is any measurement then it focuses on certain land use practices considered to produce the desirable ecosystem services. But this problem goes beyond the scope of this report.

²⁸ The Lam Dong scheme plans to establish gauging stations to measure water flows.

²⁹ The Lam Dong scheme is exploring the use of high resolution satellite imagery for monitoring forest cover changes. The Son La scheme notes the need to update land use inventories, something that has been done in Lam Dong (see Section 5.1).

³⁰ This is an inference based on the scant information available to the consultants and requires further empirical verification.

monitoring as part of their regular operations. Management boards at commune, district and provincial levels handle the disbursement of payments. In Lam Dong, PAMBs are in charge of both disbursements and quarterly inspections of contracted forests. Their double function creates a conflict of interests and may easily lead to problems in performance monitoring, as the experience from 661 projects demonstrates.

Internationally, the Mexico Payment for Environmental and Hydrological Services (PEHS) scheme started to use high resolution satellite images for land use monitoring only several years after its inception (Karousakis 2007: 27-28). Even where schemes include systematic monitoring, such as in Costa Rica, they enforce compliance with land use restrictions in exceptional cases only. They do so typically by excluding non-compliant recipients from future payments (e.g., Alban and Wunder 2008; Asquith et al. 2008: 679). Attempts to recover payments once they have been disbursed are extremely exceptional. In Costa Rica, the PFES contracts do not even specify an explicit penalty for non-compliance. Only a fraction of offenders were actually brought to sentence through civil lawsuits for breach of contract (Karousakis 2007: 23).

Two small PES schemes in Ecuador indicate how payments can be linked to performance. The Pimampiro scheme excluded nine families from payments temporarily in its second year and another four families permanently due to non-compliance with their contractual obligations. Yet even in this case, the scheme did not demand payments back once they have been disbursed. The Forests Absorbing Carbon-dioxide Emissions Forestation Programme (PROFAFOR) similarly reports that contracts have been cancelled or modified in cases of evident and severe non-compliance. The scheme enjoys some added leverage over participating individual owners by withholding 20% of payments until the 3rd year and establishing a lien on their land (Alban and Wunder 2008).

The agricultural payments funded by the European Union demonstrate a more systematic but also highly resource-intensive approach to enforcing compliance. Since the introduction of cross-compliance in 2005, all member states are required to carry out controls on at least 1% of all farmers submitting aid applications. They carry out inspections on farms, on average requiring the work of two inspectors for one day. The inspectors use a checklist of farmers' obligations to guide the inspection. Their reports are fed into an evaluation matrix or scoring system whereby each type of non-compliance or breach is assigned a score or rating. The scores or ratings are then used to calculate the percentage reduction of payment, ranging from 1-3% for minor, negligent non-compliances to a complete cut of payments for intentional breaches or if inspections are refused (Alliance Environnement 2007: xiv-xv).

Analysis

The PFES schemes in Son La and Lam Dong employ more decentralized governance structures than the 661 Programme and reforestation projects. Both schemes receive funding through the provincial FPDFs and not the central government budget. Provincial steering committees have significant leverage on key decisions, such as the kinds of eligible recipients, their operational structures, and the definition of "K-factors".

Taken together, the PFES schemes demonstrate the possibility to disburse payments to various kinds of recipients. In this way, they go beyond the focus on individual households characterizing the 661 Programme and the large reforestation projects. At the same time, the two PFES schemes target different kinds of recipients in the two provinces. The Son La scheme contracts individual households, household groups, village communities and social organizations for the provision of ecosystem services. The Lam Dong scheme basically works with household groups only, even though all members have to confirm the receipt of payments made to groups.

The schemes demonstrate the value of decentralized decision-making for matching distribution of benefits with local variation in the provision of ecosystem services. At the same time, they highlight two key issues that still need to be resolved. First, the voluntary nature of the payments contracts remains unclear in both provinces. The Son La scheme envisions distributing benefits to all forest owners in the two pilot districts, indicating the contracts will be compulsory. The Lam Dong scheme pays villagers for the protection of natural forests to which they have no legal rights. In both schemes, therefore, forest managers are unlikely to make decisions about the uptake of forest protection contracts in a manner that reflects their actual willingness to provide the contracted services as well as their opportunity costs for doing so. The absence of voluntariness is likely to lead to inefficient use of forest protection funds.

Second, the principle of differentiated payments conflicts with the common practice in Viet Nam to provide equal payments. It may encounter significant skepticism by villagers and government officials about the benefits of such a practice (see also Section 5.3). This is the experience of the Lam Dong PFES scheme, as it created significant confusion among recipients about the reasons for payments at different levels. In fact, principle of social equity was strongly influenced the way PFES policy was initially implemented in Lam Dong. When the policy implementation was started in the province, local authorities of Lam Dong decided to retain about 20% of the revenues derived from ES buyers with aim to use it to distribute it to poor people from the areas in the province who are not service providers. However, this plan was strongly resisted by the central government, as the central government would like to see actual results of policy implementation without any modification before the policy is scaled up to a PFES Decree and adopted nationwide³¹. However, our communication with the decree drafting team members reveals that the team members will provide some flexibility so that marginalized people could be included into payment schemes. If such flexibility is not achieved, there will be problem. The Director of the Lam Dong Department of Forestry expects that the introduction of differentiated payments will be a serious political issue if the policy should be scaled up.

The two PFES schemes also highlight the critical importance of land tenure in two important ways. First, Son La conducted province-wide forestland allocation in the early 2000s, transferring forestland rights to various kinds of owners. As a result, forest owners include individual households, household groups, village communities and social

³¹ MARD has been leading the formulation of a PFES Decree. The Decree is expected to come next March-April. Once approved, it will be implemented nationwide.

organizations in Son La today. The PFES scheme consequently contracts multiple kinds of forest owners for the protection of natural forest. In contrast, the PFES scheme in Lam Dong contracts household groups for the protection of forestland owned by PAMBs. It seeks to provide significant financial benefits to participating households, as illustrated by a recent decision of the provincial PC to cancel forest protection contracts with 28 police units on 19,000 ha and award them to 700 households instead. Yet households do not enjoy any rights to the contracted land, resembling the common practice in 661 Projects to hire households as laborers for the protection of natural forests.

Second, both provinces highlight the need to resolve critical issues surrounding forestland tenure. The key issue in Lam Dong is forestland distribution, i.e., the transfer of forestland from state entities (SOCs and PAMBs) to households and village communities. The key issue in Son La is the resolution of disputes over forestland. Disputes between migrants and new settlers are frequent in Son La, as the province has been the location of numerous small and two large hydropower projects in recent years. In addition, conflicts between SOCs holding legal titles and villagers claiming customary rights to forests are as common in Son La as in other provinces (cf. Sikor 2004; Hoang 2007).

Overall, both PFES schemes are highly innovative within the Vietnamese context and promise to yield valuable lessons for the design of Viet Nam's REDD+ programme. There is an urgent need to commission independent evaluation of the initial experiences made in the two provinces.

The insights from Son La and Lam Dong are much too preliminary, however, to provide firm lessons on how REDD+ payments may be linked to performance in the future. The Son La scheme may indicate how a future institutional structure can look like, yet it also requires further testing and thorough assessment.

2.5 National-level coordination of donor projects and the Trust Fund for Forests

Since early 2000s, most support from international donors to Viet Nam's forestry sector were channelled through the Forest Sector Support Partnership (FSSP)³². The initiative was set up in November 2001, with the idea to better target international support to the needs of the forestry sector. The idea has been widely supported and the number of international partners to join FSSP has increased from 19 in 2001 to 25 at the moment.

The objectives of the FSSP are:

- To put in place arrangements for continued collaboration in support of the forest sector of Viet Nam on the basis of agreed policies, strategies, priorities and principles of implementation
- To share a commitment to the sustainable management of forests and the conservation of biodiversity to achieve: (a) protection of the environment; (b) improved livelihood of people in forest areas; and (c) enhanced contribution of forestry to the national economy.

³² Formerly known as Forest Sector Support Program and Partnership (FSSP&P)

- To maximize effectiveness and efficiency in the use of all resources applied to the sector. A key effectiveness is greater harmonization of policies and programmes in the context of shared objectives for the sector.

One of the activities currently overseen by the FSSP is the Trust Fund for Forests (TFF). The TFF was established in June 2004 with the signature of a Memorandum of Understanding (MoU) between the GoV and the Governments of Finland, the Netherlands, Sweden and Switzerland. This is a new financing mechanism, pooling funds from four donors to address priorities of the forestry sector with regard to pro-poor sustainable forest management. It is also in line with a move towards a sector wide approach to Overseas Development Assistance (ODA) support, reduction of transaction costs, and aligning with administration and planning systems of the GoV (Trust Fund for Forests 2008). TFF has financed three main types of interventions:

- Preparation of policy tools, such as degrees, decisions, circulars, strategies and training curricula
- Piloting of potential new policy tools
- Mainstreaming and up-scaling the implementation of already approved policy tools with a policy feed-back link (learning and improving policies if found necessary)

At the moment, total financing commitments by donors to TFF is around 32.6 million EUR, of which EUR 31.5 million have been approved to 28 projects (8 on-going or to be mobilized and 20 have been closed). Of the 28 approved projects, co-financing two large ones constitutes 66% of the total funding. TFF has contributed to a project portfolio with total volume of 30,831,038 EUR. Together with other co-financing sources, total budgets to TFF project portfolio sum up to 135.787 million EUR, which implies a leverage of almost 105 million EUR additional financing or 340% of TFF own volume (Indufor and VICA 2009).

Analysis

In May-June 2009, an evaluation of TFF was conducted. Main findings of the evaluation are presented in Box 2.4. The evaluation looked at the issue of integration or merger of TFF into FPDF. It concluded that integration was more feasible of the two options as advantages of integration exceed the advantages of the merger option and the disadvantages of integration option are smaller particularly in view of the fiduciary risks of the two options. The evaluation mission's recommendation was to integrate TFF with FPDF in a manner that maintained the TFF's autonomy and present (new) regulations, operation.

2.6 GTZ-supported community forestry projects

Recent years have been witnessing a shift towards community forest management, with the rights over forest and forest resources being transferred to local communities. Since 1995, CF projects have been implemented in different forest areas in the country since often with financial and technical supports from International organizations among which GTZ is one of the key organizations (Wode and Bao Huy, 2009). Experiences and lessons-learned from these projects have served as a foundation for the formal recognition of

Box 2.4: Main findings and conclusions from the evaluation of TFF in 2009

General

- Effectiveness and efficiency in reaching goal and objectives reasonably good, except for the three largest projects
- Not possible to get information on future availability of financing through TFF
- TFF has been and is useful as a fund; one should not put too many and too high expectations on it; e.g. TFF and its Board of Directors are not the right scene for policy dialogue between donors and GoV/MARD (but for deciding on funding priorities Board of Directors is the right place)

Significant improvements in TFF instrument & TFF management

- New TFF grant selection principles, based on the contribution of the support to the National Forest Development Strategy, which are clear and logical
- TFF (and FSSP) recognized also outside forest sector as an innovative model from which lessons are learned, also outside Viet Nam

Key constraint factors of TFF and its portfolio

- Limited coverage of TFF in the overall sectoral development and also in forest sector ODA
- Inability to attract additional donors / capture additional financing
- Sustainability
- Delays in mobilization of projects, disbursements and particularly in the use of available financing
- Co-financed TFF projects take large a share of the attention of the TFF MU and staff time
- Insufficient M&E, and therefore insufficient documented information on TFF achievements in reaching TFF goal and objectives
- Insufficient exchange of information / lessons learning from projects;
- Forest Sector Support Partnership (FSSP) is acknowledged to be an excellent platform for that and it could be used systematically for feeding back information & lessons from TFF supported projects
- Informal dialogue between MARD and donors as well as between TFF MU and donors insufficient

Source: Indufor and VICA (2009)

procedures and status of the staff. MARD should take full use / apply as far as possible the existing and tested TFF procedures for fund and grants management when developing procedures for FPDF (Indufor and VICA 2009).

The success of forest protection and management is contingent on tangible benefits can be provided to the forest owners on a long term basis (ibid.). Benefits from CF projects should mean sustained timber harvests from the forests with revenues accruing to local communities. However, for Vietnamese administration and particularly local authorities, tangible benefits granted to the community have typically been dead trees and NTFP. To change this view, many CF projects have placed a strong focus on improvement of local livelihoods through self-consumption and commercial sale of timber.

Results from CF projects have served as foundation for the formulation of the benefit sharing policies. For example, experience from the GTZ-funded forestland allocation in Dak Lak province is used to develop the 2001's National Decision 178 on benefits sharing mechanism. In 2003, under the social forestry development project funded by GTZ, CF timber harvest application was submitted to local authorities of Lai Chau province requesting for the commercial use of natural forest timber of one project site in the province. In 2005, with support from GTZ-funded project on rural development, benefit sharing mechanisms were developed by DARD of Dak Lak province. In the following year, these mechanisms were tested two villages with which a large income amount

derived from the sale of timber was accrued to the local people. CF projects with a strong focus on benefit sharing have been also implemented by other organizations such as Helvetas with benefit sharing piloting project in Dak Nong province, JICA's benefit sharing project in Kon Tum province, KfW's project in Quang Ngai province, etc.

Analysis

Despite the experience, lessons-learned and emerging legal framework supporting the CF, a number of constraints still exist hampering the success of CF in the country. The report by Wode and Bao Huy (2009) points out a number of constraints. Currently the implementation of CF in the country is strongly driven by a number ODA projects and that strategies and technical guidelines at national, regional, and provincial scales have not been defined. Even for the TFF-funded CF piloting project currently implemented by Department of Forestry, despite its completion in 64 villages of 10 provinces, the project has not influenced the national policy decisions yet. The current benefit sharing pilots comply with existing legal procedures but the procedures are not replicable for any community after the project termination and consequently not considered as an effective solution for long term sustainable forest management or improvement of local livelihoods. In addition, the forest allocated or contracted to local communities is usually of poor quality. This provides the communities with little actual benefits generated from the forests.

Another problem associated with CF is that village level is not recognized as administrative unit in Viet Nam and consequently not entitled to apply administrative punishment for forest violation cases. As a result, law is weakly enforced at the village level. This provides opportunities for people particularly outsiders to extract the forests illegally. This becomes more exacerbated as the mutual trust between forest rangers and local communities is limited leading to the weak cooperation between the two and ineffective support from local administration.

Local participation in the project design and implementation is often lacking. This triggers confusion and in some cases conflicts among different actors as the result of contested claim and erroneous boundary demarcation. In many cases, boundary demarcation is made on the paper based on the existing documents. This usually does not match with the actual boundary.

2.7 Community Forestry Pilot Programme

The Department of Forestry implemented the Community Forestry Pilot Programme with funds provided by the Trust Fund for Forests from 2006 to 2009. The Programme was perhaps the first community forestry initiative implemented by the Department of Forestry without technical assistance by international organizations.

A recent evaluation finds that it represents an important step towards the implementation of nationwide community forestry programme in Viet Nam (Enters and Nguyen 2009). The programme facilitated the allocation of 17,000 ha of forestland to communities in ten provinces. It produced a comprehensive approach to the promotion of community

forestry integrating aspects of land use planning, forestland allocation, benefit-sharing arrangements, forest management modalities, and financial administration. In the course of the project, 64 communities prepared community forestry management plans, 30 of them developed forest harvesting plans, and a few commenced harvesting.

The evaluation notes that the Programme implemented forest management funds at the community level. 38 communes received US\$ 4,000 each and started disbursing funds to communities. The communes had established fund management boards at commune and village levels and developed corresponding regulations. Commune management boards showed some autonomy in the allocation of finance to village funds, some allocating the funds to villages equally, others in accordance with the forest area allocated to each village. In addition, most village management boards were able to increase the amount of funds by charging timber harvesting fees, obtaining funds through government programme 661, or generating additional income from ecotourism. They also demonstrated the capacity to allocate funds to different uses, such as the costs of equipment needed by patrol teams, labor costs for collective activities, and allowances for attendance at village meetings.

Nonetheless, the evaluation also points out that the approach developed by the Programme is not ready for nationwide implementation. The establishment of the community funds is much too recent to yield any useful insights about their operations in practice. Many of the guidelines prepared by local foresters are too complex and scientific. They focus on the technical aspects of timber management instead of considering the wide range of products and services provided by forests. As a result, community leaders and other villagers may view the content of some documents as irrelevant to the management of local forests. Moreover, some of their elements may directly contradict with how villagers make decisions and plan in practice. Some requirements imposed on community management are also quite onerous, and others are too detailed to make sense across diverse situations.

Finally, the evaluation stresses the significance of land tenure. It finds that the forests handed over to communities were relatively small and of mostly poor quality only. The average area of forest allocated to a village under the Programme was 263 ha. Yet some villages received as little as 50 ha, while others received up to 1,800 ha. Only two villages received forests classified as rich, amounting to a mere 242 ha out of a total of 17,000 ha allocated. In addition, more than half (55%) of the allocated forests were designated for protection, restricting the management options available to village communities.

Analysis

Community forest management (CFM) is new in Viet Nam as it requires partnership between commune level officials and local communities through a decentralized partnership with technical, social and institutional aspects included (Gilmour and Doan, 2008). Under CFM, local authority devolves the forest to local communities. This is different from devolving the forest to individual households and state entities such as SOCs and PAMBs. As a result, it takes time for the CFM concept to be fully appreciated.

This CFM fits well to forest-dependent ethnic minorities where communities' decision making power about matters of common interest is part of the cultural norm (ibid.). Prior to the Land Law 2003, despite many projects had explored the potential of CFM, this approach was not appreciated and was not obtained its legal legitimacy. The passing of the 2003 Land Law and 2004 Forest Protection and Development Law has marked a considerable change in policy framework toward community, with recognition of community as a legal entity for resource management. Since then, the CFM approach has been appreciated in the country, with the National Forest Development Strategy (2005-2020) identifying the piloting and development of CFM in the country is one of the top 20 priorities for the forest sector. The 2001's estimation from Forest Protection Department shows that a total of 2.34 million ha of forest in the country could be available to be allocated or contracted to local communities (Gilmour and Doan, 2008).

Despite the enabling legal and policy environment and lessons-learned from CFM projects, there still exist a number of problems those hamper the success of CFM. Usually, the projects employing the CFM approach focus on technical aspect, neglecting social and social elements needed for the effective partnership between communities and government officials (Gilmour and Doan 2008; Enters and Nguyen 2009). In addition, there is a lack of clear guideline and a comprehensive approach integrating aspects of land use planning, forestland allocation, benefit sharing arrangements, forest management plans and financial administration (Enters and Nguyen, 2009). Furthermore, forests contracted or allocated to local communities under CFM projects are of poor quality and consequently it is difficult and will take time for local communities to derive a considerable material benefits from the forests (Gilmour and Doan, 2008; Wode and Bao Huy, 2009). As a result until present time, CFM projects have not been able to contribute to the poverty alleviation in the project areas.

The review of the CFM projects in the country (c.f. see Gilmour and Doan, 2008; Enters and Nguyen, 2009; Wode and Bao Huy, 2009) suggests that for the CFM approach to work in the future, CFM project must take into account of local flexibility, adaptability and innovation. More field experience is needed to serve as basis for designing and implementing the CFM project with aim to include technical, social and institutional aspects into the project. In addition, capacity building for all partners participated in the project is needed especially the training at village and commune level on practical aspects of planning and implementation of CFM.

2.8 CDM and Voluntary Market Projects

The Ministry of Natural Resources and Environment (MONRE) plays the role of a National Focal Point Agency for CDM. By October 2009, 10 CDM projects have successfully been registered in Viet Nam. The GoV collects a fee on the emission reduction credits (CER) sold; the amount paid depending on the sector; in the case of afforestation and reforestation it is 1.2% of the value of sale. The fees collected will be put into Viet Nam Environmental Protection Fund. However, as of November 2009, no money has been collected as no transactions have yet been made.

Viet Nam currently has one AR-CDM project, in Hoa Binh province, which began in 2009 and is expected to have a duration of 16 years. It aims to reforest 320 ha in two communes over three years. It is a joint initiative by JICA, which has funded extensive capacity building activities on AR-CDM in 2006-2008, and Honda Viet Nam, which has committed VND 3.5 billion (US\$195,000) for the first four years. The Vietnamese partners include Viet Nam Forestry University, Forest Science Institute of Viet Nam, the district-level extension center, and the district-level Forest Protection Unit. The Vietnamese partners together set up a non-profit organization to execute the project. The non-profit organization manages the funds contributed by Honda in a fairly similar way to the function of the FPDF in the PFES schemes of Son La and Lam Dong.

Viet Nam currently has no projects targeting the voluntary forest carbon market. However, SNV is currently developing a project in Cat Tien District of Lam Dong province, which includes the Cat Tien National Park.

Payment structuring

In the Hoa Binh CDM project, the non-profit organization pays local households for their contributions to the project from the finance contributed by Honda (Figure 2.8).³³ Household participation is voluntary, but participants are required to hold legal titles to the land they want to contribute. Households receive VND 40,000 per labor day, which is approximately two thirds of the standard pay for heavy agricultural labor in the locality. In the future, participating households and the non-profit organization will share the revenues from the sale of Certified Emission reductions) CERs equally. When the wood is harvested after 16 years, households will receive two thirds or three quarters of the revenues, the rest going to the non-profit organization. The non-profit organization claims that participating households will be able to derive a total of US\$3,366 per hectare over the lifetime of the project, including US\$ 172 from payments for their labor contributions, US\$ 194 from the sale of CERs, and US\$3,000 from the eventual sale of wood.

Linking benefits to performance

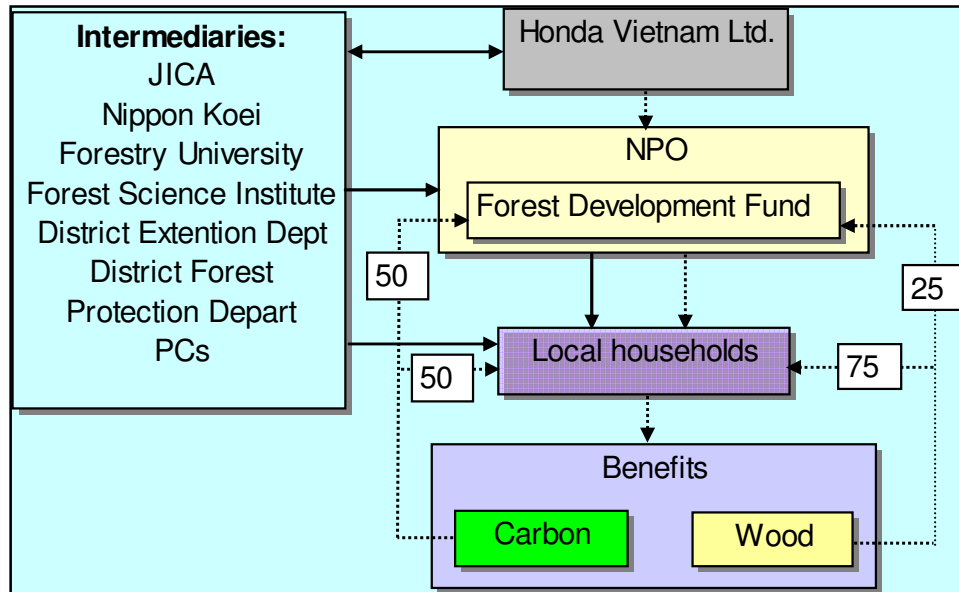
Projects seeking carbon credits from CDM or on the voluntary market are fully tied to measured performance. Projects only receive CERs under CDM if they can prove successful performance according to the CDM guidelines. The amount of CERs granted corresponds exactly with the carbon absorbed, as calculated by the approved CDM methodology.

Analysis

The architectures of the CDM and the voluntary carbon market demonstrate a radically allocation mechanism. In contrast to centralized government programmes and donor projects, the CDM and voluntary carbon markets do not define cost norms for the support project developers can provide to forest managers. Instead, the key parameter for project developers is the price CERs or VERs receive on international carbon markets. In addition, no government agency decides about the location of CDM or voluntary carbon

³³ Owing to the lack of data, the authors were not able to know about the number of households participated in the project.

Figure 2.8: Structure of CDM project in Hoa Binh



Legend
> Cash flow
 —————> work relations and technical supervision

market projects. It is up to project developers to identify a site that offers suitable silvicultural, economic and social conditions. The architectures of the CDM and the voluntary carbon markets thus rest on market allocation in order to avoid the inefficiencies identified for centralized administrative allocation above. Project developers' search for profits provides a powerful mechanism to match the available funds with local potentials for increases in carbon stocks.

The time lag between project initiation and the eventual issuance of CERs has been a significant hurdle for forestry projects under the CDM, however. Few projects have managed to cover the required start-up costs (both investment and transaction). The Hoa Binh CDM project required substantial investment from JICA and Honda, and likewise, the AR-CDM project in Guangxi, China, would not likely have succeeded without the assistance received from the WB and the purchase of emissions reduction by the WB's Biocarbon Fund.

The same lesson applies to projects seeking to sell VERs on the voluntary carbon market. Even though the accreditation requirements are less stringent, the time lag between the initial investment and eventual generation of returns from the sale of VERs remains significant. Projects such as the Noel Kempff Mercado Climate Action Project in Bolivia and the Ulu Masen Project in Indonesia have only been possible because of the financial backing they received from third parties.

These experiences demonstrate the problems associated with *ex post* payments. They may facilitate linking payments to performance, yet they do not provide the upfront incentives and resources required for initial investments. *Ex post* payments only work in combination with support granted by third parties in the form of technical and financial assistance.

3: Legal Framework

This chapter analyzes the elements of a comprehensive legal framework required to support a REDD-compliant BDS in Viet Nam. An effective legal framework is essential in order to ensure that REDD+ revenues are managed in such a way as to meet international expectations; and determine rights and responsibilities of the various stakeholders.

With REDD+ revenues likely to originate from both public (funds) and private international financing sources (investment), a sound, consistent and reliable legal framework for REDD+ is essential to attract REDD+ funds and investments to Viet Nam. A legal framework for a national BDS which enables REDD+ payments to operate effectively, efficiently and equitably will both instil confidence in investors and donors, and ensure that REDD+ contributes, through environmental and social co-benefits, to the country's development.

The Chapter addresses the following questions:

1. What constitutes a comprehensive REDD+ legal framework for Viet Nam?
2. What are the key legal issues in establishing the legal framework for REDD+ BDS (including existing laws and regulations addressing them in Viet Nam)?

Thus, in summary, the chapter examines the options and generates recommendations for the establishment of a comprehensive legal framework to support a REDD-compliant BDS in Viet Nam.

The Chapter starts with an overview of the elements of a comprehensive legal framework in Section 3.1. A brief review of the key legal issues to be addressed in establishing the basis for equitable, effective and efficient entitlement to REDD+ benefits distribution in Viet Nam is provided in Section 3.2. The Chapter concludes with Section 3.3, a summary of options and recommendations for the establishment of a comprehensive legal framework to support a REDD-compliant BDS in Viet Nam.

3.1 A comprehensive REDD+ BDS legal framework

A best practice national legal framework for a REDD+ BDS could be defined as one that provides for clear, consistent and enforceable rules (rights, obligations and responsibilities) and processes to enable equitable, effective and efficient distribution of REDD+ benefits (see Box 3.1). This should comply with the provisions of the UNFCCC and other relevant international treaties and principles, and be in harmony with the domestic legal, institutional and policy frameworks. It is only through addressing these issues that it will be possible to achieve the objectives of REDD+.

Box 3.1: 3E criteria for BDS legal framework

Equity: benefits and costs are shared inclusively and fairly. Equity may require some trade off against effectiveness. Stakeholders practicing unsustainable forest management practices may have more to lose from the implementation of REDD+ than local communities whose impact on emissions may be negligible. However, equity considerations, as well as the concern for REDD+ co-benefits should result on benefits flowing to these communities as well in proportion to their performance.

Effectiveness: define clear and enforceable rules and processes for the distribution of REDD+ benefits. Provide incentives for positive change of behaviour and disincentives for unsustainable forest management practices, and thus contribute to reducing forest carbon emissions. Effectiveness also refers to the extent to which the BDS supports the REDD+ requirements for performance, permanence of the emissions reduction and avoidance of leakage (though domestic leakage will be taken into account through national accounting and reporting). BDS effectiveness depends on achieving the right balance between flexibility, so as to enable adaptation to local circumstances, and robustness, to guarantee the essential principles are held and performance requirements met.

Efficiency: administrative procedures for BDS are timely and cost effective in order to minimise the funds used to operate the BDS and maximize revenues available for distribution, and optimise the effectiveness of REDD+.

Source: Stern, N. 2008 Key elements of a global deal on climate change. London School of Economics and Political Science, London

REDD+ is also characterized by having an international dimension, as a compliance mechanism to address climate change mitigation through the UNFCCC, under a financial mechanism that may rely, in part, on a future international carbon market. Although the international framework for REDD+ BDS remains to be fully defined, the success of REDD+ at a national level will largely depend on how it complies with the REDD+ international legal framework as it evolves (See Box 3.2.)

Box 3.2: International Legal Framework Related to REDD

United Nations Framework Convention on Climate Change (UNFCCC)

Pending the adoption of an international law and policy framework for REDD+ by the UNFCCC there is a legal void at present. However, a consensus is forming that REDD+ will be performance-based, requiring additionality and permanence be addressed, measurement, reporting and verification (MRV) put in place; that transparency and participatory processes will be required in national implementation; and that there will be financing from international markets and/or public funds. The National legal framework for BDS should also comply with the country's obligations under the other relevant ratified treaties, including *Human Rights treaties* and the *Convention on Biological Diversity (CBD)*.

International project standards

Several international standards for avoided deforestation projects have already been developed for the voluntary carbon market. Compliance with these standards increases the potential value of the carbon credits sold since they reduce the risk of project failure to the investor and hence attract a higher price. The leading standards are the Voluntary Carbon Standard for Agriculture, Forestry and Other Land Use (VCS-AFOLU), a carbon focused technical standard, and the Climate Community and Biodiversity standards (CCBS), which emphasises social and environmental co-benefits.

The Climate, Community, Biodiversity Alliance (CCBA) has recently released draft REDD+ Social and Environment Standards (CCB REDD+ Standards). These standards are designed to be compatible with a compliance-based REDD+ mechanism under the UNFCCC.

CCB REDD+ Standards consist of eight principles broken down into 31 criteria and 81 indicators. Principle 2 addresses benefit sharing: "*The benefits of the REDD+ program are shared equitably among all stakeholders and rights holders*". Stakeholders are defined as "*groups of rights holders whose rights are potentially affected by the REDD+ program and groups of other stakeholders whose interests are potentially affected by the program*".

Essential characteristics of a legal framework:

The essential characteristics of a legal framework for a REDD+ BDS include the following:

- **Clarity:** the law and enabling regulations set rules that are clear, not subject to conflicting interpretations and provide for all situations. There should also be clarity as to who the rules apply to and who has responsibility for their enforcement.
- **Consistency:** the REDD+ legal framework is relevant to several ministries and government authorities (forests, land administration, finance, foreign affairs, etc.). A collaborative approach is required to prevent inconsistencies and overlaps with other existing legislation and new REDD+ regulations (horizontal consistency). Vertical consistency should also be ensured, that is between legal instruments at different levels of government: national, provincial and local.
- **Compliance and enforcement:** effective enforcement requires clear rules (Clarity and Consistency) and the human and technical resources, political will and good governance to ensure the legal elements are applied correctly. A BDS system will prove inequitable, ineffective and inefficient if not supported by good governance, entailing transparency, accountability, and participation.

Within each particular national context, meeting international REDD+ requirements could necessitate reforming or adapting the existing institutional and legal frameworks, and REDD+ could be seen as the opportunity, incentive, and means to do so. Among developing countries preparing for REDD+, only Indonesia has initiated specific regulations for the implementation of REDD+ at the national level, although the provisions regarding BDS are still incomplete and imperfect, and have been designed with the voluntary market in mind.

Assessing BDS Legal framework options

Options for a legal framework for BDS need to be assessed against the criteria of equity, effectiveness and efficiency ("3E criteria")³⁴, which are used to assess REDD+ options generally (see Box 3.1). The 3E criteria are referred to in the CCB Draft REDD+ Standards, discussed below. Principle 2.2.4 provides that: "The design of the benefit-sharing mechanisms is based on a review of options with respect to the equity, effectiveness and efficiency of the REDD+ programme".

In many developing countries, institutions and processes for distributing benefits from forests already exist, such as those established for PES. These systems need to be assessed for their ability to contribute or be adapted to a REDD+ BDS since there are significant advantages in making use of existing institutional mechanisms. The starting point for that consideration should be the elements identified above Equity, Effectiveness and Efficiency along with legal Clarity, Consistency, Compliance and Enforcement.

³⁴Stern, N. 2008 Key elements of a global deal on climate change. London School of Economics and Political Science, London

3.2 A brief review of the key legal issues to be addressed in establishing the basis for equitable, effective and efficient entitlement to REDD+ benefits distribution in Viet Nam

Key legal issues will have a bearing on the equity, effectiveness and efficiency of a national REDD+ BDS. They are closely related and include:

- Carbon rights
- Land rights
- Legal status of beneficiaries (being an 'entity')
- Entitlement to REDD+ benefits for each stakeholder group

In this section, these issues are examined. A brief overview of selected international experience provides the context for a rapid appraisal of all policies, laws, and regulations that might have some bearing on Viet Nam's REDD+ BDS legal framework.

Existing laws and regulations governing REDD-related activities

In the absence of specific legal instruments dealing with REDD+, the only existing instruments are general in nature, for example, the Land Law. Similarly, institutional arrangements for implementing REDD+, at least initially, will be based on administrative structures set up by law, for example the current institutional structures within MARD. With the concept of REDD+ being new and evolving, there has not yet been an opportunity for law makers in Viet Nam to consider and initiate new laws to deal with REDD+ and its implications in either the regulatory or the institutional respects. There is a clear need for changes to existing legal instruments and for new legal instruments in due course.

Carbon rights

Carbon rights are intangible assets attached to the different carbon pools. Who holds carbon rights, and who is entitled to benefits from carbon services are questions that need to be addressed at a national level. Carbon rights also generate responsibilities for maintaining carbon stocks. Pursuing the protection of carbon stocks alone may lead to restrictive access and use of land for local communities, which should be compensated in terms of opportunity costs, making it an important consideration in distribution of REDD+ benefits.

Carbon trading assumes the separation between land/forest rights and carbon rights. One of the main challenges for REDD+ is to establish certainty for the allocation of benefits for the conservation of a product which has an ambiguous legal definition, and is governed by various legal standards which are firmly under national sovereignty regimes (Luttrell, Schreckenbergh and Peskett, 2007).

The majority of developing countries are yet to pass specific legislation to formalize carbon rights and enable their separation from land and forests rights (See Box 3.3). Uncertainty over land rights is a major hurdle in establishing carbon rights.

Who owns the carbon in Viet Nam?

The Constitution of the Socialist Republic of Viet Nam, which was last revised in 1992, says that all land and forest resources belong to the State and that the State allocates these resources to organizations and individuals for “stable long-term use” (Article 18). The 2003 Land Law provides additional detail regarding land allocation: “*The State shall grant land use rights to land users via the allocation of land, lease of land, and recognition of land use rights for persons currently using the land stably*” (Article 5). So whereas the State retains *ownership* of land, individuals and organizations may be granted the right to *use and benefit* from it. Although not specified, this right would presumably extend to carbon.

Box 3.3: International examples of carbon rights establishment

Australia’s States have passed laws to create a form of carbon sequestration right that landowners may register in favour of a third party, thereby transferring carbon rights and responsibilities associated with the land to that party.

In Indonesia, Regulation PP6/2007 authorises provincial and district governments to issue permits for the utilisation of environmental services, called *Izin Usaha Pemanfaatan Jasa Lingkungan* (IUPJL). IUPJLs entitle their holder to store and absorb carbon and other environmental services and are granted for a term of at least 30 years (Crittenden and Wilder 2008).

In Papua New Guinea, where 97% of land is under indigenous tenure and cannot be transferred, draft regulations point to the government regulating and facilitating the sale of carbon but with the rights to (and hence benefits from) carbon staying with the landholder (Covington and Bakers & McKenzie, Background Analysis of REDD Regulatory Framework 2009). New Zealand, recently reversed the decision to nationalise carbon rights which had created a perverse incentive for landowners who no longer had the benefits of selling carbon.

The 2004 Forest Protection and Development Law recognizes the principle of buyers purchasing forest goods and services (which could include reduced carbon emissions) with payments delivered to those who protect and regenerate the forests to reduce deforestation and degradation. Decision 178/2001/QD-TTg (November 12, 2001) specifies the ways in which households and individuals can be allocated, leased, or contracted to manage or protect forest and the payments that they can receive for these services. The legal basis for a performance-based BDS therefore exists.

However, the 2005 Law on Environmental Protection states that the “*transfer, buying, and selling of greenhouse gas emissions quotas between Viet Nam and foreign countries shall be stipulated by the Prime Minister*” (Article 84). In other words, while individuals and organizations may have the right to benefit from carbon emission reduction credits, transactions with international buyers (as is envisaged under a REDD+ regime) would need to be approved by the Prime Minister. Beneficiaries cannot have direct contractual relations with foreign entities, implying that sub-national implementation would be legally problematic for Viet Nam.

Land Rights

As carbon rights are by default deemed to be attached to land, the question of land rights arises as a prerequisite to the definition of carbon rights. Unclear land rights, and uncertainty surrounding land title, are held as “*the single most significant impediment to effective preconditions for a REDD Scheme*” (Covington et al 2009), caused by the significant

competing interests and conflicts over land and tenure rights that constitute investment risk. (White and Martin 2002).

Of critical importance to the entitlement to benefits as they define rights and responsibility under REDD+ is the legal framework for land use /spatial planning, forest classification (conservation forests, commercial forests) and national models of land and forests ownership. Land can be owned in totality or majority by the state (national or sub-national), such as in Viet Nam, Laos, Cambodia, Indonesia, Brazil, Madagascar etc., or by communities such as in Papua New Guinea. Where land and forests are state-owned, individuals and organizations may be granted land-use rights (such as concessions) or tenure rights usually by the designated responsible agency (such as land planning agencies and forestry administration). As a result, several different stakeholders may have rights and interests, and consequently entitlements to REDD+ benefits.

From a legal perspective, the entitlement of ethnic minorities and local communities to REDD+ benefits presents a particular problem because they typically do not hold registered title and enforceable rights over the land they manage. Spatial planning often fails to account for customary land and tenure rights (White and Martin 2002), and when customary rights are recognized *de jure*, this does not always mean that their *de facto* rights are upheld (see Box 3.4).

The implementation of REDD+ may disrupt informal arrangements and lead to competing claims on forests traditionally managed and used by local communities, causing conflicts. Disempowered communities may suffer from loss of access to forest resources, the unequal imposition of the costs of forest protection, and may be ineligible for REDD+ benefits as they do not enjoy formal title (Peskett and Harkin 2007).

Box 3.4: Example of differences between *de jure* and *de facto* rights

A study on avoided deforestation in Aceh, Indonesia (Dunlop 2009) found that “*While adat rights are recognized by the Constitution, they are limited according to the national interest, a broad notion of development and the state’s right of control. This approach permeates all land and forest law and policy discourse in Indonesia, including the recent Ministry of Forestry REDD Regulations. In practice, these laws have subordinated adat rights to the national interest and the overriding principle of economic development.*”

Legal status issues in Viet Nam

In Viet Nam, the Forest Protection and Development Law identifies who forest rights holders are and the Land Law identifies stakeholders who can receive the land-use rights. Interpreting these laws, forest owners should be receivers of payments for carbon credits.

An entitlement to REDD+ benefits of communities and forest contractors may be compromised by the uncertainty of their legal status:

- Communities are classified as one type of forest owner; however, the civil code does not recognise the legal status of the community, which may inhibit their access to a REDD+ benefits as they are not a recognised ‘entity’ in law.

- Forest Contractors, who are people contracted to protect and plant forests, are not recognised forest owners, which may compromise their entitlement to REDD+ benefits. The legal status of such forest contractors is also unclear. Contract duration can vary, from one to many years. Long term contractors will have the opportunities during the contract period to invest in carbon stock management, but their rights to benefits is unclear.

The ability to decentralize the distribution of benefits at the sub-national and sub-provincial level would provide opportunities strengthen appropriate traditional administrative units and contribute to resolving the issue of communities and their legal status.

Legal status of beneficiaries

Equitable entitlements to REDD+ revenues, whether they are granted to individuals, households, communities, or some other entity, and irrespective of the form they may take (cash or in-kind benefits) will need to be secure. This will require formalisation of the rights and responsibilities attached to these benefits as legal agreements or contracts. A lack of legal status of these entities risks impeding the entitlement to benefits.

How can individuals and groups benefit from carbon conservation in Viet Nam?

The scope for securing revenue from carbon conservation depends on the forest type. Special Use Forest (SUF), which comprises all of Viet Nam's protected areas, is under exclusive government control. There are no legal provisions for community or household participation in SUF management. Consequently, to the extent that SUFs meet the additionality criterion under REDD+, it would only be PAMBs which are eligible to receive REDD+ revenues generated by SUFs.

On the other hand, protection and production forest can be allocated to households, communities, or SOCs. Household and communities holding entitlements ("Red Books") to such forests would therefore be eligible to receive REDD+ revenues. However, SFs are government owned and, by law, all forest management operations are paid for by government, so if they were eligible to receive REDD+ income, their subsidy would be reduced by the same amount.

The government has issued several legal documents regulating benefit sharing from forests. These include Decision 178; Inter-ministerial Circular 80/2003/TTLT/BNN-BTC (September 3, 2003) by MARD and MoF on the implementation of Decision 178; Decision 661/1998/QD-TTg (July 29, 1998) on the 5 Million Hectare Reforestation Programme; Decision 100/2007/QD-TTg (July 6, 2007) amending some articles of Decision 661; and Decision 147/2007/QD-TTg (September 10, 2007) on the development of production forest.

These decisions mainly deal with state budget-funded projects and with forest products including timber, firewood, NTFPs, agricultural products, and tourism services. Carbon is not referred to. Decisions governing benefit sharing have also been issued for specific projects funded by the World Food Programme, WB, JBIC, and the ADB-funded FLITCH

project. Decision 166/2007/QĐ-TTg (October 30, 2007) on FLITCH benefit sharing states, for example, that households should receive US\$7/ha/year for forest protection, US\$15/ha/year for forest regeneration, and US\$500/ha/year for plantations. Again none of these decisions address carbon.

The most recent statement on benefit sharing is provided by Decision 380 (April 10th, 2008), which establishes payments for forest environmental services that include water supply; landscape beauty and soil conservation but not carbon. The decision defines income from these services as non-state budget. Only those revenues that cover transaction costs are retained by government.

3.3 Options and Recommendations for a Legal Framework covering REDD+ in Viet Nam

This section summarizes options discussed in previous sections, and makes recommendations for the key questions posed at the beginning of this Chapter: (1) what are the elements of a comprehensive REDD+ legal framework and (2) what are the key legal issues in establishing the legal framework for REDD+ BDS (including existing laws and regulations addressing them in Viet Nam)?

The REDD+ concept is new and hence no country has experience working with it. Under REDD+, international stakeholders will have specific expectations concerning processes that ensure linkage to performance, transparency and equity. Such expectations imply the need for a participatory management model with the involvement of social and civil society groups.

Classification of REDD+ revenues

To enable REDD+ revenues to be clearly handled and separated from other forms of government and national income they will have to be legally characterized appropriately. REDD+ revenues are not development cooperation activities between Government of the Socialist Republic of Viet Nam and the donors, which are foreign governments; bilateral donors and multilateral or inter-state organisations as set out in Decree 131/2006/ND-CP of November 9, 2006 on ODA Management and Utilization. Therefore, REDD+ revenues would clearly not be ODA.

Similarly, since REDD+ revenues would come primarily from developed country governments or from business entities in developed countries assigned emission reduction targets by their governments, they would not be subject to Decision 64/2001/QĐ-TTg on Issuance of the Regulation on the Management and Utilization of Aid from International Non-governmental Organizations (NGOs). REDD+ revenue would more closely resemble Foreign Direct Investment (FDI), which is usually defined as investment of foreign assets into domestic structures, equipment, and organizations.

It is clear that it would be best for REDD+ revenues not to be considered as state budget, but rather transferred to a specific fund. One such fund, the FDPF, is already established at national and provincial levels, has strong MARD support and already receives funds

from non-government and external sources. The establishment of a REDD+ sub-fund under the FCPF would satisfy many of the conditions that international stakeholders would want in order to inspire confidence in REDD+ investments. However, the FPDF is government-managed with no independent oversight or scrutiny, which may raise concerns over transparency and equity.

Other funds exist which do allow non-government participation in their governance, for example, the TFF, established through an Official letter, 850/CP-NN, dated 23rd June 2004, under which a representative of the donors sits on the Board of Directors. Thus, another option would be to establish a new entity such as a “Viet Nam Carbon Fund” to handle REDD+ payments. That would have the advantage of being able to tailor the design to the international REDD+ rules and regulations when these are clarified. One disadvantage could be that a new fund would need to be created and could be seen as competing with the FPDF.

In comparing these two options, the first would require an amendment to the FPDF to permit civil society participation in the governance structures of national and provincial funds, at least for REDD+ sub-funds. Such changes would certainly take time to effect, so the alternative, a new legal instrument establishing new, stand-alone REDD+ funds at national and sub-national levels, might be simpler (see Policy Decision 3.1). Further research on fund monitoring systems that comply with existing legal frameworks and meet the international demand will be required. Further analysis of options for management of REDD+ revenues is also provided in section 4.4.

POLICY DECISION 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	<p>Given limitations in participatory governance of the FPDF, the GoV should commit to the establishment of a new, REDD+ Fund. This could</p>

POLICY DECISION 3.1

Classification of REDD+ revenues and creation of a dedicated REDD+ fund

policy to be adopted	<p>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>

Eligibility to Receive REDD+ Benefits

Eligibility to receive REDD+ revenues needs to be defined. This will require formalisation of the rights and responsibilities attached to these revenues as legal agreements or contracts. A lack of legal status of these entities risks impeding the entitlement to benefits. There are several eligibility issues that need to be resolved:

- i) Eligibility of communities. As mentioned previously, there is no legal recognition of communities as legal entities under the Civil Code, yet there are good reasons for communities to be considered as an appropriate entity to receive REDD+ benefits (see discussion in section 6.1)
- ii) Eligibility of SOCs. SOCs, formerly known as state forest enterprises or SFEs, fall into two categories under the Law on State Enterprises (1995). Business, or self-financing, enterprises are not eligible for government support, and must generate all their income. Public service state enterprises, characterized by PFMBs in the forest sector, are eligible for government budget support. They must account for all sources of income, including potential REDD+ revenues, and this is taken into account in establishing government budget support. Consequently, there are two risks associated with the eligibility of SOCs to receive REDD+ revenues. The first is that if REDD+ revenues are substantial they may serve as a disincentive to continue the forest allocation process. The second is that if REDD+ revenues merely have the effect of reducing government budget support to public service enterprises, such that their total budget remains unchanged, there is no incentive to perform in reducing emissions.
- iii) Eligibility of PAMBs. Well-managed SUFs (protected areas) should, by definition, not suffer from deforestation and forest degradation. Consequently, it is not clear whether, under the principle of additionality, they should be eligible for REDD+ revenues. Nevertheless, given the pressure on Viet Nam's protected areas, a case can be made that they should be rewarded for good management where this can be demonstrated. This mirrors the international debate over the eligibility of countries that have historically high forest areas and low deforestation rates. While this is mainly an administrative, rather than a legal issue, the need to avoid a reduction in government budget support resulting from earning of REDD+ revenues needs to be clearly established in REDD+ regulations

Experience from Viet Nam (see Chapter 2) and other countries (see Chapter 6) suggests that the development of Viet Nam's future sub-national REDD+ finance mechanism should explore the possibility of distributing benefits to individual households, village communities/groups, and Forestry Companies/PAMBs. The 661 Programme and the design of several large donor-funded projects demonstrate the GoV's strong commitment and capacity to disburse national funds to individual households. Experience from various community forestry pilots and the PFES schemes in Son La and Lam Dong demonstrates the viability of disbursing payments to village communities and household groups. The 661 Programme also attests to the government's desire to channel significant payments to Forestry Companies and PAMBs.

At the same time, the GoV may prioritize actions aimed at strengthening the legal framework and implementation capacity for community forestry. The priority would be justified considering the focus on individual households, Forestry Companies and PAMBs in the past, as it would help create a level playing field for all three basic types of forest managers. Required actions would include the creation of an enabling legal framework and measures strengthen the capacity of MARD to provide effective support to communities. These national-level activities would be complemented by the development of REDD+ pilots with village communities. These pilots could build on a series of well-developed and sufficiently documented pilots assisted by international donor projects and the Community Forestry Pilot Programme across the country. A focus on community forestry also holds the potential for rapid increases in carbon stocks, as communities mostly hold degraded forestland with currently low carbon stocks.

In the medium term, households, village communities/groups, and Forestry Companies/PAMBs will only be able to receive payments in many localities if Viet Nam's government accelerates forestland allocation and facilitates the resolution of disputes over forestland. The current allocation of forestland rarely provides the necessary foundations for the implementation of REDD+ and distribution of REDD+ finance. Around 2.5 million ha of forestland remain under temporary allocation to Commune People's Committees, including many areas of degraded forestland with high potentials for improvements in carbon stocks. Forestry Companies and PAMBs often hold legal title to land that is claimed and used by local villagers on a customary basis. Land registers and certificates do not match actual land tenure and land use practices in many places. These problems stand in the way of developing performance-based payments for forest conservation. Moreover, a look at the CDM regulations suggests that the international community may not endorse the disbursement of REDD+ payments when land is disputed, or when recipients do not hold legal titles to the contracted land (which is a common practice under Viet Nam's 661 Programme). It is therefore of utmost importance that Viet Nam undertakes renewed efforts to allocate forestland to households, household groups and communities, and to resolve land disputes. The use of REDD+ finance for these purposes

would match existing practice in donor-funded projects and appears well justified given the crucial importance of clear land rights.³⁵

Operational procedures for the disbursement of REDD+ payments to the three kinds of recipients exist in Viet Nam. They indicate that Viet Nam’s Bank for Social Policies may be in an advantageous situation to handle the disbursement of funds. The Bank possesses offices in all districts and operates 9,800 mobile transaction points at the commune level throughout the country. It already manages the reforestation loans for individual households funded by the WB and KfW and the payments made to all three types of recipients under the PFES scheme in Son La. The Bank for Social Policies could also establish accounts for community funds as recipients of payments to village communities, building on the experience in the Community Forestry Pilot Programme. The community funds would, in turn, allow village communities to decide collectively if they want to use the funds for cash payments to individual members, the distribution of in-kind support, collective investments in social and physical infrastructure, or other projects enhancing forest conservation.

These issues could be addressed by modifying existing legal instruments such as the Civil Code. However, modifications to such basic legal instruments will require an enormous investment and take a substantial amount of time. The potential to resolve eligibility issues through a new REDD+ legal instrument may be a better option. Lessons from community forestry projects, including the KfW-6 project and the TFF-funded Community Forestry Pilot Programme can inform the content of such a legal instrument – see Policy Decisions 3.2 and 3.3.

POLICY DECISION 3.2	
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, 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 others not. Many of these problems of rights can be avoided by targeting benefits to village communities, which may be better positioned to produce rapid gains in carbon stocks than other types of forest managers. However, under the current legal framework, targeting communities faces a legal constraint as the community is not a legally recognized entity under the Civil Code.
Options	<ul style="list-style-type: none"> 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. b) GoV creates a level playing field for communities by refining the legal framework and creating supportive implementation structures.

³⁵ Viet Nam may also explore the benefits of transferring *conditional* land rights to villagers. Land rights may be made conditional upon certain performance criteria, thereby providing additional incentives for villagers to comply with forest conservation agreements.

POLICY DECISION 3.2	
The types of forestland owners eligible to receive REDD+ benefits	
	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 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.
Actions required to confirm policy option	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+.

Establishment of a clear, consistent and enforceable legal framework

Another major challenge is to ensure institutional and administrative collaboration among ministries (horizontal consistency). In particular, MARD and MONRE will need to work together on mainstreaming REDD+ considerations into land use planning and titling; and to ensure that the REDD+ BDS has an effective institutional foundation to both satisfy investors and ensure equitable distribution of benefits. While forest allocation has proceeded rapidly in some parts of the country, it has been much slower in other areas. The risk exists that potential access to REDD+ revenues may serve as a disincentive to continued forest allocation as stakeholders such as Peoples Committees see benefits from not allocating land to households.

The REDD+ BDS, especially if designed with a strong focus on equity and co-benefits, could prove to be a catalyst in clarifying institutional responsibilities, increasing financial accountability, accelerating forest allocation, and other reforms that will have positive outcomes for communities, the country, and the planet. It seems clear that the arrangements for financial management, as well as modified institutional responsibilities will need to be supported by one or more legal instruments. Following the approach forged in developing PFES in Viet Nam, and initial Decision may be taken by the Prime Minister, which will authorize a period of piloting of various issues related to REDD+ implementation. For example, as discussed elsewhere, the hierarchical structure of REDD+ benefit distribution (whether national down to provincial before distribution to

ultimate beneficiaries – 2 levels; or national to provincial to district – 3 levels) could be piloted in different provinces in order to assess relative merits in terms of effectiveness and efficiency. After at least one year, and preferably several years of piloting, the Decision could be replaced by a Decree which integrates lessons learned from piloting and establishes the basis for nationwide implementation of REDD+ (see Policy Decision 3.3).

POLICY DECISION 3.3 Legal framework for REDD+ in Viet Nam	
Issue to be addressed	<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 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>
Options	<ul style="list-style-type: none"> 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	<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</p>

POLICY DECISION 3.3 Legal framework for REDD+ in Viet Nam	
	phase. The GoV should also accelerate the other legal reforms required to ensure effective implementation of REDD+
Actions required to confirm policy option	<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>

Strengthening of forest law enforcement

In Viet Nam, as in many other developing countries, one of the underlying causes of deforestation and forest degradation is weak application of forest laws. Often there is a perception that laws relating to forest use are inadequately enforced. Furthermore, if enforced, the judicial system may appear reluctant to convict and, if convictions are obtained, the penalties are too small to act as a deterrent. The establishment of a comprehensive legal framework for REDD+, and for the design of a BDS, must address not only the content of the framework, but also its application – see Policy Decision 3.4. Failure to enforce laws effectively will lead to inequities due to non-performance by some actors, serving to affect adversely the overall performance of REDD+ interventions.

POLICY DECISION 3.4 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	<p>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.</p> <p>b) GoV develops operational structures that offer effective law enforcement to households and communities</p>
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.

POLICY DECISION 3.4

Strengthened law enforcement for a performance-based distribution

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

4: Institutional Framework for National-Level Finance

This chapter analyzes the institutional options for a national-level finance mechanism as part of a REDD-compliant BDS in Viet Nam. The national-level finance mechanism determines the entity or entities that will eventually receive international REDD+ funds and how the REDD+ funds will be distributed among sub-national entities. It is not about the distribution of REDD+ funds to forest managers, which relates to the choice of a sub-national finance mechanism discussed in Chapter 6.

The Chapter seeks to find the answers to the following questions:

1. What are the existing types of finance mechanisms at national level?
2. Which type of mechanism is appropriate for REDD+?
3. Do we recommend use of an existing structure or establishment of a new specialized REDD+ Fund?
4. If there is a specialized REDD+ Fund then at what levels should it operate?

The Chapter starts with a brief review of national level finance mechanisms existing in Viet Nam in Section 4.1, and international experiences are analyzed in Section 4.2. Section 4.3 concludes the Chapter with discussion on key issues and recommendations for a national-level finance mechanism for Viet Nam's future REDD+ Programme, the institutional modifications required and suggested actions.

4.1 National-level finance mechanisms in Viet Nam's forestry sector

There are three primary national-level finance mechanisms in Viet Nam's forestry sector (Table 4.1). Firstly, Viet Nam's central government funds a variety of national programmes that provide earmarked funding for specific objectives from the government budget. National programmes, such as the 661 Programme³⁶, provide earmarked funding for forestry activities through the regular socio-economic development planning and budgeting process. Secondly, an alternative source of funding has recently emerged in the form of various funds, particularly the Forest Protection and Development Funds (FPDF), which remain outside the state's regular planning and budgeting process and are entitled to receive financial contributions from the government budget, private sector and international donors. Finally, there is a more decentralized mechanism applied in many international donor projects, under which the central government takes more of a coordinating role and receives a share of the funds channelled to sub-national entities. The main examples of application of these mechanisms are briefly described below; for a more detailed examination, see Chapter 2.

Table 4-1: National-level finance mechanisms

³⁶ Decision 661/QĐ-TTg of the Prime Minister dated 29 July 1998

Type of mechanism	Viet Nam	International (examples)
Regular government budget	- (Programme 661	- EU agri-environmental schemes - Eco-VAT Brazil
Targeted fund	- Forest Protection and Development Fund - Viet Nam Conservation Fund - Viet Nam Environmental Protection Fund	- national PES schemes in Costa Rica and Mexico - Amazon Fund Brazil - Sustainable Amazonas Foundation Brazil
Decentralized mechanism with national 'tax'	- Modality chosen for many international donor projects - Trust Fund for Forests - Clean Development Mechanism (CDM)	- Indonesia's REDD+ architecture

Government budget: The 661 Programme and Programme 135

The 661 Programme, was launched in 1998 and intended to make a major contribution to increasing Viet Nam's forest cover. Two million hectares were planned as protection forests and three million hectares as production forests and considered an integral part of the strategy for rural and forest sector development (MARD 2001).

Targeted Funds: The Forest Protection and Development Fund

As noted in section 2.4, the Forest Protection and Development Fund (FPDF) was conceived as a novel public-private partnership with the intention of mobilizing available resources in the society for the protection and development of forest resources and improve forest protection and development on the part of people who benefit directly from the forest and those whose actions may have direct impacts on forest resources. There was also the aim of enhancing the efficiency of forest management, utilization and protection.

National-level coordination of donor projects and the Trust Fund for Forests

Most support from international donors to Viet Nam's forestry sector is now channelled through the FSSP, set up in November 2001 better focus international support to the needs of the forestry sector. The idea has been widely supported with a key aspect being greater harmonization of policies and programmes for the sector. The FSSP oversees the TFF that was established in June 2004. This is financing mechanism, pools funds from four donors to address priorities of the forestry sector with regard to pro-poor sustainable forest management in line with a move towards a sector wide approach, reduction of transaction costs, and aligning with administration and planning systems of the GoV.

Table 4-2: Areas of forest under different groups of actors in 2008

Unit: hectare (ha)

	State companies	PAMBs	Other economic entities	Households	Communities	Other org.	Army	CPC (not allocated)	Total
<i>A. Natural forest</i>	1,634,848	3,900,012	24,451	1,902,771	112,489	414,944	196,458	2,162,619	10,348,591
- Timber forest	1,348,265	3,169,753	16,195	1,370,891	95,766	308,129	146,319	1,765,846	8,221,164
- Bamboo forest	123,674	155,525	3,281	170,965	5,901	30,704	11,232	140,048	641,331
- Mixed timber-bamboo forest	143,281	255,082	4,829	112,727	5,078	8,876	36,687	120,522	687,080
- Mangrove forest	9,610	32,719	-	3,580	-	1,673	302	11,877	59,760
- Rocky mountain forest	10,018	286,933	145	244,608	5,744	65,563	1,918	124,325	739,255
<i>B. Plantation forest</i>	470,814	498,699	61,054	1,247,679	28,159	44,865	44,090	374,823	2,770,182
- Plantation with timber stand	242,353	295,546	32,884	494,135	19,599	23,881	22,539	174,235	1,305,172
- Plantation w/o timber stand	203,855	167,731	24,045	559,489	8,002	18,097	20,704	153,208	1,155,132
- Bamboo	3,733	1,793	1,270	78,896	-	724	90	3,342	89,847
- Plantation for special products	19,202	32,467	2,854	109,342	558	2,007	481	40,211	207,122
- Mangrove	1,672	1,161	-	5,817	-	156	276	3,827	12,909
Total (A+B)	2,105,662	4,398,711	85,505	3,150,450	140,648	459,809	240,548	2,537,441	13,118,773

Source: www.kiendlam.org.vn

4.2 National-level finance mechanisms for ecosystem services: international experiences

Corresponding with the preceding review of experience from Viet Nam, one can also identify three basic types of national-level finance mechanisms for ecosystem services at the international level. These include those operating through the regular government budget, the use of targeted funds, and decentralized structures with a national 'tax'.

Government budget

Some BDSs operate through the regular system of inter-governmental fiscal transfers. Payments to central agencies and from the central government to sub-national units take the form of allocations and transfers within the regular government budget.

It is possible to distinguish two types of national payment distribution mechanisms operating through the regular government budgetary system. The first takes a programme approach, as a central agency receives an allocation within its regular annual budget and then distributes the available funding to sub-national entities. Prominent examples of this type are the agri-environmental and commodity production-linked payments to farmers in the European Union. The required financing is handled within the regular budgetary procedures of the member states and system of intergovernmental fiscal transfers between the member states and the EU. In Germany, for example, funds are managed by state-level agricultural ministries, combining their own budgetary resources with contributions from the European Union.

Another type of finance mechanism operating through the regular governmental budgeting procedures takes the form of an ecological tax. In this case, funding allocations are not decided by the central government but depend on the actual performance of sub-national units in achieving certain environmental objectives. A good example of this type is the ecological value added tax (ICMS-Ecológico) in Brazil, even though it was not implemented at the national but at state levels. During the early 1990s, the state of Parana introduced ecological indicators alongside other indicators, such as population, geographical area or economic production, for the distribution of tax revenues. The state administration took advantage of its power to decide about the distribution of one quarter of all revenues from the value-added tax to local municipalities. It has since used 'conservation units' as an ecological indicator, which refers to the total land area in a municipality put under some protection status. By now, many states have adopted this model. The ICMS-Ecológico has been found to encourage the creation of new protected areas (Ring 2008).

Targeted funds

Other BDSs use a targeted fund as the primary mechanism to allocate funds at the national level and distribute them to sub-national entities. Fund-based mechanisms are different from those operating through the regular governmental budgeting procedures, as they are much less dependent on the annual budgeting process and enjoy relative

autonomy in their financial operations. They may still be wholly government-owned, but they may also possess a public or semi-private status. Examples of such funds are those instituted by the Costa Rican and Mexican governments as part of their nation-wide PES programmes, the Amazon Fund, and the Sustainable Amazonas Foundation. Conservation trust funds may serve as a useful model for REDD+ national financing (Spergel and Wells, 2009). More than 50 such funds have been established worldwide during the last 20 years, especially in Latin America, and of these, one of the most successful is considered to be the Mexican Nature Conservation Fund, which allocates funds to each protected area based on performance against goals and work plans (Spergel and Wells, 2009).

Mexico also established a Payment for Environmental Hydrological Services programme in connection with the Mexican Forestry Fund. Funding for PEHS originally came exclusively from a fee charged to federal water users, in effect earmarking a fixed annual allocation from the federal budget. Later on, the budgetary allocation was supplemented by a loan from the WB and a grant from GEF. Neither the PEHS programme nor the Fund have their own operational structures but operate through the National Forestry Commission, which has offices at the national and regional levels. Most recently, the programme has incorporated additional entities at the local level as intermediaries between service users and service providers (Karousakis 2007: 24-25, 29).

Costa Rica introduced a nation-wide PES scheme in 1997. The major financial mechanism at the national level is the National Forestry Financing Fund (FONAFIFO), which was set up to guarantee the scheme's financial sustainability. The Fund has received contributions from the ordinary government budget, international donors, and the private sector. The contributions from the government budget derive from a fuel tax on the consumption of crude-oil derivatives and a conservation fee included in the water tariff. The WB and KfW contribute to both grants and a loan. The private sector purchases 'environmental service certificates' on a voluntary basis, in addition to direct agreements between FONAFIFO and primarily hydroelectric companies and agribusiness. FONAFIFO holds solely responsibility for the operation of the PES scheme, running offices at the national and regional levels. It is overseen by a governing board composed of three central government officials and two private sector representatives (Karousakis 2007).

Brazil established the Amazon Fund in 2008 as a mechanism to receive funds from developed countries and the private sector for forest protection in the Amazon. Most recently, it has signed an agreement with Norway to provide around US\$100 million a year, or up to US\$ 1 billion until 2015. The National Bank for Economic and Social Development (BNDES), a large bank that disbursed some US\$ 40 billion in 2008, manages the funds. The Amazon Fund Guidance Committee exercises limited oversight of the Fund and includes representatives from the Brazilian Development Bank, national ministries, local governments, indigenous peoples, civil society organizations, industry, and farmers (Covington and Baker McKenzie 2009: 51).

The State of Amazonas has set up the Sustainable Amazonas Foundation in 2007. Its mandate is to finance the provision of environmental services from state-managed protected areas. It operates the Bolsa Floresta programme, which is currently its primary task. Its structure includes a Scientific Committee, a Monitoring Group and Working Groups, in which more than twenty government and non-governmental institutions participate (Viana 2008). The State government currently explores the possibility that the Foundation will hold credits for carbon conservation and other environmental services originating from state-managed protected areas in the future. It will sell those on behalf of the State of Amazonas to carbon investors and reinvest the financial receipts into the management of protected areas. It will be overseen by an Executive Body reporting to the state government (Secretariat for Environment and Sustainable Development 2009).

Decentralized mechanism with national 'tax'

A BDS may also take a more decentralized structure and limit the financial involvement of central governments to a tax levy on transactions made between sub-national and international entities. Such a BDS grants sub-national units significant autonomy and assigns more of a regulatory role to the central government. It may seek to coordinate the dealings of sub-national units, demand compliance with certain standards, or approve project proposals but does not require that all funding is channeled through the central government. Sub-national governments may actively participate in the development of projects through contracts with international entities, charge a fee on projects falling under the jurisdiction, or not get involved with the projects at all.

Indonesia's emerging carbon conservation architecture, comprising elements of national legal regime for the implementation of carbon conservation projects promulgated by the Ministry of Forestry, illustrates how such a decentralized finance mechanism may look. The legislation currently being put in place foresees that domestic entities can directly deal with international entities. Proposals for carbon conservation projects targeting the voluntary market need to be submitted to the Ministry of Forestry for approval. They need to include at least a national entity and an international entity. The national entity is either the holder of an 'environmental services concession' from the central government or, where concessions do not apply, the entity designated in the regulations. The international entity may be a foreign government, private company, international organization, or individual. In this way, the regulation explicitly acknowledges that funding for Indonesian carbon conservation projects will come directly from foreign sources (Covington and Baker McKenzie 2009).

Indonesia's carbon conservation architecture is currently largely focused on voluntary market projects. For such projects, a portion of international carbon conservation funds will go to the central government in a form of a 'carbon conservation tax'. The exact portion depends on the kind of land tenure on which carbon conservation projects are developed (see Table 4-3). The Indonesian government receives only 10% in the case of forest to which local communities hold legal title. Its share increases to 50% for state-owned protected forest. The remaining share is divided between local communities and project developers.

Table 4-3: The Indonesian carbon conservation ‘tax’: breakdown by stakeholder

Type of forest permit	Government	Community	Project Developer
1. Permit for utilization of forest timber products in natural forest	20%	20%	60%
2. Permit for utilization of forest timber products in plantation forest	20%	20%	60%
3. Permit for utilization of forest timber products: ecosystem restoration	20%	20%	60%
4. Permit for utilization of forest timber products in community plantation forests	20%	50%	30%
5. Community planted forest	10%	70%	20%
6. Community-managed forest	20%	50%	30%
7. Customary forest	10%	70%	20%
8. Village forest	20%	50%	30%
9. Production forest management unit	30%	20%	50%
10. Forests for special uses (KHDTK)	50%	20%	30%
11. Protected forest	50%	20%	30%

Source: Forestry Ministerial Decree No. 36/2009 (Translation provided by Stibniati Atmadja from Center for International Forestry Research – CIFOR)

4.3 Key issues and recommendations

This section brings together the discussion about the institutional framework for national level structure presented earlier in the Chapter, elaborating recommendations for a national-level finance mechanism for Viet Nam’s future REDD+ Programme, the institutional modifications required and a suggested work plan for implementation. It relates to the following issues:

- The most appropriate mechanism for REDD+ Fund in Viet Nam
- The recommended structure for a specialized REDD+ Fund
- The sub-national levels at which REDD+ Fund should be established
- Phased approach for REDD+ in Viet Nam

Most appropriate mechanism for REDD+ Fund in Viet Nam

The discussions in Section 4.1 and 4.2 elaborated on the three financing mechanisms currently in operation. Obviously, each mechanism has its own pros and cons, summarized in Table 4.4.

For programmes managed within the government budget, such as the 661 Programme, one advantage is that established budgetary procedures are used - funding allocations are integrated into the system of regulatory state budget (though this is also a disadvantage – see below). Another benefit with this system is that auditing is institutionalized, which avoids the need to establish auditing procedures. Payment in these programmes is based (at least theoretically) on performance. Under the 661 Programme, the payment that communities receive is only made after the forest owner has checked the status of contracted forest resources. Finally, the use of state funds can leverage additional

resources. For example, the WB has contributed around US\$ 100 million as a loan for implementation of the second phase of Programme 135 (2006-2010).

On the other hand, programmes employing a financing mechanism embedded within the government budget also have disadvantages. Firstly, as government budget allocations are undertaken at a national level, such programmes may not be effective in accounting for cultural or social diversity in specific locations. Secondly, the established budgetary procedures in use in such programmes tend to be rigid and complex, which imply a complicated REDD+ payment processing. Thirdly, though payment is theoretically based on performance, in practice conditionality is weak, and subject to distortion. Fourthly, participation of non-state actors, particularly local communities, in the planning and decision making is weak. Given that local households and communities are currently legal owners of over one quarter of the national forest resources, and probably more in the near future, their exclusion from participation in governance of government budget allocation is potentially a serious drawback.

For targeted funds, an important advantage is independence from the state budget system, which avoids the complex budget procedures. Another advantage is the flexibility of the fund to allow potential earmarking of revenues for specific purposes. This is useful as it is possible to separate REDD+ funds from other revenues and allows tracking of the fund flows. The third and key advantage of targeted funds is that it is possible to establish tailored rules for use of revenues, thereby allowing easier linkage between benefit distribution and performance by establishing payment conditions and clear indicators of performance.

A major disadvantage of a targeted fund is accountability. As the fund is not part of the state budgetary and auditing processes, appropriate procedures must be established. Similarly, oversight of the fund management may also be an issue as there is no pre-existing monitoring system within the fund.

A hypothetical third option would involve *decentralized structures* (with national taxation). This would be suitable for programmes which permit the spatial allocation of funds; for example, projects run by international entities focusing on specific sub-national areas.

The major short-coming of such an approach is that it is unlikely to be practical for a REDD+ approach based on national accounting and reporting. Although REDD+ interventions, based on analyses of options and costs in each locality, will resemble a project-based approach, an important difference will be the link to revenue flows, which will still involve national-level institutions.

This analysis of pros and cons indicates that a targeted fund is the preferable mechanism for REDD+ as it enjoys greater advantages than the other two mechanisms and its disadvantages are manageable. In particular, a targeted fund mechanism has the potential to link performance to payment – which is core to REDD+ benefit distribution – more easily than the other two. Most importantly, a targeted REDD+ Fund will not be part of the state budget, which removes it from complex annual budgetary processes.

Table 4-4: Pros and cons of different financing mechanisms

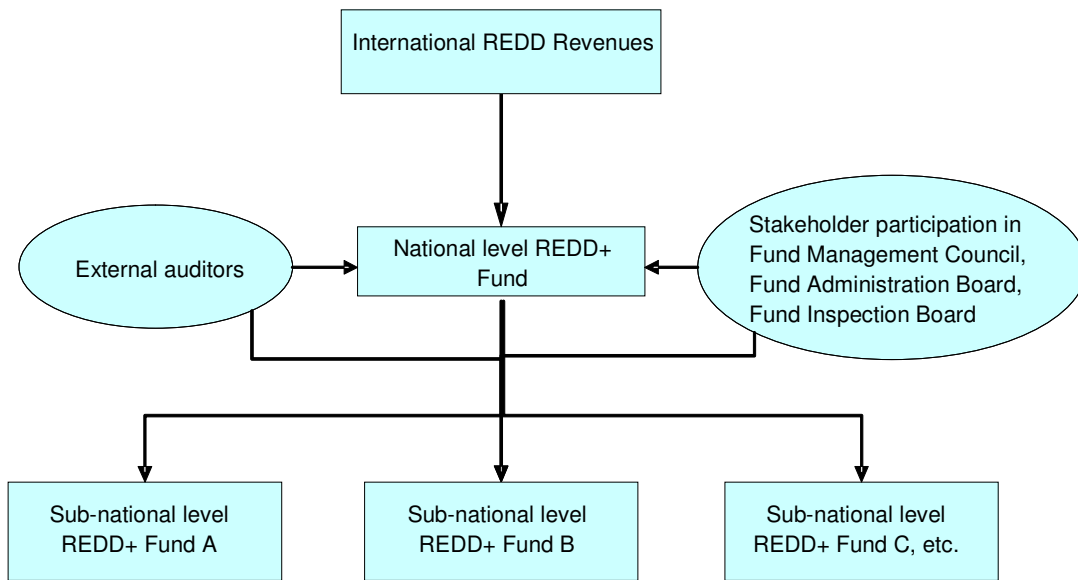
Financing mechanisms	Advantages	Disadvantages
Government budget, national programme	<ul style="list-style-type: none"> - established budgetary procedures with institutionalized audit - payment on performance - leverage on use of funds 	<ul style="list-style-type: none"> - no spatial targeting - rigid and complex budgetary procedures - weak conditionality - poor stakeholder participation
Targeted funds	<ul style="list-style-type: none"> - removes REDD+ funds from annual budgetary process - allows earmarking of REDD+ funds - possible to base distribution on performance 	<ul style="list-style-type: none"> - problem of accountability and oversight, as not part of regular budgeting and auditing process
Decentralized structure (with national tax)	<ul style="list-style-type: none"> - payments based on performance - market and civil society actors produce reasonable spatial allocation 	<ul style="list-style-type: none"> - assumes a project-based approach, which is unlikely to be suitable for REDD+ - under-utilizes developmental capacity of government - political feasibility

The structure for the REDD+ Fund in Viet Nam

As discussed in Chapter 3, a new REDD+ Fund should be used to receive international REDD+ funding, as the current structure of the FPDF does not meet international expectations in terms of governance and audit. In particular, non-state stakeholders, particularly civil society organizations, are not present in the FPDF governance structure, and auditing does not involve external auditors.

Figure 4 presents a suggested institutional structure for a REDD+ Fund for Viet Nam, based closely on the existing structure of the Viet Nam FPDF, but with modifications to meet international expectations and to improve the accountability. The new structure will allow financial auditing by external auditors who are internationally certified. Stakeholder involvement in fund management will also be improved. Members of the Fund Management Council, Fund Administration Board, and Fund Inspection Board at the national level will include non-state actors, particularly those from civil society. These stakeholders will be involved in the discussion, decision making and monitoring of the use and distribution of REDD+ Fund at the national and sub-national levels.

Figure 4.2: Suggested institutional structure for REDD+ funding for Viet Nam



POLICY DECISION 4.1	
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</p>

POLICY DECISION 4.1 Classification of REDD+ revenues and creation of a dedicated REDD+ fund	
	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 to confirm policy option	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.

The sub-national levels at which REDD+ Fund should be established

The GoV will need to define general principles for the distribution of REDD+ benefits at the sub-national level. The principles will include procedural aspects, such as the role of the national and sub-national levels in decision-making, and will address substantive questions related to the criteria to guide the distribution of REDD+ benefits.

A key procedural issue relates to finding the right balance between national standards and sub-national decision-making powers. The 661 Programme and the large donor-funded reforestation projects demonstrate the problems of highly centralized decision-making and implementation frameworks. Experience with more decentralized decision-making procedures from the PFES schemes in Son La and Lam Dong is too recent to allow firm conclusions. Nonetheless, international best practices on PES demonstrate the gains to be made by decentralizing decision-making about the distribution of REDD+ benefits. They suggest that sub-national REDD+ funds will require a certain degree of discretion on how to distribute benefits within their territory. Only decentralized decision-making will ensure that payments are made in relation to actual volumes of conserved carbon and are allocated spatially in accordance.³⁷

A key substantive issue will be the definition of the criteria to guide the distribution of REDD+ benefits. Considering the complexities of auctions, it appears advisable that sub-national REDD+ funds estimate the carbon conservation potential of different kinds of forestland through administrative procedures. These estimations could be incorporated into the distribution of REDD+ benefits by using coefficients, which might be called "R-

³⁷ This recommendation does not imply that the sub-national funds will be fully autonomous. They will have to comply with national guidelines, will be subject to regular audits of their operations, and will be controlled by a Steering Committee including representatives from government, civil society and the private sector (see Chapter 6).

coefficients”, similar to the k-factors used in the PFES schemes of Son La and Lam Dong. Such procedures have the advantage that they recognize spatial variation in carbon storage potentials but are still fairly straightforward to implement. The use of coefficients would also allow the GoV to recognize the production of co-benefits, such as poverty alleviation and biodiversity conservation. In contrast, the use of national-level standards, such as cost norms, would lead to massive inefficiencies in the use of REDD+ finance.

For the level(s) at which the sub-national REDD+ Funds should be established, there are three options (see Table 4.5):

- Option A: REDD+ Fund established at national and provincial levels
- Option B: REDD+ Fund established at national, provincial and district levels
- Option C: REDD+ Fund established at national and district levels

In option A, a clear advantage is that REDD+ Fund can make use of the institutional strengths at the provincial level. Provincial authorities have significant autonomy in policy making and implementation within the territory of the province. There is also established technical capacity (e.g. forest monitoring, forest development and management, and financial management) at the provincial level to assist the operations of REDD+ Fund. In addition, most Forest Companies and PAMBs are directly under the province and thus can provide significant leverage. However, there is also a disadvantage of the Fund being influenced by political interventions by provincial authorities and other strong actors at the provincial level (e.g. provincial technical departments, Forest Companies, PAMBs). In addition, this option also has the disadvantage of not being at the district level (see advantages of being at the district discussed in Option B below).

Option B makes use of the strengths at the provincial level presented above. It also has benefits of being based at the district level. The districts have better opportunities and capacities to respond to locally specific conditions. In addition, compared to the provincial level, district level is more accountable to local population as it is closer to them. Nevertheless, this option does not remove the disadvantage of possible political interventions at the provincial level. It even has a possibility to be influenced by external forces at the district level. In addition, being at the district level also implies additional transaction costs to be borne compared to Option A.

For Option C, a clear advantage is to avoid the disadvantage of political interventions at the provincial level (as mentioned in Option A). In addition, it also has lower transaction costs than the three-tiered structure proposed in Option B. Nevertheless, a major problem is that it does not match with Viet Nam’s system of state administration and bypass the strengths of the provincial level.

It is recommended that Option C (REDD+ Fund established at national and district levels) should not be taken as it bypasses the province, which is an important level of state administration of Viet Nam. Option A may be taken at the beginning to set up and gain experience in operation of the REDD+ Funds, after which district level REDD+ Funds may be set up.

Table 4-5: Pros and cons of different options for REDD+ sub-national level

Options	Advantages	Disadvantages
A. REDD+ Fund established at national and provincial levels	<ul style="list-style-type: none"> - make use of the institutional strengths at the provincial level (policy autonomy, technical capacity, leverage from Forest Companies and PAMBs) 	<ul style="list-style-type: none"> - possible interventions from provincial authorities and other stakeholders. - does not have the advantages of Option B
B. REDD+ Fund established at national, provincial and district levels	<ul style="list-style-type: none"> - see Option A - better opportunities and capacity to respond to local conditions - more accountable to local population 	<ul style="list-style-type: none"> - possible interventions from provincial and district authorities and other stakeholders - additional transaction costs
C. REDD+ Fund established at national and district levels	<ul style="list-style-type: none"> - avoid political interventions at the provincial level - lower transaction costs than Option B 	<ul style="list-style-type: none"> - does not match with Vietnamese state administration system - lose the opportunities to make use of institutional strengths at provincial level

POLICY DECISION 4.2

Sub-national levels at which REDD+ revenues should be managed

Issue to be addressed	<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>
Options	<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>
Recommended principle or policy to be adopted	<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</p>

POLICY DECISION 4.2

Sub-national levels at which REDD+ revenues should be managed

	been built at province and district level, including the establishment of district level funds, Option B should be adopted.
Actions required to confirm policy option	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.

A phased approach to the establishment of a national REDD+ Fund

Pedroni et al. (2009) have recommended a so-called “nested approach” to REDD+ implementation, under which initially project-level and sub-national REDD+ schemes are developed, followed by scaling up to national-level planning and accounting. Such an approach is also embraced by the UNFCCC, for example, in paragraph 5 of FCCC/AWG-LCA/2009/L.7/Add.6.

As noted in Policy Decisions 3.1 and 4.2, piloting of key REDD+ BDS processes is recommended for Viet Nam, which therefore represents a phased approach analogous to the “nested approach”. A small number of provinces and/or districts will be chosen to participate in the programme in a first phase, from which lessons will be learned to permit up-scaling to national coverage. The GoV should identify potential provinces and Districts as soon as possible for piloting REDD+ mechanisms (in addition to the two districts to be covered by the UN-REDD programme in Lam Dong).

5: Costs and Retained Revenues

This chapter reviews options for determining how REDD+ funds might be distributed in Viet Nam. It deals with the need to ensure that payments provide stakeholders with adequate financial and economic incentives to engage in the sustainable forest land and resource uses that are required to reduce emissions.

Specifically, the chapter aims to answer the following questions:

- a) What approximate level of long-term income could REDD+ generate for Viet Nam?
- b) What percentage of REDD+ revenues should be retained by government at central and sub-national levels in order to cover management and administration costs?
- c) To what extent should cost-recovery principles and other economic and financial calculations guide the level at which REDD+ payments are set?
- d) For what purposes and activities should REDD+ funds be retained and distributed?
and
- e) How should REDD+ payments to beneficiaries be phased?

The chapter begins (Section 5.1) by looking at the revenues that Viet Nam may potentially receive as REDD+ payments (Question a). The methodology and process to calculate how much REDD+ funding will flow from the global community to individual countries is still under debate, and lies outside the scope of this study. It is nevertheless important to have in mind a broad estimate of the amount of financial resources that might be expected under different future scenarios and models for REDD+. This will determine the amount of benefits that are available for distribution in Viet Nam.

The main focus of the chapter is on identifying the principles that might be applied to decide how much REDD+ revenue should be retained at different levels, by different groups and for different activities in Viet Nam (Questions b, c, d and e). The chapter identifies three main categories of costs that need to be reflected in the amount and distribution of benefits: implementation costs, transactions costs and opportunity costs. It presents the methods that have been proposed for calculating these costs in the context of REDD+, and looks at examples of their application in Viet Nam and elsewhere (Section 5.2). This section also assesses lessons learned from experiences of factoring additional premiums and incentives over and above cost-recovery (known as “REDD+ rents”) into BDSs. The criteria that have been used to date for determining how forest and conservation revenues are distributed in Viet Nam are reviewed in the light of the likely future requirements of a REDD+ BDS (Section 5.3).

The chapter concludes (Section 5.4) by weighing up the issues, strengths and potential constraints of different options for factoring revenue retention, cost-recovery and incentive considerations into Viet Nam’s REDD+ payment distribution system. It then makes recommendations (Section 5.5) about possible criteria and principles for assessing the costs and activities for which REDD+ funds may be retained and distributed in Viet Nam, specifying informational and policy requirements and identifying a workplan for implementation.

5.1 Analysis of potential REDD+ revenue flows to Viet Nam

The GoV will have to take numerous decisions in implementing a REDD+ compliant BDS. While some of these decisions may be simple and uncontroversial, others may represent significant changes from the traditional approach to benefit sharing in Viet Nam. The willingness of the government to engage in bold and innovative approaches to benefit sharing will depend, in part, on the magnitude of the potential benefits. Therefore it will be advantageous to be able to estimate, at least approximately, the volume of REDD+ revenues that Viet Nam might expect.

Any such estimation, however, faces problems. First, the scope of REDD+ remains under discussion by Parties to the UNFCCC, so it remains unclear as to what might qualify as an emission reduction under REDD+. Obviously, the inclusion of sustainable forest management, conservation and enhancement of carbon stocks (REDD+) would make a significant difference to a country like Viet Nam, whose gross forest area has been expanding over the past 15 years. Likewise, the definition of forest would affect the potential for Viet Nam to earn REDD+ credits. The methodology of formulating the REL, including the time period over which it is calculated will also be significant.

Another set of problems relates to data availability and quality. Accurate assessment of changes to carbon stocks in all five carbon pools considered under REDD+ (above-ground biomass; below-ground biomass, dead wood, litter, and soil organic matter) requires accurate data at a scale that reflects on-the-ground differences in carbon densities, as well as data on forest area change and degradation. Such high quality data is generally not available and certainly not available systematically at a national level. Finally, predicting REDD+ revenues involves predictions of unknown factors, such as the future price of carbon.

Despite these problems, various authors have attempted to make such estimates. For example, Ebeling and Yasué (2008), in a review of prospects for carbon finance at a global level, generate a figure of €43.2 million/year (approximately US\$60 million/year) as potential income from REDD+ through carbon trading for Viet Nam. The Osiris spreadsheet tool (Busch et al., 2009) allows calculations to be made under various scenarios related to REL calculations and other variables, although all estimates are based on deforestation rates only. Depending on the scenario, potential REDD+ revenues for Viet Nam vary widely, up to a maximum of about US\$73 million/year.

Inevitably, such estimates derived from global data sets and based on global models are unreliable at the individual country level. This is especially true for a country like Viet Nam with highly diverse forest types, and where a superficial increase in gross forest area masks the fact that significant losses of natural forests still occurs, while forest degradation is also widespread. A loss of 100 hectares of natural forest, balanced by 100 hectares of new plantations, yielding zero net deforestation, does not equate to zero net emissions due to dramatically different carbon densities, so models using gross deforestation data will under-estimate emissions.

The SNV programme in Viet Nam has been analyzing data related to forest changes using Vegetation Continuous Fields (VCF), a remote sensing product based on low-resolution Moderate Resolution Imaging Spectroradiometer (MODIS) data. Despite the low resolution of the forest change data and the availability of only tier 1 carbon density data³⁸, these sources were combined to provide rough estimates of potential REDD+ revenues based on the carbon content of above-ground and below-ground biomass. The initial conservative estimates by SNV are that net emissions from deforestation in Viet Nam may be in the range of 12 million tonnes of carbon per year. Assuming a carbon price of US\$5/tC (\$1.37/tCO₂), and a 50% success rate nationally in the reduction of deforestation relative to business as usual, this could equate to revenues from RED (i.e. deforestation alone) in the range of US\$55-70 million/year³⁹.

While difficult to estimate, revenues for REDD and REDD+ (i.e., including forest degradation for REDD, and also including enhancement of forest carbon sinks for REDD+) are expected to be higher than for RED. In summary, therefore, annual REDD+ revenues for Viet Nam in the range of US\$80-100 million seem to be realistic. To put this number into perspective, it is triple current ODA to the forestry sector in Viet Nam.

5.2 International practice in defining and calculating the costs of REDD+

There seems little doubt that, in designing a REDD-compliant BDS for Viet Nam, it will be necessary to carry out a rudimentary analysis of how much it will cost to initiate and implement REDD+ measures, and to whom these costs will accrue. Cost recovery is a minimum condition for REDD+ payments to be effective.

Although over the last few years there has been a considerable amount of work carried out on calculating the costs of REDD+, this has focused on determining the overall amount of funding that should be provided by the global community or on producing cost figures at country levels (see, for example, Eliasch 2008, Grieg-Gran 2006, Kindermann *et al* 2008, Stern 2006). These types of aggregated estimates provide very little guidance as to how to determine national costs for Viet Nam, or how to incorporate either the multiplicity of actions that will be required to comply with REDD+ or the ecological, land-use, market, economic and social diversity that exists in the country.

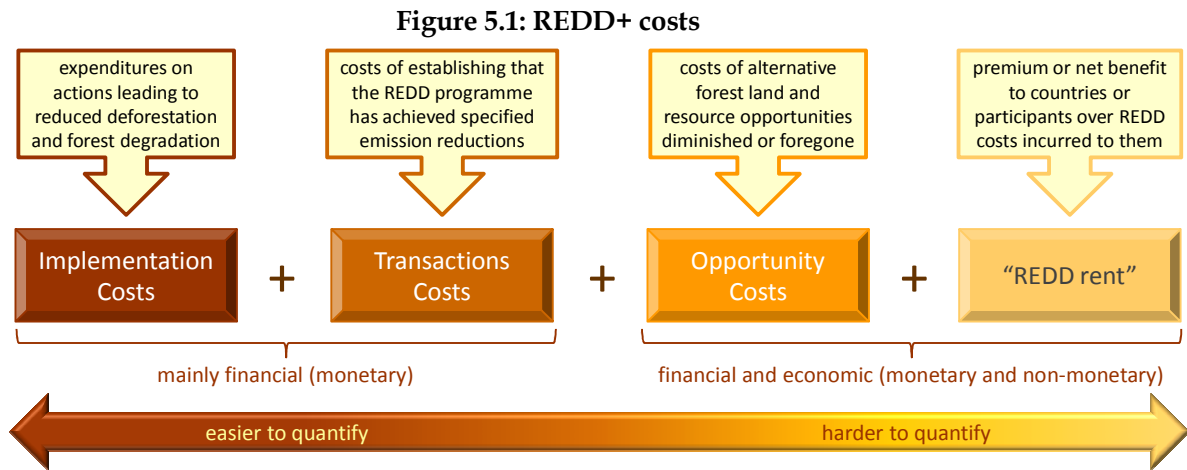
There is however broad consensus that the key costs to be factored into REDD+ BDSs are implementation costs, transactions costs and opportunity costs⁴⁰ (

³⁸ IPCC Good Practice Guidance for Land Use, Land-Use Change and Forestry: <http://www.ipcc-nggip.iges.or.jp/public/gpglulucf/gpglulucf.html>

³⁹ Tim Holland, SNV, pers. comm., 27 Oct., 2009

⁴⁰ These costs are variably interpreted and categorised in the literature. This study takes the three REDD cost elements proposed by the World Bank Forest Carbon Partnership Facility, as documented in Pagiola and Bosquet 2009. Other authors tend to define only two cost elements: transactions costs and opportunity costs (e.g. Wertz-Kanounnikoff 2008, Zarin *et al* 2009), or transactions costs and implementation costs (e.g. Bond *et al* 2009, Ecoscurities 2009).

Figure 5.1). These costs are described in this section. A fourth element, “REDD+ rent” may also be added – this is elaborated in the next section of this chapter. These cost elements provide basic reference points for the design of a national BDS for Viet Nam.



Implementation costs

Implementation costs comprise the expenditures that are directly associated with actions leading to reduced deforestation and degradation, and hence reduced emissions. They include both investment and recurrent costs on items and activities that are required to make a REDD+ programme happen at national, sub-national and field-levels, such as forest management, patrolling, law enforcement, alternative livelihood programmes, law and policy development, training, education and awareness, and so on. In most (although not all) cases they will be borne as budgetary expenditures by national, provincial and district government and by commune authorities.

Although detailed budgetary information on forest conservation expenditures by MARD, DARD and other responsible line agencies is already available in Viet Nam, calculating REDD-specific costs will require the formulation of new budgets against agreed activities and targets. This cost information is relatively easy to put together – the costs are primarily financial (i.e. incurred as cash expenditures on marketed products), and can be calculated in the same way as other government and project budgets.

Transaction costs

Transaction costs are the costs of establishing that REDD+ activities have achieved a

Box 5.1: International estimates of REDD transactions costs

IPCC estimates that it will cost between \$0.05 and \$0.60 per hectare to establish national vegetation carbon inventories (IPCC 2007).

It is envisaged that it will cost countries between US\$14 million to US\$92 million over 5 years to undertake a national-baseline approach to REDD (Hoare *et al* 2008).

R-PINs prepared for REDD activities indicate the average country readiness costs are something over US\$3 million, including just under US\$0.5 million each for REDD

specified level of emissions reductions, and of setting up and managing the payment distribution system. They are usually dealt with separately from implementation costs, because they do not directly reduce deforestation or forest degradation. Including both start-up and recurrent costs, transactions costs comprise expenditures on quantifying existing carbon stocks and measuring changes in them, developing a REDD+ strategy, preparing and negotiating REDD+ projects, validating and verifying them, monitoring and reporting on REDD+ compliance, and so on. The bulk of transactions costs will be borne by government but may also be incurred by forest managers, land and resource users, intermediaries and third-party regulators.

It is worth noting that experience shows that REDD+ transactions costs are likely to be substantial, especially at the set-up stage (Hoare *et al* 2008). Some global estimates are outlined in Box 5.1. An important aspect of the transaction costs is that they are likely to be mostly fixed rather than variable. This means that their cost, when expressed per tCO₂e, will depend on how successfully deforestation is reduced and thus over how great an amount of emissions reductions they are spread (Bond *et al* 2009).

As is with implementation costs, calculating transactions costs for Viet Nam will be a relatively straightforward exercise. It will however necessitate that specific, new budgets for reducing emissions are prepared, the cost elements of which will depend on the global modalities and requirements for REDD+ that are eventually decided.

Opportunity costs

Opportunity costs will probably be the most significant and widely-distributed REDD+ costs. Choosing not to deforest or degrade forests reduces the economic opportunities for using forest lands and resources, meaning a loss of benefits. Examples include income and revenues from harvesting timber and non-timber forest products, or from converting forest land to agriculture or other developments. These foregone benefits are the opportunity costs of REDD+.

Opportunity costs will accrue at all levels in Viet Nam. Examples of national and sub-national opportunity costs include foregone tax revenues from certain commercial and industrial forest land and resource uses. Examples of local opportunity costs include reduced income and other benefits from the conversion of forest to agriculture, and possible reductions in the value of goods sourced from forest products. A key characteristic is that these costs will be for the most part felt as real losses to forest managers in terms of foregone income, subsistence products and commodities. An appreciation of opportunity costs thus has an important bearing when deciding on the amount and distribution of REDD+ payments for different groups.

The difference between the returns to land and resource uses that would degrade or replace forests and those that avoid deforestation or forest degradation is a measure of the opportunity cost (normally expressed as costs per hectare), while the differences in carbon stocks indicates the avoided emissions from doing so (calculated as tCO₂e/hectare). The

Box 5.2: International estimates of the opportunity costs of avoided deforestation in relation to REDD

Research conducted in Cameroon, Indonesia, Peru and the Philippines uses a five-stage method to calculate the opportunity costs of land use change in relation to reduced carbon emissions. After describing major land uses, the model calculates their time-averaged carbon stocks. The third stage is to calculate Net Present Values for the private and social profitability of these land use categories. Land use change analysis using remote-sensing data and ground-truthing is conducted, followed by the identification of carbon-sequestering and carbon-emitting land use changes measured in terms of CO₂eq. The analysis finds that across most of the sites, 80% of land users earned less than US\$5 in revenue per tonne of carbon lost due to land use change. Expressed in terms of tonnes of CO₂eq, the economic gains associated with deforestation are therefore very low. Although nearly all land use changes generated some increase in income for the land user, they did not greatly benefit poor local farmers (Minang *et al* 2008).

A comparison of the profitability of converting forest to oil palm versus conservation in Sumatra, Indonesia was carried out, involving the calculation of opportunity costs of avoided deforestation for landholders. Data on yields of fresh fruit, crude palm oil and palm kernels were collected, and potential revenues were estimated according to alternative pricing scenarios as well as plantation setup and annual operations costs. Five carbon pricing scenarios were applied. The findings show that converting a hectare of forest for palm oil production will be more profitable to land owners (yielding net present values of \$3,835–\$9,630) than preserving it for carbon credits (\$614–\$994), under voluntary carbon markets. Giving REDD credits price parity with carbon credits traded in compliance markets would boost the profitability of avoided deforestation (up to \$6,605). This suggests that unless post-2012 global climate policies legitimise the trading of carbon credits from avoided deforestation, REDD will not be able to compete with oil palm agriculture or similar profitable activities as an economically attractive land use option, in which case REDD will not be able to fulfil its primary function of avoiding deforestation (Butler *et al* 2009).

opportunity costs of reducing emissions relate these two figures, and are presented as costs per tCO₂e.

There is a growing number of examples of opportunity cost calculations in relation to the design of REDD+ schemes (Box 5.2). Most are concerned with determining the level and type of REDD+ payments that will be required to compensate landholders for avoided deforestation.

There are as yet no systematic monetary estimates of the opportunity costs of deforestation or avoiding deforestation in Viet Nam, although studies are currently being carried out in relation to REDD+. Estimating opportunity costs and identifying their distribution between different groups will, however, pose a considerable methodological and practical challenge. The huge diversity of forest types and land uses (and thus emissions reductions potential) in the country, as well as the rapidly changing conditions which will result in the returns to alternative economic opportunities

altering over time, means that the range of opportunity costs which will be faced under REDD+ is almost limitless.

Reflecting cost information in the design of a BDS

In principle, the level of REDD+ payments made both to and within Viet Nam will need at the very minimum to cover the costs that the government and forest users incur from changing their behaviour and shifting their production systems. No participant should incur (or should perceive themselves to be incurring) a net loss from participating in

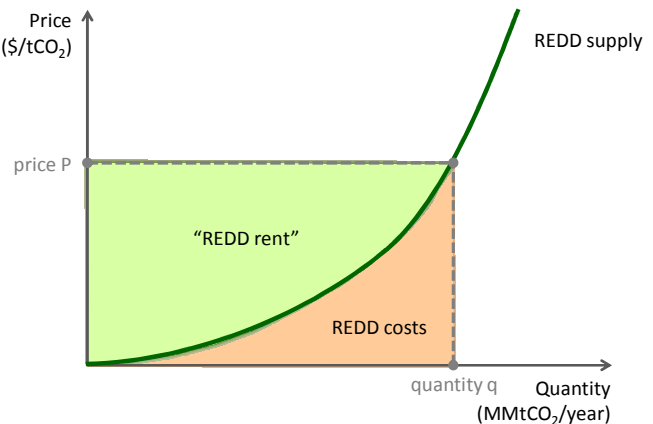
activities to avoid deforestation and forest degradation. This is important from the point of view of both equity and efficiency. National and local stakeholders cannot be expected to subsidise the provision of climate benefits to the global community or industries in other countries (especially if they are already marginalised or vulnerable in economic terms), and in most cases will be unwilling to do so unless their costs are covered. REDD+ will not be attractive to forest managers if they do not feel that their costs are being covered. Cost factors thus form an important criterion in deciding how, where and by whom REDD+ revenues should be retained and payments should be distributed in Viet Nam.

The question then arises as to the extent that cost-recovery principles and other economic and financial calculations should guide the level at which payments and retention criteria are set. Best international practice suggests that quantitative cost data should be combined so as to construct “REDD+ supply” curves for individuals and at the aggregate national level (Bond *et al* 2009, Pagiola and Bosquet 2009, Wertz-Kanounnikoff 2008). These relate the quantity of reduced emissions supplied to the price paid. They thereby indicate the price at which REDD+ payments needs to be set in order to offset costs (or, conversely, the amount of reduced emissions that can be supplied at different prices). Supply curves also illustrate the amount of “REDD+ rent”

that will be generated at each price or point on the supply curve (this is discussed further in the next section of this chapter).

In practice, a much simpler model may be needed at any scale greater than the project level, while still fulfilling the requirements of designing an efficient, equitable and sustainable REDD-compliant BDS. There is a high level of uncertainty involved in estimating (particularly opportunity) costs, and huge and complex data sets are required to construct a REDD+ supply curve. It is not realistic to expect to be able to come up with detailed, credible estimates for all the costs incurred by each and every group in Viet Nam involved in delivering reduced emissions.

Figure 5.2: the REDD supply curve



Box 5.3: Constructing a REDD supply curve

In the Brazilian Amazon, a municipal-level REDD supply curve has been constructed for private landholdings in Amazonas and Mato Grosso. This focuses on opportunity costs. Transactions costs, although discussed, are not explicitly incorporated into the analysis. Gross per-hectare returns to different land uses were calculated, and combined with estimates of timber revenues and transport costs. A future trajectory of progressive land use changes were modelled, using and projecting official land use and land cover change statistics. While different land uses imply different REDD opportunity costs, the maximum carbon price needed to compensate all deforestation costs would be almost US\$13/tCO₂. Findings suggest that at least 1 million ha of projected deforestation could be compensated at costs of between US\$330 million and US\$1 billion, depending on how payment mechanisms are designed (Börner and Wunder 2008).

Some elements of REDD+ costs will be fairly easy to estimate, and will most likely anyway be required both by the Viet Nam government's financial planning procedures and by the funding requirements of REDD+ donors. As mentioned above, it will be relatively straightforward to put together the programme and project budgets that will yield estimates of REDD+ implementation and transactions costs. This should be done at national and sub-national levels. Calculations will employ the financial planning and budgeting methods that line agencies already use and must routinely submit to receive funding from central government. For opportunity costs, it may be practical to envisage a situation where broad opportunity cost norms are established for major land use categories, production systems, agro-ecological zones and forest types in Viet Nam, to be related to the carbon sequestered or released under these different conditions.

The resulting cost information will not provide a blueprint for the exact amount of funding that should be retained and distributed at different levels, or for different groups and activities. Rather, it should be used as a guide to deciding on the amount of revenues to be retained and the benefits to be distributed. Payments should reflect the costs incurred by different actors (and the actions or investments that are required to reduce emissions), but will not be determined solely on the basis of quantitative cost estimates.

Factoring in incentives and "REDD+ rent"

Not all REDD+ costs can be expressed in purely monetary terms. Some will be felt as the loss of non-monetary benefits or of non-marketed goods and services. In many parts of Viet Nam, for example, the opportunity costs of avoided deforestation are not limited to a reduction in income. They may also be felt as losses of unmarketed goods and services (such as traditional healthcare products, wild meat or emergency foods) or through a decline in social wellbeing or other indicators (such as a decline in nutritional standards). Along similar lines, the cash returns to different land and resource uses are not the only factors motivating forest degrading activities – and therefore monetary payments are

unlikely, by themselves, to add up to a sufficient incentive package to persuade people not to deforest.

Box 5.4: Protected area revenue-sharing and benefit-sharing in East Africa

East African countries were some of the first proponents of revenue-sharing and benefit-sharing around protected areas, and continue to have systems that are relatively well developed. In Tanzania, the Support for Community Initiated Projects fund has operated for more than 15 years. This absorbs 7.5% of all the revenues earned by each national park in the country, and allocates them to assist local community development initiatives such as schools, health dispensaries, water schemes and roads. Similar schemes operate in neighbouring countries. The Kenya Wildlife Service allocates 25% of gate fees to local communities, in Rwanda 5% of five per cent of the total revenues from tourism are allocated to community development projects in areas surrounding National Parks, and since 1996 Uganda has formalised sharing 20% of protected area entry fees with adjacent districts and communities.

For this reason, there is broad consensus that local payment mechanisms to compensate REDD+ opportunity costs must usually consider the provision of both cash and non-cash benefits, which will balance the monetary and non-monetary losses that forest land and resource users incur (Bond *et al* 2009, Verchot and Petkova 2009). These BDSs must, in addition to covering costs, provide positive incentives for avoiding

deforestation and forest degradation (Peskett and Harkin 2007).

This fact is well-recognised in Viet Nam, where for at least the last decade most forest conservation programmes and projects have been designed to deliver both cash and non-cash benefits to participants. Examples are given in the next section of this chapter. This reflects common international conservation practice. Across most parts of the world, there is a long history of benefit-sharing in the conservation sector, driven by the need to provide concrete incentives for local authorities and adjacent communities to support conservation. Although examples from REDD+ projects are almost impossible to find due to the early stage of development that most projects are in, Box 5.4 provides examples of the long-established benefit-sharing schemes which operate around most protected areas in East Africa.

In addition to the need to consider both cash and non-cash incentives alongside cost recovery, the topic of “REDD+ rent” has also stimulated a great deal of discussion at the international level in relation to BDSs. As described above (see Figure 5.2), “REDD+ rent” is the premium or net benefit to governments, businesses or households of participating in REDD+, over and above recovery of the costs incurred to them⁴¹ (Zarin *et al* 2009). In many cases, inducing people (or countries) to avoid deforestation and forest degradation does not just require covering their costs, but also providing an additional bonus or reward for undertaking these actions. While it is generally accepted that some premium in addition to the costs should be reflected in the level of REDD+ payments made, there are obvious cautions that must be borne in mind (Bond *et al* 2009). On the one hand, payment levels should minimise rent-seeking behaviour and ensure that REDD+ funds are used primarily to offset the costs of reducing emissions. However at the same time REDD+ rent may represent an important incentive for forest managers and users to participate in REDD+, and thus needs to be factored into calculations.

5.3 Review of approaches and principles for allocating and retaining conservation payments in Viet Nam

A review of past and ongoing forest conservation initiatives in Viet Nam shows that many examples and lessons have been generated on the three topics considered in this chapter, namely: approaches to providing incentives to conserve forests or avoid deforestation, criteria for setting the levels of payment or revenue-sharing that is offered to reward local forest conservation, and principles for determining the proportion of funding that is retained by government and other groups.

Providing economic incentives for forest conservation

⁴¹ In economic terms, “REDD rent” is similar to the concept of producer surplus – the difference between what a producer is paid for a good or service and what it costs them to supply it. Rent also applies to the concept of equating price to the marginal cost of the last unit of avoided deforestation/ degradation needed to meet the desired target: setting price at this level would also yield rents to the non-marginal landholders (Bond *et al* 2009).

It has become relatively common practice in Viet Nam to ensure that economic incentives or rewards for local participation are incorporated into forest conservation activities – although the identification of just what constitute sufficient incentives for local communities is still very much evolving.

Approaches to forest conservation in Viet Nam have shown something of a shift in focus over the last decade: from approaches that emphasised strict protection, through integrated conservation and development models, to the growing use of market-based instruments such as payments for environmental services. There is now a recognition of the need to ensure that economic incentives or rewards for local participation are incorporated into forest conservation activities, although the identification of just what constitute sufficient incentives for local communities is still very much evolving.

As of 2001, integrated conservation and development projects were being implemented in more than twenty SUFs and other protected areas in Viet Nam. All were founded on a recognition of the need to factor local benefits into conservation planning and practice, and incorporated some level of economic, development and livelihood incentives for local communities. According to a review commissioned by the FPD and various international donors, the traditional community development activities that had been implemented in these projects (such as construction of roads, electricity lines, health clinics and schools; agricultural extension; animal husbandry; rural credit, etc.) had in fact had only limited success (Sage and Cu 2001). A major reason for this was their weak link to conservation objectives, and lack of targeting to the actual threats that forests and protected areas face.

A review of the DoF's Community Forestry Pilot Project reaches a similar conclusion (Gilmour and Diem 2008). It notes that although progress has been made in developing forest protection and development plans as well as in forest and forest land allocation to village communities, there remain inadequate financial and economic incentives to encourage village communities to participate in sustainable forest management. The social and financial costs involved in undertaking community forest management can be substantial: there are economic consequences associated with these costs that are often quite severe, particularly for poor people who might have to forego income generating activities in order to participate. Unless initiatives simultaneously ensure that an appropriate level of benefits is generated to offset these costs and to meet local subsistence and income needs, then the uptake and sustainability of community forestry may remain limited.

A number of MARD-led initiatives have made efforts to overcome these problems and have shown some success in achieving the balance of enforcement, benefits and incentives that are required to engage landholders in forest conservation and sustainable use. Two examples are given below. The "Creating Protected Areas for Resource Conservation in Viet Nam Using a Landscape Ecology Approach" or PARC project for example piloted a number of innovative activities linking conservation management objectives with the welfare goals of local communities around Ba Be and Yok Don National Parks and Na

Hang Nature Reserve. The Project for the Sustainable Use of Non-Timber Forest Products was founded on interventions that could contribute both to forest conservation and economic advancement in Ha Tinh and Bac Kan Provinces. They thus dealt explicitly with the need to provide cash and non-cash incentives for forest conservation through the generation of a variety of economic and other benefits. The most successful interventions were those that yielded substantially higher returns than traditional crops, produced non-cash benefits such as timber and fuelwood, and introduced new cultivation technologies and species that allowed farmers to recuperate degraded soils, diversify crop structures and increase production levels (Morris *et al* 2004).

Setting payment levels

The principle of making direct payments to households, individuals and companies to reward or compensate them for forest conservation activities was established in Viet Nam with the introduction of the 661 Programme. A more market-driven approach has been adopted under recent PES schemes. Calculations that guide the level at which payments are set do not however reflect the costs of undertaking forest conservation activities: they are set administratively and determined largely by the value of the service provided as conceived by the government (661 Programme) or buyer (PES). There is some evidence that this may reduce the effectiveness of these payment schemes.

The principle of making direct payments to individuals (or enterprises) to reward or compensate them for forest conservation has become relatively well-established across Viet Nam as a result of the 661 Programme. More recently, PFES schemes being piloted in Lam Dong and Son La Provinces have extended this approach from a reliance on transfers made by the government to payments which originate from the actual users of environmental services. This shift to a more market-driven model has been accompanied by an increasingly sophisticated approach to setting the level of payments. Even under PFES, price determination however remains somewhat lopsided and demand-driven: payments are largely set by the value of the environmental service to the buyer, not according to the costs of production incurred to the communities who provide the service.

The 661 Programme is the prime example of how payments to landholders have been linked to the delivery of particular forest management practices. The background and principles will not be reiterated here, as they are already described in detail elsewhere in this document (see sections 3.2 and 5.1). The programme yields a number of important lessons learned for REDD+ with respect to the level of payments made to contract holders. Several authors have questioned whether the low level of payments in Programme 661 are in fact enough to compensate for the opportunity costs of protecting or restoring forest, as compared to more profitable cash crops. One reason given is that payment levels have been set administratively, rather than being based on an analysis of the real opportunity costs of the activity (Wertz-Kanounnikoff and Kongphan-Apirak 2008).

For example, during consultations conducted with 661 Programme participants in various parts of the country in 2004 (Wunder *et al* 2005), it appeared that the (then) payment rates

of around US\$3 or VND 50,000 per hectare were perceived by most recipients as too low to have significant livelihood impacts, and thus also too low to trigger changes in their resource-use behaviour. In contrast, higher payment levels for reforestation and tending the newly planted forest (up to US\$160 or VND 2.5 million per hectare) seemed to be working well, both because they made a real difference to household livelihoods and due to the fact that they were coupled with technical assistance. It is worth emphasising, however, that there was observed to be great variation in the acceptability of the sums being offered between different sites. Payments were considered trivial by participants in Cu Lao Cham Island in Quang Nam Province and as a consequence, contracted households were not economically motivated and did not put much work into forest protection. In contrast, in Thua Thien Hue Province's A Luoi District, the monthly income from a forest protection contract is VND 300,000 (about US\$20) per contracted household, which is quite significant compared to the per-capita monthly average monetary income of ethnic minority households (equivalent to around US\$5).

It is too early to determine whether the level of rewards offered under PFES schemes in Lam Dong and Son La Provinces will act as sufficient financial motivation for forest users to engage in more sustainable land and resource use activities. In Da Nhim Pilot Commune in Lam Dong Province, for example, more than 200 families are now receiving payments of 200,000 VND/ha/year for the provision of watershed, biodiversity and other environmental services, and this will soon be increased to VND 290,000 (Peters 2009). This almost triples the payment offered for forest protection contracts under the 661 Programme. In Son La, PFES payments remain much lower, on a par with current 661 Programme payments, varying between VND 100,000 and VND 121,000 per hectare (Kosmus and Cordero 2009).

The approaches to setting payments that are followed by Programme 661 and PFES schemes do share some commonalities. Both are standardised and set administratively by government, which, given the diversity of circumstances they must incorporate, is a rational solution. They do not, however, explicitly incorporate any consideration of the costs to land and resource users of providing conservation services, which presents a risk of their turning out to be too low to act as a sufficient inducement for behaviour change. PFES payments do allow for some reflection of market factors (in that they are tied to the consumption or sale of particular products which rely on environmental services), but these are focused very much on the buyer, not the seller, of the service. The calculations performed to determine PFES funding also allow for some variation according to local circumstances by assigning a "K factor" weighting of the standard payment per hectare norms. Again, this does not however account for the variable costs involved in producing environmental services, but is based on the type and status of the forest from which the service is being provided.

Determining the proportion of funding that is retained

There is no clear precedent or standard procedure for stipulating what proportion or amount of revenues should be retained by government in order to cover the costs of managing and administering extra-budgetary, national-level conservation funds. The two examples where specific allowances for retention are provided for (661 Programme and PES payments channelled through the Forest Protection and Development Fund) both allow for a fixed percentage of payments to be retained by government. These levels however seem to have been set somewhat arbitrarily, and are not based on the actual costs of managing and administering the funds.

There are a several extra-budgetary, national-level funding mechanisms for conservation in Viet Nam, although most operate under similar principles: as mechanisms for attracting, retaining and allocating financial flows from various sources. However, there do not appear to be any standard principles to determine the amount or percentage of revenues that is retained by different levels of government in order to administer and manage these funding mechanisms.

Guidelines for retention have not been specified to date for the FPDP, although, as elaborated below, procedures have been set in place in relation to PFES funds. Documentation referring to the newly-established Viet Nam Conservation Fund (the Operational Manual) contains detailed provisions on financial management, but does not make mention of how fund administration costs will be covered or at what levels.

Legislation governing the VEPF makes clear that the fund must ensure “coverage of its managerial costs” (Article 2 of Decision 53, Article 3 of Decision 82, and Article 3 of Decision 35) and that “expenses for activities of managing and administering the Fund’s apparatus shall be covered by Viet Nam Environment Protection Fund’s revenue sources” (Article 2 of Decision 53). Specific proportions or percentages of the overall fund amount are not however mentioned: rather, a list of admissible management and running costs are defined (in part VI of Circular 93/2003/TT-BTC).

The Decisions governing Programme 661 and the Pilot Policy for PFES contain fairly detailed guidance on management fees and funding retention. Both specify that a certain level of funds may be retained for management, and calculate these on a percentage basis. For Programme 661, Decision 100/QD-TTg (updating the percentages suggested in Decision 661) stipulates that “the budget for 661 Programme management is generally calculated as 10% of the total project investment budget, including: 0.7% for central ministries and sectors, 1.3% for provinces, and 8% for local project owners”. Decision 380 specifies that indirect payments (in other words those channelled through Provincial FPDPs) shall be subject to a retention rate of 10%, and the remaining 90% will be distributed to the environmental service provider. If the beneficiary of the environmental service is a state organisation, they may retain for management purposes an additional 10% over and above the 10% which is remitted to the FPDP.

One point to note is that even where retention levels are specified, they do not appear to be based on consideration of what the actual costs of fund management and

administration are, like the norms that are used to determine payments to environmental service providers in the 661 Programme and PFES schemes. In the case of Programme 661 it is argued that the stipulated management fees are not in fact sufficient to cover management and operational costs (van der Poel 2007).

5.4 Conclusions: key issues in REDD+ costs and revenue retention

Drawing together the guidance provided and lessons learned from both international practice and Viet Nam experiences, it seems clear that revenue retention, cost-recovery and incentive considerations must all be factored into Viet Nam's REDD+ BDS. The two basic financial and economic variables which will determine the profitability and acceptability of REDD+, and thus the effectiveness of the programme in reducing emissions, are the costs associated with the programme and the payments received. A BDS is therefore needed that differentiates clearly between different recipients of payments, but also distinguishes between the various types of benefits they may require, and the mechanisms for transferring these benefits (Pagiola and Bosquet 2009).

To these ends, key issues to be considered and criteria to be determined with respect to REDD+ costs and revenue retention in Viet Nam relate to:

- Determining how much revenue should be retained to cover core programme costs;
- Setting payment levels and types for local forest land and resource users;
- Identifying admissible costs and activities to be funded under the REDD+ programme; and
- Timing the disbursement of funds.

Table 5.1: summary of issues, options and lessons learned on REDD+ costs and revenue retention

Issues	Options	Strengths	Constraints
Determining how much revenue should be retained to cover core programme costs	Allocate based on costs incurred and emissions reductions delivered	Makes a clear link between funding and the actual costs of delivering a specified level of emissions reductions, reinforces accurate budgeting and planning	Complex to calculate accurately and difficult to administer, may be more costly to implement
	Allocate according to percentage/flat fee	Easy to administer and may minimise potential disputes between recipients	May be too low to cover costs of delivery, and may encourage rent-seeking behaviour
Setting payment levels and types for local forest land and resource users	Apply standardised cost norms	Easy to administer and may minimise potential disputes between recipients	May be too low to cover costs of delivery and to reflect variation in circumstances and costs. In some cases may not be high enough to provide effective incentives.

Issues	Options	Strengths	Constraints
	Base payments on costs incurred to generate reduced emissions	Provides a clear link to delivery, and allows for variation in circumstances and costs	Can be complex and costly to administer
	Make cash payments only	Provides a clear market reward for individual actions and changed behaviour	Does not allow for non-monetary or community-level costs and incentives
	Combine cash payments and non-monetary benefits	Covers both monetary and non-monetary costs and incentives	May be more costly in terms of funding required, demands a greater level of coordinated planning between and within communities and local authorities
Identifying admissible costs and activities to be funded under the REDD+ programme	Release funds solely against performance targets	Minimises budgeting and financial monitoring needs, and is more flexible for REDD+ participants	May result in budgets being sidelined for other purposes, and mean that emissions reductions are not effectively met
	Specify admissible costs and activities	Uses budgeting tools already required for financial planning and funding release, acts as a cross-check on planning effectively for reduced deforestation	Introduces additional budgeting and financial monitoring requirements, restricts the flexibility of REDD+ payments
Timing the disbursement of funds	Release funds ex-post: after delivery of agreed activities	Provides clear incentives for performance and delivery	Many groups will not be in a position to bear the upfront costs and risks of REDD+ actions, and so may reduce the uptake of actions to reduce deforestation
	Make a phased release of funds from initiation onwards	Spreads the risk of delivery, matches the timing of costs of avoided deforestation actions, engages interest and buy-in for REDD+ actions	Increases the burden of risk for central government, and increases the needs to seek pre-financing and start-up funds

R-coefficients

As has been noted, “K-factors” are factors used as weights for payments to take account of the variation in variables affecting the provision of environmental services, such as forest type and quality. Such factors are equally valid for the conservation of forest carbon as for water or soil. However, there are key differences when it comes to REDD+ and PFES. For PFES, the purchasers of the ecosystem services are local, the contract is direct (or almost

direct) with the providers of the service, so “K-factors” are used simply to determine the appropriate payments to individual households.

In contrast, under REDD+, the purchasers of the conserved carbon are global, and payments are made through national governments and one or more sub-national agencies before reaching the ultimate beneficiaries. Since REDD+ payments are performance-based, but other goals such as poverty alleviation also need to be considered too, it is necessary to develop coefficients to determine the appropriate distribution of REDD+ benefits, initially to provinces, and then to districts and to local beneficiaries.

These coefficients, which might be termed “R-coefficients”, need to reflect a balance between the social and economic goals of the government and actual contributions to emissions reductions, while maintaining a strong link to REDD+ performance. The coefficients will almost certainly differ at the different levels of benefit distribution. Therefore, R-coefficients governing the distribution of benefits to provinces, to districts, and locally need to be developed (i.e., R_P , R_D , and R_L).

Table 5.2 indicates the type of variables that might be included in R-coefficients at different levels. However, a decision on the actual construction of R-coefficients requires further analysis and consultation (see Policy Decision box 5.2).

Table 5.2: Possible Elements of Performance to be reflected in a K-Factor

Level	Element
Provincial	<ul style="list-style-type: none"> • Performance against national performance (as measured by provincial REL) • Provincial GDP as a percentage of national GDP • Percentage of forest land allocated to households (may not ensure payments/benefits get to forest owning households)
District	<ul style="list-style-type: none"> • Contribution to provincial performance (methodology to be developed) • District GDP, as a percentage of provincial GDP • Percentage of forest land allocated to households • Estimate of the carbon potential of relevant land and the progress to meeting that potential
Local; Household	<ul style="list-style-type: none"> • Performance of sub-district entity (household, commune, SOC, etc.) as determined by local, participatorially developed performance metric • Estimate of the carbon potential of relevant land and the progress to meeting that potential

Options	Strengths	Constraints
Allocate based on costs incurred and emissions reductions delivered	Makes a clear link between funding and the actual costs of delivering a specified level of emissions reductions, reinforces accurate budgeting and planning	Complex to calculate accurately and difficult to administer, may be more costly to implement
Allocate according to percentage/flat fee	Easy to administer and may minimise potential disputes between recipients	May be too low to cover costs of delivery, and may encourage rent-seeking behaviour

Options for determining how much revenue should be retained to cover core programme costs

Different different levels of government will be primarily responsible for managing REDD+ funds. As the level to which REDD+ administration and

management might be devolved in Viet Nam is discussed elsewhere in this document (Sections 3.3 and 4.4) it will not be covered here. It should be noted though that from past experience the greater the number of levels of devolution, the higher the relative costs of management will be (as will be the opportunities for rent seeking in the system). So from an efficiency perspective it is preferable to minimise the number of stakeholders in the funding supply chain (van Noordwijk *et al* 2008).

In relation to costs and retention, an important issue is whether the amount of funds retained to cover core management expenditures should be set as a fixed percentage of REDD+ payments, or whether it should be equated to actual costs incurred, in other words whether retention levels should be standardised or differentiated. In practice, the former is generally considered the more realistic option – to specify an indicative percentage that will be allocated for management and administration. Experience shows that this is the formula that is most commonly applied in PFES and similar schemes. Both Programme 661 and PFES/FDPF for example specify a fixed maximum percentage of funds to be retained for management. Similarly, national-level PES schemes such as the National Programme for Hydrological Environmental Services in Mexico and the National Fund for Forest Financing in Costa Rica require by law that administrative costs have a ceiling of 4% and 7% respectively of the total budget (Wertz-Kanounnikoff 2008). For Ecuador’s Water Conservation Fund in Quito, administration costs are limited to 10-20% total expenditure. Under the Federal Constitution, 75% of the revenues from Brazil’s “Ecological Value-Added Tax” are retained at the central level, and 25% allocated to the municipalities; of this share, 75% are distributed according to an index of municipal economic output, and the remaining quarter are distributed according to criteria defined by each state (May *et al* 2002).

In relation to REDD+, most countries are still in the early stages of discussing what a realistic retention rate is and how it will be calculated. In Nepal, for example, there is currently much debate as to the portion of REDD+ payments that the State would retain to cover administrative and monitoring costs, and how this would be divided between different levels of the government administration (Dahal and Banskota 2009). In Indonesia, levels are specified by law, and allow between 10% and 50% to be retained by government (depending on the forest management category; lower levels of government retention apply to Community Forests and Indigenous Peoples’ Forests, and the highest rates apply to Protected Forests and Special Purpose Forest Areas); of this amount, 40% is remitted to central government, 20% to provincial government and 20% to district government⁴² (Government of Indonesia 2009).

The level at which this fixed percentage is set should not, however, be set arbitrarily. This runs the risk of leading to a situation where some groups cannot cover their costs, and may encourage rent-seeking behaviour and inappropriate expenditures among others. It needs to be grounded in reality, in other words it should be informed by the estimated

⁴² This is somewhat ambiguous: although these percentage shares for different levels of government are specified in the 2009 Decree on Procedures for Licensing of Commercial Utilisation of Carbon Sequestration and/or Storage In Production and Protected Forests, it is not clear why they do not add up to 100%.

real costs to be incurred as well as the delivery of specified emissions targets. Retention should reflect effort, performance and delivery.

There are four elements to be considered in setting fund retention percentages: the need to cover physical implementation and transactions costs, to offset any opportunity costs, to allow for an appropriate premium to reward for compliance, and to link funding to the delivery of specified emissions reductions. It is generally accepted that the magnitude of these costs, against agreed budgets, should provide a guide as to how much revenue should be retained at different levels for these purposes. In relation to the premium added, it is important to note that this may not always be a purely monetary incentive for

Options	Strengths	Constraints
Apply standardised cost norms	Easy to administer and may minimise potential disputes between recipients	May be too low to cover costs of delivery and to reflect variation in circumstances and costs. In some cases may not be high enough to provide effective incentives.
Base payments on costs incurred to generate reduced emissions	Provides a clear link to delivery, and allows for variation in circumstances and costs	Can be complex and costly to administer
Make cash payments only	Provides a clear market reward for individual actions and changed behaviour	Does not allow for non-monetary or community-level costs and incentives
Combine cash payments and non-monetary benefits	Covers both monetary and non-monetary costs and incentives	May be more costly in terms of funding required, demands a greater level of coordinated planning between and within communities and local authorities

compliance. It may, for example, be linked to the provision of other benefits from central to sub-national government, or to enabling other, non-REDD+, funds to be accessed.

As elaborated elsewhere in this document (section 5.5), fund allocation should obviously also be contingent on performance: on achieving the specified emissions reductions targets that a given level of government administration is mandated to deliver, according to agreed RELs or other measures. An additional consideration is that any method for calculating retention levels should also be flexible enough to cope with (upwards or downwards) changes in costs over time. The initial costs of

introducing and setting up REDD+ programmes have, for example, been shown to be far higher than the subsequent costs of running a REDD+ programme once it is established (this is discussed further in the section below on the timing and frequency of disbursements).

Options for setting payment levels and types for local forest land and resource users

It is generally accepted that the benefits that are shared with local forest land and resource users must be provided in a sufficient quantity and in an appropriate form to provide incentives for avoided deforestation. If this is not the case, then it is unlikely that any meaningful reduction in deforestation and forest degradation will be achieved.

Four issues must therefore be considered when determining the lowest level of REDD+ payments: how much funding is shared with forest land and resource users, what form the benefits to be shared will take, on what basis funding is released, and to whom it is allocated. The first two issues only will be considered in the paragraphs below; the third (the basis on which funding is released) is considered in the following section, and the modalities of allocation (i.e. to individuals, communities or both) is discussed in detail elsewhere in this document (section 5.4).

Global PES experience emphasises that payments based on the costs of providing a given environmental service (or land use likely to provide them) can strongly improve the efficiency of a scheme (Wertz-Kanounnikoff and Kongphan-Apirak 2008). In practice, almost all PES payment levels are set according to (implicit or explicit) estimates of conservation opportunity costs (GEF 2009). Unrealistically low payment levels that do not at least compensate these costs (or are perceived by land and resource users to compensate them) will likely hinder REDD+ efforts. In many cases non-competitive payments are at least in part the result of levels being set administratively (see above) rather than through direct negotiations and opportunity cost analyses (Wertz-Kanounnikoff and Kongphan-Apirak 2008). This has been a criticism of the 661 Programme. In the case of Viet Nam, it is too early as yet to determine whether the principles for computing PFES payments will result in realistic and effective payment levels.

Some level of opportunity cost-based analysis will likely be needed to determine whether the revenues provided under REDD+, supplemented by national investments and stronger enforcement efforts, will be high enough to displace competing uses of forest land in Viet Nam, such as pepper, coffee and cashew financing in the Central Highlands. As discussed above, the formulation of “R-coefficients” would allow differentiated benefit distribution at each level, reflecting a weighting that allows for variations in payment according to different ecological, economic and sequestration conditions. Payments need to reflect both of the costs of reducing deforestation and the amount of emissions reduced, and to recognise that these will vary between different areas and groups. A second potential area of difference from the existing system for releasing PFES payments in Viet Nam will be the need to ensure that REDD+ payments are contingent on performance in actually delivering emissions reductions (section 5.5 discusses this in detail).

Not only the quantity, but also the quality, of benefits are important—the form in which they are received by land and resource users. This will determine whether benefit-sharing will act as an effective disincentive to deforestation and forest degradation. International experience suggests that local-level forest conservation incentive systems are most effective when they offer a combination of cash and non-cash rewards (Pesket and Harkin 2007). Based on experience in community forestry and forest conservation activities, this would also seem to be the case in Viet Nam (Gilmour and Diem 2008, Morris *et al* 2004, Sage and Cu 2001). This, in turn, has implications for the lowest level at which REDD+ funds are shared. Whereas cash payments require distribution at the household level, investments in broader, non-cash development benefits lend themselves

more to district or commune level implementation. The issue of different administrative levels of payment is discussed in detail elsewhere in this document (section 5.4).

Options for identifying admissible costs and activities

Options	Strengths	Constraints
Release funds solely against performance targets	Minimises budgeting and financial monitoring needs, and is more flexible for REDD participants	May result in budgets being sidelined for other purposes, and mean that emissions reductions are not effectively met
Specify admissible costs and activities	Uses budgeting tools already required for financial planning and funding release, acts as a cross-check on planning effectively for reduced deforestation	Introduces additional budgeting and financial monitoring requirements, restricts the flexibility of REDD payments

Unlike other national-level conservation funding mechanisms that are currently in place, REDD+ funding is contingent on the delivery of a very specific set of emissions reductions targets—rather than being linked to more general environmental or biodiversity conservation goals. REDD+ funding is

linked closely to performance and delivery issues (see section 5.5 and chapter 6). This is recognised in the Readiness Project Identification Note (R-PIN) prepared by the GoV for the WB’s Forest Carbon Partnership Facility, which states “benefits can be directly linked to the results of work performed by these stakeholders on forest protection, that is through increases in sequestered carbon, measured through their participation in forest carbon accounting on the ground. This contrasts with previous strategies such as local forest protection contracts under Programme 661, which ... were not linked to measurable performance indicators; contract holders basically know they will get the payments irrespective of whether they ‘protect’ forests” (Government of Viet Nam 2008a).

Although one option is to release funding only against the delivery of specified emissions reductions targets (however they are set, and whatever metric is applied at different levels – see sections 5.4 and 5.5), this may not be the most efficient or effective way to administer funds. It also may result in budgets not being used in the most appropriate way for reducing emissions, for example being “sidelined” for other purposes and goals which will not result in the eventual delivery of the envisaged emissions reductions. This is a particular risk where sub-national conservation and development budgets are already over-stretched. Experience suggests that the principle of admissible costs and activities is an important one and acts as a cross-check to increase the likelihood of successful emissions reduction activities.

In turn, what would be considered admissible costs and activities is closely dependent on the nature of the costs that must be covered. For the case of government retention and for implementation and transactions costs, identifying admissible costs and activities is quite straightforward. The government financial planning and administration system already demands the preparation of itemised budgets that specify particular expenditures and activities and are linked closely to a more strategic planning framework and goals. These types of detailed budgets will also in all likelihood be required by REDD+ donors.

For payments made to local land and resource users, the specification of admissible costs and activities will be more complex. On the one hand, the principle of opportunity costs and the need to provide a combination of both cash and non-cash benefits provide guidance as to what might be considered admissible costs and activities for provincial or district authorities. In other words, these budgets will need to include expenditures on broader development activities and investments in forest areas as well as on activities directly related to reducing deforestation and implementing a REDD+ programme. It will, however, be difficult to apply these kinds of principles at the lowest level of benefit distribution when releasing payments to the individuals, households or enterprises who use forest land and resources. This is because the types of activities that are required to reduce deforestation are much broader in scope, and much more variable between different areas and land/resource users. The costs of monitoring expenditures at the local level are also likely to be prohibitively high. For these reasons, it is likely that the principle of admissible costs and activities will apply only to the REDD+ funding that is being retained by government. While it will still be important to ensure that direct payments to land and resource users are performance based, they will in all likelihood be contingent on different metrics of performance.

Options for timing the disbursement of funds

Options	Strengths	Constraints
Release funds <i>ex-post</i> : after delivery of agreed activities	Provides clear incentives for performance and delivery	Many groups will not be in a position to bear the upfront costs and risks of REDD actions, and so may reduce the uptake of actions to reduce deforestation
Make a phased release of funds from initiation onwards	Spreads the risk of delivery, matches the timing of costs of avoided deforestation actions, engages interest and buy-in for REDD actions	Increases the burden of risk for central government, and increases the needs to seek pre-financing and start-up funds

A final, and yet important, issue relating to REDD+ costs and retention is the timing and frequency of fund disbursement. This relates both to when funds are received by Viet Nam from the global community, and when benefits are disbursed down the chain at the sub-national and local levels. The modalities and structure of the eventual

global REDD+ system are still under debate but it seems likely that countries will most likely receive REDD+ payments *ex post* or “on delivery” for the carbon emissions avoided through reducing deforestation (Legge *et al* 2008). However, whatever form a REDD+ fund takes, there will still be need for *a priori* or up-front investment. Determining what form and by whom this pre-funding is provided to Viet Nam lies beyond the scope of this document, but the issue of the timing of the release of benefits at the sub-national level is of key importance.

One option is to release funds down the national chain of payment only after the delivery of agreed activities and emissions reductions. Although providing clear links to for performance, this is not likely to be viable in Viet Nam. Most sub-national authorities and land/resource users cannot afford to bear these costs. It will diminish their incentive to participate in REDD+, unfairly transfer the burden of risk, and place a cost on sub-

national authorities and landholders that they cannot be expected to be either able or willing to bear. Some mechanism for pre-financing will need to be established. Experience to date from carbon projects show that the implementation, transactions and opportunity costs of avoiding deforestation at the set-up stage tend to be the highest: over time, the relative costs of delivering a specified level of emissions reductions reduce. Offset projects developed out of REDD+ activities (in the voluntary market so far) show that significant resources need to be deployed upfront to help in structuring and developing of the project (Ecosecurities 2009). Accordingly, REDD+ payments not only need to be high enough to recover development and start-up costs, but any delay in the payment schedule can have significant impacts on the profitability of the operation and the ability of the REDD+ participant to complete the project. (ICF International 2009).

Both Programme 661 and PFES schemes in Viet Nam are based on providing a regular flow of payments to participants, beginning from the initiation of the activity to conserve forests or reduce deforestation (although only the former allows for the release of funds specifically to cover start-up costs). This is an appropriate model for REDD+, as payment scheduling needs to match the regular costs that will be incurred by all groups in delivering emissions reductions from reduced deforestation (Bond *et al* 2009). There is consensus that, at the sub-national level, the most effective mechanism will be to make a phased release of REDD+ benefits, from the preparation and initiation of activities onwards. One way to deal with the potential risks of providing upfront payments before the delivery of emissions reductions would be to adopt an approach similar to that introduced in the sixth KfW-funded forestry project. Here, “savings books” are given to participating households at the Bank for Social Policies, which allow a phased withdrawal of funds and reserve the right to freeze or terminate savings books in case of household non-compliance with the required management practices. This is discussed further in section 5.5 of this document.

5.5 Recommendations and next steps: factoring revenue retention, cost-recovery and incentive considerations into Viet Nam’s REDD+ BDS

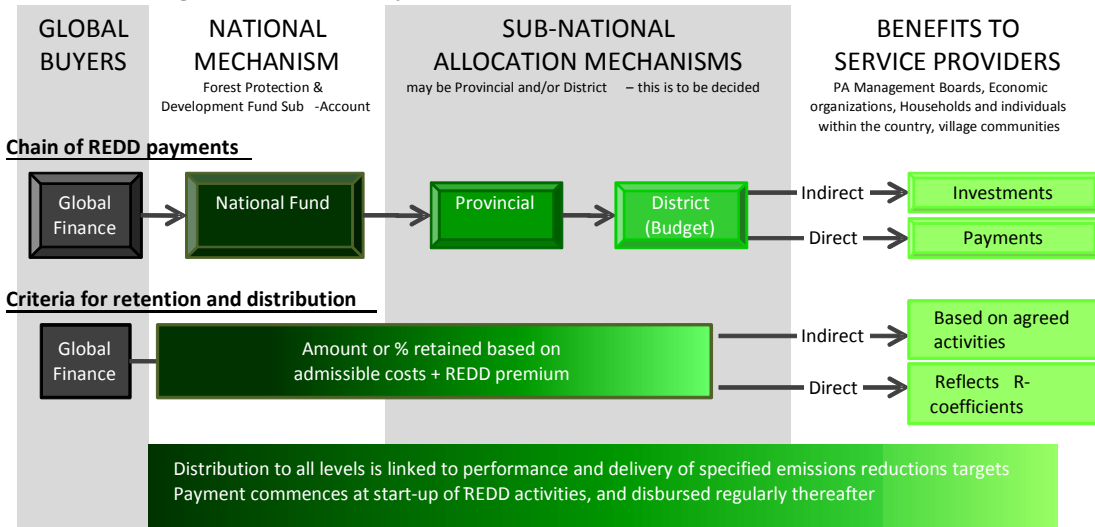
Four key decisions need to be made about cost and retention aspects of Viet Nam’s REDD+ BDS, which are in turn linked to further work and needs for information to be conducted, starting in 2010.

This section brings together the findings and conclusions of chapter 5 and lays out possible criteria and principles for assessing the costs and activities for which REDD+ funds may be retained and distributed in Viet Nam, specifying informational and policy requirements and identifying a workplan for implementation. These relate to:

- Stating the levels or proportion of revenues that will be retained to cover core programme costs;
- Deciding on the methods by which payment levels for local forest land and resource users will be calculated;
- Specifying what will be considered to be admissible costs and activities for funding under the REDD+ programme; and

- Sourcing the funding required to pre-finance benefit distribution until global REDD+ payments are received.

Figure 5.3: Summary of criteria for REDD+ costs and retention



Revenue retention by government

The foregoing analysis has made it clear that transactions and implementation costs form an important part of REDD+ expenditures. In the case of Viet Nam, these costs will primarily be incurred by government. A key question relates to balancing the need for cost-recovery and incentives on the part of government with the obvious requirement that the majority of REDD+ funds are seen to be spent on actions to reduce deforestation. The issues of performance and cost-effectiveness are also of relevance in relation to programme management and administration. As no standard procedures exist in Viet Nam for determining the proportion or amount of national-level environmental funds that are allowed to be retained by government for management and administration, a decision on this will need to be made in relation to REDD+ funds.

It is recommended that 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+.

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.

In order to effect this arrangement, it will be necessary to review the likely costs of managing and administering the national REDD+ programme at different levels of scale. These calculations, and indicative retention levels, will form a component of an on-going workplan.

Table 5.3: Summary of recommendations for REDD+ costs and retention

Issue	Recommendation	Policy action	Items to be factored into an ongoing workplan
Revenue retention by government	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+.	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.
Local payment levels	The level 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, 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.	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.	Will require broad opportunity cost norms to be investigated for different areas, groups, production systems and ecological conditions; design of checks and balances and guidance on calculation of payment weights (similar to the “K-factors” used in current Payment for Environmental Services schemes).
Admissible costs and activities	A broad list of admissible costs and activities to be funded through REDD+ payments should be formulated, which should form the basis of the REDD+ budgets that will be prepared and submitted for approval at the sub-national level. There should be close monitoring of expenditures against these agreed budgets, as well as against the delivery of emissions reductions targets. A different set of metrics will however need to be applied at the local level, although these should importantly include the provision of broad development	In the interests of ensuring that BDSs are both transparent and effective in delivering REDD-compliant emissions reductions, the GoV should make it clear to beneficiaries that there will be certain principles established for the use and spending of REDD+ payments.	Will require a list of admissible REDD+ costs and activities to be prepared, and agreed by stakeholders.

Issue	Recommendation	Policy action	Items to be factored into an on-going workplan
	incentives as admissible expenditures.		
Timing of fund disbursement	The timing and frequency of REDD+ payments made within Viet Nam should be phased to start when actions to reduce deforestation are first initiated, and subsequently disbursed on a regular basis so as to match the timing of costs incurred and to provide a regular flow of benefits to participants. Supplementary funding, from either domestic or international sources, should be sourced to provide this pre-finance.	With a view to shifting the burden of responsibility for pre-financing and bearing the risks of investing in avoided deforestation, the GoV should announce its intention to secure adequate funds to ensure that the distribution of REDD+ payments to participants will begin at the time they commence activities, and will be transferred on a regular basis thereafter.	Will require that indicative projections of required REDD+ cashflows over time are prepared, and initial discussions are held between the GoV and international donors about possible sources of funds to pre-finance payment distribution.

POLICY DECISION 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 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.

Local payment levels

The review and case studies presented have demonstrated that, if local-level REDD+ payments are to be effective in reducing deforestation, they will need to be perceived as being high enough to offset any opportunity costs and other costs that forest users incur and at the same time provide clear incentives to participate in REDD+. These costs and incentives will be both monetary and non-monetary, and will vary substantially between different groups, production systems and sites. As current procedures for calculating payments for forest conservation and the provision of environmental services in Viet Nam neither incorporate opportunity cost considerations nor allow for a mix of financial and non-financial incentives, an appropriate and effective formula for local benefit distribution will need to be agreed for REDD+ funds.

It is recommended that the level 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, 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.

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.

An on-going workplan should therefore include studies to investigate further the opportunity costs of generating emissions reductions through avoided deforestation in different parts of Viet Nam, and under different production and ecological conditions. This will provide a basis for determining broad norms for local payment levels. These might be termed “R-coefficients”, and are similar to the “K-factors” that are currently applied to Payments for Environmental Services.

POLICY DECISION 5.2 Local payment levels	
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 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.</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>c) Apply standardized cost norms; or d) Base payments on costs incurred and amount of emissions reduced. <i>and</i> c) Make cash payments only; or a) 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

POLICY DECISION 5.2

Local payment levels

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).

Admissible costs and activities

This chapter has underlined the importance of linking REDD+ payments to performance in delivering reduced emissions through avoided deforestation, and as far as possible avoiding the possibility that REDD+ funds are “sidelined” or used for other purposes than those intended. In this respect, REDD+ payments will differ from the financial resources being provided under other national-level environmental funds in Viet Nam, which can be used more flexibly by the recipients, towards much broader and less measurable conservation goals. Due to the specific nature of targets to be achieved under the REDD+ programme, it will be necessary to prescribe the costs and activities that are considered eligible under REDD+ funding.

It is recommended that a broad list of admissible costs and activities to be funded through REDD+ payments should be formulated, which will form the basis of the REDD+ budgets that will be prepared and submitted for approval at the sub-national level. There should be close monitoring of expenditures against these agreed budgets, as well as against the delivery of emissions reductions targets. A different set of metrics will however be applied at the local level, although these will include the provision of broad development incentives as admissible expenditures.

In the interests of ensuring that BDSs are both transparent and effective in delivering REDD-compliant emissions reductions, the GoV should make it clear to beneficiaries that there will be certain principles established for the use and spending of REDD+ payments.

To do this, information must be collated about the types of actions that are appropriate to achieving emissions reductions and reduced deforestation in Viet Nam, their distribution between different stakeholders, and their costs. The on-going workplan will require a list of admissible REDD+ costs and activities to be prepared, and agreed by stakeholders.

POLICY DECISION 5.3

Admissible costs and activities

Issue to be addressed	The distribution of REDD+ benefits will be closely linked to actual performance – at national and sub-national levels. Reducing deforestation in a REDD-compliant manner requires that funding is spent on the specific actions and processes which are required to achieve these outcomes, unlike the broader conservation goals and less-defined targets that are associated with existing national-level environmental funds in Viet Nam. There is a need to balance a practical approach to budgeting and financial monitoring with the necessity of ensuring that REDD+ funds are spent on their intended purpose.
Options	a) Release funds solely against performance targets; or

POLICY DECISION 5.3
Admissible costs and activities

	b) Specify admissible costs and activities.
Recommended principle or policy to be adopted	A broad list of admissible costs and activities to be funded through REDD+ payments should be formulated, which will form the basis of the REDD+ budgets that will be prepared and submitted for approval at the sub-national level. There should be close monitoring of expenditures against these agreed budgets, as well as against the delivery of emissions reductions targets. A different set of metrics will however be applied at the local level, although these will include the provision of broad development incentives as admissible expenditures.
Actions required to confirm policy option	<ul style="list-style-type: none"> • In the interests of ensuring that BDSs are both transparent and effective in delivering REDD-compliant emissions reductions, the GoV should make it clear to beneficiaries that there will be certain principles established for the use and spending of REDD+ payments. • Further work will require a list of admissible REDD+ costs and activities to be prepared, and agreed by stakeholders.

Timing of fund disbursement

The information presented above illustrates the multiplicity of costs that will be incurred by different groups in Viet Nam in reducing deforestation and forest degradation so as to achieve REDD+ targets. These are associated with all stages of the REDD+ process, and will start to accrue as soon as actions are initiated. Global REDD+ payments to Viet Nam will, however, most likely be made *ex post* or “on delivery” of specified emissions reductions. There is a clear need to both ensure that *a priori* funding is available to cover these costs (as most participants will not be in a position to pre-finance the upfront costs of REDD+ actions or to bear the risks of delayed payment delivery) and to ensure that there will be a sufficient flow of funds to make payments to participants on a regular basis (so as to ensure continuous incentives, and make funds available as and when costs are incurred by them). This, in turn, requires that appropriate and adequate pre-finance is secured.

It is recommended that the timing and frequency of REDD+ payments made within Viet Nam should be phased to start when actions to reduce deforestation are first initiated, and subsequently disbursed on a regular basis so as to match the timing of costs incurred and to provide a regular flow of benefits to participants. Supplementary funding, from either domestic or international sources, should be sourced to provide this pre-finance.

With a view to shifting the burden of responsibility for pre-financing and bearing the risks of investing in avoided deforestation, the GoV should announce its intention to secure adequate funds to ensure that the distribution of REDD+ payments to participants will begin at the time they commence activities, and will be transferred on a regular basis thereafter.

In order to commence the process of sourcing this pre-finance, initial discussions between the GoV and potential donors will therefore form an important part of an on-going workplan, which will also require that work is carried out on projecting the level of REDD+ cashflows over time that will be required.

POLICY DECISION 5.4 Timing of fund disbursement	
Issue to be addressed	Although it seems probable that global REDD+ payments to Viet Nam will be made <i>ex post</i> or “on delivery”, the costs of undertaking actions to reduce deforestation will start to be incurred well before this. There is a need for <i>a priori</i> funding, especially to cover start-up costs and to foster stakeholder buy-in. Many participants will not be in a position to pre-finance the upfront costs of REDD+ actions or to bear the risks of delayed payment delivery.
Options	a) Release funds ex-post: after delivery of agreed activities; or b) Make a phased release of funds from initiation onwards.
Recommended principle or policy to be adopted	The timing and frequency of REDD+ payments made within Viet Nam should be phased to start when actions to reduce deforestation are first initiated, and subsequently disbursed on a regular basis so as to match the timing of costs incurred and to provide a regular flow of benefits to participants. Supplementary funding, from either domestic or international sources, should be sourced to provide this pre-finance.
Actions required to confirm policy option	<ul style="list-style-type: none"> • With a view to shifting the burden of responsibility for pre-financing and bearing the risks of investing in avoided deforestation, the GoV should announce its intention to secure adequate funds to ensure that the distribution of REDD+ payments to participants will begin at the time they commence activities, and will be transferred on a regular basis thereafter. • Further work will require that indicative projections of required REDD+ cashflows over time are prepared, and initial discussions are held between the GoV and international donors about possible sources of funds to pre-finance payment distribution.

Chapter 6: Eligibility, Principles and Performance in the Distribution System

Sub-national finance mechanisms receive REDD+ funds from the national-level finance mechanism, as proposed in Chapter 4, and distribute them to forest managers. This chapter often makes reference to 'sub-national REDD+ Funds' as the sub-national entity that will receive REDD+ funds from the national level and distribute benefits to recipients on the ground. The term serves as a placeholder for whatever institution the GoV will eventually designate to be in charge of the sub-national distribution of REDD+ benefits. That may be a specialized REDD+ Funds at the provincial or district level, or other mechanisms.

This chapter analyzes the options available for REDD+ finance mechanisms at the sub-national level. Included in this analysis is the type of forestland owners eligible to receive REDD+ benefits and the principles for the distribution of REDD+ benefits at the sub-national level. Factors in the decisions and the final make up of the BDS will need to balance performance-based payments *ex post* with the provision of upfront resources and incentives and the institutional structure for a performance-based sub-national distribution of REDD+ benefits. Along with these there must be consideration of law enforcement required for a performance-based distribution. The Chapter thus seeks to answer the following questions:

- (a) What are the types of forestland owners eligible to receive REDD+ benefits?
- (b) What are principles for the distributions of benefits at the sub-national level?
- (c) What are the institutional components required for the performance-based distribution.

The chapter starts (Section 6.1) by building on the review of experiences with payment systems in Viet Nam's forestry sector in Chapter 2, highlighting key questions of forest resource rights and tenure. Section 6.2 reviews international practices on payment for ecosystem services. How ethnic minorities and forest margin communities' representatives view the past and/or existing pattern of payment for ecosystem services is the subject of Section 6.3. Section 6.4 addresses the question of how the REDD+ benefits are distributed. It reviews Viet Nam's experience with three basic types of allocation mechanisms - the centralized administrative allocation; market allocation; and decentralized administrative allocation - each of which has its own advantages and disadvantages. The distribution of REDD+ benefits at the sub-national level will have to be linked to performance. Section 6.5 surveys experience from Viet Nam and other countries on how payments for ecosystem services can be linked to performance. The chapter concludes with Section 6.6 which highlights the forest owners eligible to receive REDD+ benefits, a set of principles required for distributions of REDD+ benefits, and the institutions components needed for the performance-based distributions.

6.1. Experiences with payment systems in Viet Nam's forestry sector

Viet Nam has abundant experience with the use of payments to encourage the protection of natural forests and the establishment of new plantations. These initiatives and

programmes are discussed in detail in Chapter 2. Most payments have so far been directed towards individual households as well as Forestry Companies and PAMBs. Nevertheless, recent pilots and the community forestry component in the KfW-6 project demonstrate the viability of payments to village communities as a third option. Viet Nam's future REDD+ programme, therefore, may consider the possibility of payments to all three major types of recipients: individual households, village communities/groups of households, and Forestry Companies and PAMBs⁴³. The key question is not what kinds of recipients should be eligible for REDD+ payments but through what modalities and under what conditions should payments be made available.

Households and communities are important recipients for potential REDD+ payments due to the current distribution of forestland in Viet Nam (see Section 4.1). They hold on to large areas of degraded forestland with a high potential for rapid increases in carbon stocks. The distribution of REDD+ benefits to individual households could draw on abundant experience and ready implementation procedures from the past. Nonetheless, the lessons learned from the 661 Programme and the large reforestation projects caution against the use of centralized approaches and point to the high transaction costs incurred by individualized payments. In addition, they demonstrate the need to take special precautions against elite capture.

Distribution of REDD+ benefits to village communities would require the creation of an enabling policy framework and suitable implementation regulations. Despite significant advances made in recent years, distributive procedures involving communities are not an option ready for nationwide implementation. The community component of the KfW-6 project and the Community Forestry Pilot Programme may have produced the required operational procedures for benefit-sharing and payments to communities, but they require corresponding action at the policy and regulatory level. The commune investment funds established under the FLITCH project and other projects outside the forestry sector do not serve as suitable examples.

Viet Nam's current distribution of forestland tenure does not currently provide the required basis for an effective, efficient and equitable distribution of REDD+ benefits. REDD+ requires the GoV to continue forestland allocation, beginning with the 2.5 million hectares allocated to commune PCs on a temporary basis. Moreover, Viet Nam will need to find ways to resolve disputes over forestland. The distribution of REDD+ benefits will only facilitate forest conservation if forestland has an owner that is clearly identified and considered legitimate by other stakeholders.

⁴³ We are conscious about the discrepancy between our three categories and the official classification of land owners in Viet Nam (see Section 4.1). We do not consider joint ventures and private companies because they are largely irrelevant in the forestry sector. We do not discuss the role of mass associations, such as the Veterans Union, as very little is known about their performance in forest management. Mass associations may be a potential recipient of REDD payments, but their role needs to be assessed before any steps can be taken in this direction.

6.2 Experiences with payments for ecosystem services: international best practice

Similar to Viet Nam, international finance mechanisms at the sub-national level also target individual households, communities/groups or private companies/public bodies (see Table 6.1).

Table 6.1: Payment recipients in Viet Nam and other countries

Recipient	Viet Nam (examples)	International (examples)
Individual households	<ul style="list-style-type: none"> • 661 Programme • PES scheme in Son La • WB, KfW and ADB reforestation projects • CDM project in Hoa Binh 	<ul style="list-style-type: none"> • PES schemes in Costa Rica, Mexico, etc. • EU agri-environmental schemes
Local communities/groups	<ul style="list-style-type: none"> • PES schemes in Lam Dong and Son La • community forestry component of KfW-6 project • Community Forestry Pilot Programme • GTZ projects in Son La, Dak Lak, and Dak Nong 	<ul style="list-style-type: none"> • Bolsa Floresta, Brazil • PROFAFOR, Ecuador • CABSA, Mexico
Private companies and public bodies	<ul style="list-style-type: none"> • PES scheme in Son La • 661 Programme 	<ul style="list-style-type: none"> • Noel Kempff, Bolivia • Ulu Masen project, Indonesia • Plantar Carbon Project, Brazil • CDM reforestation project in China

Payments to households

The majority of international PES schemes make payments directly to individual households. Households apply for payments and receive those directly from the entity in charge of payment distribution. This type of PES scheme includes the national schemes in Costa Rica and Mexico as well as the agri-environmental and commodity production-linked payments in the European Union.

Mexico's PEHS programme pays individual landowners for the protection of forests as a proxy for the provision of hydrological services. There are two levels of payment: US\$40/ha for cloud forests and US\$30/ha for other forests. The maximum area private landowners can claim under the programme is 200 ha. Programme payments have covered 600,000 ha from 2003 to 2006, which is significantly below the number of applications received. The programme uses satellite imagery to monitor forest cover once a year (Karousakis 2007).

Under Costa Rica's PES programme, regional NGOs initially undertook the tasks of contracting with farmers. FONAFIFO took over this role itself in 2003 through its eight regional offices. FONAFIFO handles applications, signs contracts, and monitors implementation. Land users receive flat rate payments for limiting their activities to specific land uses, including forest protection (US\$210/ha over 5 years) and, until 2003, sustainable forest management (US\$327/ha over 5 years). Private forest landowners are

required to have a minimum of two hectares to receive payments for forest protection. The maximum is 300 hectares. Between 1997 and 2003, the programme concluded almost 5500 contracts for more than 375,000 ha, 87% of which was for forest protection. This increased to 8,000 beneficiaries and 500,000 ha by 2006, equivalent to 10% of the country's total area. Nevertheless, as in Mexico, only about a quarter of total demand can be satisfied by the programme due to financial constraints (Karousakis 2007).

In the European Union, contracts are also made directly with farmers. Individual farmers submit applications to the local offices of agricultural ministries, which also disburse the payments and, in some cases, control compliance with programme regulations. There are minimum and maximum areas per beneficiary, depending on the particular funding programme. The programmes cover large numbers of farmers in the member states, covering a majority of farmers in most countries.

Payments to communities/groups

Some international PES schemes disburse payments to local communities, associations or other kinds groups of groups. In this case, it is groups which apply for payments and receive them. This type of PES scheme includes the Bolsa Floresta programme in Brazil, PROFAFOR in Ecuador, and CABSA in Mexico.

The Bolsa Floresta programme pays traditional and indigenous peoples living in state-managed protected areas of the Amazon for forest conservation. Local communities commit to preserve primary forests in exchange for financial compensation. The compensation package includes four components: payments to the mothers in participating families (US\$264/year), payments to residents' associations (at a rate of 10% of the payments made to mothers), payments to local communities for the development of productive activities (at an average of US\$1,740/year), and payments to local communities for social investments (at an average of US\$1,740/year). The programme provides additional assistance to communities through support programmes on health and education and sustainable production. By September 2008, it disbursed payments to a total of 2,700 families in twelve protected areas and was processing applications by another 1,500 families (Viana 2008).

The PROFAFOR is an Ecuadorian company financed by Dutch electricity companies to offset their carbon emissions. In 2000, PROFAFOR set a minimum contract size of 50 ha to reduce transaction costs. This effectively excluded individual smallholders in the project area, motivating the company to conclude 43 collective contracts with highland communities until 2002. Communities received an initial payment for seedlings production and (re)forestation and captured the revenues from thinning and harvesting. The collective contracts generated significant benefits for participating households, which amounted to between US\$60 and US\$635 per household, or 6-50% of their annual monetary expenditures (Wunder and Alban 2008).

Mexico's Programme of Payments for Carbon, Biodiversity and Agro-forestry Services (PSA-CABSA) has contracted rural communities to provide environmental services since 2004. The contracts are with rural communities because large areas of land are in the

hands of *ejidos* and indigenous communities in rural Mexico. Rural communities apply to the National Forestry Commission in reaction to annual open calls. By January 2007, it disbursed payments to 60 communities located in different Mexican states for a total of 68,000 hectares. The programme pays communities to plant trees on local commons and to manage common forests in a sustainable manner (Corbera et al. 2009).

Payments to private companies and public bodies

Finally, there are carbon projects in the voluntary market and under CDM that pay forest companies and public bodies for the conservation of forests. Forest companies and public bodies are the applicants and recipients, even though they may decide to use some of the allocated payments for further distribution to local households or communities or to develop contractual agreements with them. Examples of projects working with public bodies are the Noel Kempff project in Bolivia and the Ulu Masen project in Indonesia. The Plantar Carbon project in Brazil and the first reforestation project accredited by CDM in China illustrate how payments are disbursed to companies.

The Noel Kempff Mercado Climate Action Project in Bolivia was established in 1997 under the Joint Implementation scheme. It aims to avoid carbon emissions by curbing deforestation. The Nature Conservancy, a consortium of US companies and the Bolivian government bought out the holders of preexisting logging concessions. It used the acquired land to expand a neighboring national park. The project assists local communities to develop alternative income sources outside logging. Yet ultimately, it is the administration of the national park that benefits from the infusion of international carbon finance (Grieg-Gran et al. 2005: 1517).

The Ulu Masen project in Aceh, Indonesia, is of more recent origin. In 2007, the Government of Aceh formed a public-private partnership with the project developer Carbon Conservation, Fauna & Flora International and Merrill Lynch to reduce deforestation in Ulu Masen. The project is designed to use land use planning, monitoring, law enforcement, reforestation, forest restoration and sustainable community logging to reduce the pressure on primary rainforest. The project aims to sell VERs in the voluntary market (McNally et al. 2009: 32-34), but has encountered problems associated with lack of clarity on land and carbon rights.

Plantar is a reforestation company in Brazil set up in the late 1960s. The company received a purchase commitment for carbon credits by the WB, enabling the company to receive a bank loan for new eucalyptus plantations. The involvement of the local population in the Plantar carbon project is limited to employment opportunities in the company's plantations (Grieg-Gran et al. 2005).

The CDM project on Reforestation for Guangxi Watershed Management in the Pearl River Basin in China involves a shareholding arrangement between a forest company and local people. The company establishes and manages plantations on land held by local people individually and collectively. It shares the benefits derived from forest products and CER transactions with households and collectives. In addition, the company hires local people as plantation workers and pays them for their work. The project will ultimately plant

4,000 ha of tree plantations, hoping to benefit some 5,000 households in 27 villages. Yet project ownership does not rest with local people but the shareholding arrangement promoted by the company with support by the WB (Jin 2009).⁴⁴

Summary

This brief review demonstrates that international schemes disburse payments to a variety of actors, including individual households, village communities/household groups and private companies as well as public bodies. The key question is not whether or not the three basic types of recipients should receive payments but under what conditions and through what modalities.

Individual households, household groups, village communities, SOCs and PAMBs may each hold comparative advantages over each other in particular contexts. Table 6.2 provides a brief overview of the strengths, weaknesses and needs for further action for each type.

The review of international experience once more highlights the critical importance of land tenure. Distribution of benefit systems only work if recipients possess secure tenure to their land. This is a precondition that does not exist in Viet Nam, highlighting the need for further forestland allocation and the resolution of land disputes.

6.3 Views and recommendations of ethnic minority and forest margin community representatives

Although it is difficult to speak about the views of ethnic minority and forest margin communities in general, it is possible to identify concerns shared by many of them. At the broadest level, one finds a strong concern for equity among ethnic minorities and forest margin communities in Viet Nam. Moreover, villagers are very vocal in voicing their equity concerns and use various approaches to do so, including oral communication in informal consultations and formal meetings with government officials, reports to the media, and written complaints and petitions sent to government agencies. Submissions to local government officials and party cells are explicitly encouraged by Viet Nam's government and the Communist Party, as stated in the Decree on Grassroots Democracy (Decree 29), issued in 1997.

Ethnic minority and forest margin communities' concerns over equity center on six key issues. First, they request to be informed about activities affecting them and expect some level of transparency in the way decisions are made and implemented. In the past, villagers have too often been informed insufficiently, or too late about the implementation of 661 and 135 projects. In a village of Hoa Binh, households received only two thirds of the protection payments to which they were entitled. They knew neither the reasons why the local Forest Protection Unit withheld the other third nor the destination of that money (To 2007). In a village in Phu Tho province, most villagers did not even know about the

⁴⁴ The same project also includes a component based on farmer groups. Although the groups have contracted the same company to provide specific assistance, they retain project ownership.

Table 6.2: Strengths and weaknesses of payments to different types of recipients

Type of recipients	Locations	Strength	Weakness	Needs for further actions
Individual households	<ul style="list-style-type: none"> • The area experienced household-based forest protection contract • The area where FLA has been implemented and households received land titles 	<ul style="list-style-type: none"> • Easy to implement the distribution of benefits • Strong incentive for entrepreneurial households to protect forest in order to derive higher income • Easy to bind ES buyers and sellers under a legal contract 	<ul style="list-style-type: none"> • High transaction costs owing to a large number of households • Risk of technical error triggered by the past modalities (e.g. land allocation does not match land use practices) if the new model is inherit database from the past. • Opportunity for elite capture • Implementation of payment can produce tensions between households with and without forest and among the households delivering the same forest with different quality 	<ul style="list-style-type: none"> • Examining of existing land tenure situation • Checks and balance system in place to prevent the elite capture • System of transparency for the marginalized to voice out. • Pro-poor policy implementation to include the marginalized
Household groups/ communities	<ul style="list-style-type: none"> • The area with communal type of resource use and management • The area with remote and/or poor forest thus no incentive for the households to protect 	<ul style="list-style-type: none"> • Lower transaction cost compared to household • Relatively equal access to payment among households in the same group/community • Opportunity for improve social cohesion and supportiveness among the households in the same group • Lower risk of elite capture • Marginalized households can be included in the group thus pro-poor 	<ul style="list-style-type: none"> • Low incentive for entrepreneurial household as effort by one entrepreneurial members does not necessarily leads to higher quality of ES • Opportunity for free rider • ES buyers and sellers are loosely bind into a legal contract thus high risk of violation • Unequal distribution of benefits among different groups/communities with different ES. This may produce tensions among the groups 	<ul style="list-style-type: none"> • Awareness raising campaigns on different kinds of ES, different functions of the ES (K factor) • Creation of enabling policy framework and suitable implementation regulations • Safeguard system set up at the village and commune for households to address complains and concerns particularly about free rider.
SOC and PAMBs	The area with high quality forest (natural protected and/or special use forest)	<ul style="list-style-type: none"> • Very low transaction costs 	<ul style="list-style-type: none"> • Economic incentive may undermine the current reform process as SOCs and PAMBs want to hold on to the land. The problem is difficult to resolve particularly when the relationship between SOCs/PAMBs and local authorities is close • Highly centralized resource management thus forest-dependent dwellers are excluded from the benefits thus potential conflicts that affect the performance. 	<ul style="list-style-type: none"> • Decentralize the forest to individual households • Find way to resolve existing land conflict

existence of a 661 project and associated payments for the protection of their forest. The only villagers knowing about the project – and receiving all the payments – were the village head and his relatives (ibid.).

Free and prior access to information, in order to secure the consent of local communities, will be important for the success of Viet Nam's REDD+ programme. Our fieldwork in Lam Dong, in September 2009, reveals villagers' confusion about the difference in payments they received under PFES payment schemes as they did not receive clear explanation about different functions of ecosystem services leading to different levels of payments.

Part of this process involves the need to create awareness among villagers about forest carbon as a new forest product with monetary value. This need is illustrated by the observations made by the participants of the Regional Community Forestry Forum during a field trip to the CDM project in Hoa Binh in August 2009. The participants noted that villagers generally believed that the project was a regular tree planting project. They appreciated the payments made to them for their labor contributions. Yet they were largely not aware of the basic project idea to produce timber and carbon credits simultaneously. As a result, quite a few villagers committed their land to a timber company, as the deal offered by that company was apparently better than the conditions under the CDM project.

Effective information dissemination will be crucial for successful implementation of REDD+ because REDD+ will most likely result in different levels payments to households and villages. This runs against the common practice in Viet Nam to provide equal payments under the 661 Programme and other forestry projects. Differential levels of payments may easily create tensions and resentment among local people if they do not understand the reasons for the differences. This is illustrated by villagers' initial reactions to the different levels of payments made under the PFES scheme in Lam Dong, as explained to the consultants. In the scheme, payments depend on the hydrological functions of land, which vary with the kind of forest and slope class. As a result, households and villages receive different amounts of payments for land located in the same geographical area. This new practice created significant confusion among villagers, as those did not understand the underlying reasons. Villagers questioned the practice on the basis that they all contributed the same amount of time and effort for protecting forests.

A second equity concern commonly voiced by rural people is about the equitable distribution of state support. This concern applies to the distribution of support within villages and between regular villages and local elites. Within villages, concerns over equitable distribution are typically very strong. For example, villagers in Son La decided to re-organize forest protection contracts among themselves after the first payments had been disbursed. Very few villagers had been willing to sign contracts initially, as they doubted that payments would actually be disbursed. Yet after the initial disbursement, many more villagers wanted to be included in the forest protection contracts. When the FPU did not want to change the contracts in response, villagers re-organized the contracts

among themselves to achieve an equitable distribution of protection payments (Sikor 2001).

Rural people have shown strong reactions to the capture of project support by local elites. In the above-mentioned village in Phu Tho province, villagers sent petitions to local authorities as soon as they found out that the village head had secured all forest protection payments for himself. They joined forces to openly challenge the village head and denounce his practices with higher-level authorities (To 2007). In the above-mentioned village next to Ba Vi National Park, villagers sent written complaints to various local government agencies and even to MARD. In their complaints, they requested the government to crackdown on the practices of the local elite (ibid.).

A third equity concern relates to the equitable sharing of forest resources. These concerns address the distribution within villages, between villages, and between villages and outside actors. Many villages maintain customary forest regulations that provide equal access to local forests. Where forestland allocation has sought to individualize forestland holdings, villagers have either ignored or openly rejected allocation because of concerns that it may lead to an inequitable distribution of forest resources (timber, land, etc.). For example, villagers in Dak Lak have maintained the custom of collectively shared access to forests even though those were allocated to individual households or household groups (Sikor and Nguyen 2007; Sikor and Tran 2007). Villagers in Hoa Binh have ignored individualized allocation by continuing the common use of forestland for shifting cultivation and livestock husbandry (To 2007).

Rural people have also voiced demands for an equitable distribution of forest resources between villages. In Dak Lak, a district government could not uphold the allocation of natural forests to one village because it failed to recognize legitimate claims made by people from a neighboring village. Both villages had used the relevant forest on a customary basis in the past, yet allocation had granted the forest to one village only. In reaction, the forestland recipients did not want to exclude people from the neighboring village and granted them the right to use the allocated forest (Sikor and Tran 2007). In Son La, two villages competing over agricultural land called upon a district government to resolve their dispute. They both demanded control over the land on the basis of different equity claims. They requested intervention by the district PC as a way to achieve an equitable distribution recognized by all involved parties (Sikor 2006).

As for the relations between villagers and outside actors, the key issue to local communities remains the attempts of Forestry Companies and PAMBs to exclude them from access to forests. Villagers throughout the country resent the monopolization of forests by these state entities and connected attempt to stop their customary uses of forest land and resources. In many localities, Forestry Companies and PAMBs have consequently been unable to enforce the exclusion of villagers from forests in practice or even accommodated villagers' claims (Sikor 2004; Sikor and Tran 2007). As long as Forestry Companies and PAMBs hold onto large tracts of forestland and try to exclude local communities from access to forests, particularly to those with standing trees, the conflict between villagers and the state entities will remain a primary cause of

deforestation, forest degradation, the lack of natural forest regeneration, and the failure of plantations (To 2007).

Village leaders have voiced a related concern about the distribution of forest benefits between villages and the state. They observe that village leaders are increasingly expected to take over functions previously assumed by local-level government officials. They face a rising number of responsibilities in forest management and are forced to spend increasing amounts of time and energy on the connected tasks. For example, local government agencies often rely on village leaders to form groups of households and represent them towards the local government, as illustrated by the PFES scheme in Lam Dong. Groups are convenient to local government officials, as they significantly help to reduce the required number of interactions and transactions with payment recipients. Yet they put a significant burden on the leaders of the groups, in terms of the required time input but also the social relations necessary to sustain group activities.

Fourth, ethnic minority and forest margin communities demand participation in decision-making. Villagers want to have a say on decisions that affect their everyday lives. This is a key lesson learned from the implementation of Viet Nam's land allocation programme. Its local outcomes often displayed significant discrepancies with national legislation because villagers influenced implementation decisions. For example, villagers in Son La lobbied a district government not to include wet-rice land in the land use right certificates. They did not want to have them included because they wanted to have the possibility for reallocations in the future. At the same time, they agreed to the definition of upland fields in the land certificates because villagers appreciated the additional security of land tenure (Sikor 2004).

Involving ethnic minority and forest margin communities in decisions about local REDD+ payments will be particularly crucial for the choice of suitable recipients. Local communities do not hold a uniform preference for the recipient of payments. Instead, people prefer distribution of benefits to village communities in some localities, but to individual households or various kinds of groups in other places. If the local implementation fails to consult villagers about the preferable patterns of benefit distribution and payment recipient, villagers may easily disagree with the chosen recipient as illustrated by experience from forest protection contracts. Villagers' reactions to contracts showed that they had different preferences even if they belonged to the same ethnic groups. For example, Dao communities living next to Ba Vi National Park wanted the land distributed to individual households. In contrast, Dao villagers in Hoa Binh province wanted allocation to their village community (To 2007).

A fifth equity concern focuses on the distribution of forestland. Ethnic minority and forest margin communities throughout the country demand the allocation of forestland to them. Even though Viet Nam's government has allocated significant areas of forestland to villagers already, Forestry Companies and PAMBs hold on to the majority of forestland (see Figure 1.4). In addition, a large share of the allocated land consists of degraded forest or bare land. There are approximately 2.5 million ha that are awaiting further allocation as they have been transferred to commune PCs on a temporary basis.

Villagers express their demands for the redistribution of forestland in various ways. Some voice their demands openly in meetings with government officials (Sikor et al. 2004; To 2007). Yet the majority does so by simply ignoring or circumventing the existing distribution of land certificates. They graze their livestock or open up agricultural fields on the land allocated to Forestry Companies and PAMBs, even though they are not allowed to do so by forest regulations (Sikor 2004; To 2007). They extract timber and other forest products in an unsustainable manner, as they would not receive the benefits of sustainable management (Sikor and Tran 2007). In addition, many resent the practice under 661 projects to pay them for the protection of natural forests or reforestation of degraded land but not give them rights to the land. As much as they may welcome the payments, many villagers do not accept the legal allocation of that land to Forestry Companies and PAMBs. As a result, they are unlikely to comply with forest regulations as soon as inspections relax or payments stop (Sikor 2001).

Sixth, villagers holding titles to forestland either collectively or individually call for equitable enforcement of forest regulations. Where ethnic minority and forest margin communities get forestland allocated, they have often not received the necessary law enforcement support – in contrast to the actions aimed against illegal operations taking place on state-owned forest. For example, villagers in Dak Lak tried to stop illegal loggers from encroaching on forests recently allocated to them. Yet they quickly learned that the FPU was not ready to take action in defense of their exclusion rights (Sikor and Tran 2007).

Thus, concerns of ethnic minority and forest margin communities over equity bear direct relevance to the disbursement of REDD+ payments. Their concerns suggest that the design of a sub-national finance mechanism for REDD+ payments need to address the following points:

- Public access to information and adherence to minimum transparency standards
- Equitable distribution of state support
- Equitable distribution of REDD+ revenues between state and villagers and equitable distribution of REDD+ payments between different kinds of recipients and between social groups
- Institutionalization of procedures for community consultation and participation in decision-making
- Continuation of forestland allocation
- Provision of effective law enforcement in support of villagers' forest rights

6.4 The allocation mechanism

If sub-national REDD+ Funds administer distribution of benefits to forest managers then the question is how they can allocate the available funds across space. The Funds will have to make choices on what areas of forestland they want to target REDD+ funds.

Viet Nam possesses experience with three basic types of allocation mechanisms: administrative allocation through centralized procedures, market allocation involving

non-state project developers, and administrative allocation by sub-national governments (see Table 6.3). Each possesses advantages and disadvantages in relation with the other ones. Nevertheless, it appears that decentralized administrative allocation is the preferable option, at least in the medium term. It can build on the experience gained in the pilot PFES schemes in Son La and Lam Dong, is feasible within Viet Nam's larger political economy and avoids the inefficiencies stemming from centralized decision-making procedures.

Table 6.3: Potential allocation mechanisms

	Centralized administrative	Market	Decentralized administrative
Match of allocation outcome with site characteristics	• low	• very high	• high
Efficient use of carbon finance	• very low	• very high	• high
Performance base	• low	• very high	• high
Match with current policy	• high	• very low	• low
Political acceptance (central gov)	• high	• very low	• low
Political acceptance (local gov)	• moderate	• very low	• high
Transparency	• low	• high	• high
Needs for capacity building	• moderate	• very high	• moderate
Transaction costs	• high	• very high	• moderate

The use of a coefficient to differentiate the 'REDD+ value' of different locations opens up special opportunities for sub-national REDD+ Funds to steer the available finance in the most desirable direction. They may decide to exclusively focus on the potential of different sites to produce increases in carbon stocks and use carbon criteria for the calculation of applicable coefficients only. Alternatively, they may choose to consider the

Box 6.2: Potential uses of a coefficient for the allocation of REDD funds

One can imagine the operation of district-level REDD Funds in three different districts. District A includes a protected area with significant biodiversity. District B is located in a remote area with high poverty levels. The population in district C is relatively well off, in part due to commercial tree plantations.

The district-level REDD Funds may decide to use different coefficients for the allocation of payments:

- District A promotes the conservation of biodiversity by giving forest located in the protected area a higher coefficient than forest of equal carbon potential located outside the protected area.
- District B incorporates the objective of poverty alleviation by granting payments made to village communities a higher coefficient than those transferred to Forestry Companies for forest with the same carbon potential.
- District C seeks to encourage plantation owners to extend their rotation cycles by exclusively focusing their coefficient on the carbon potential of forests.

production of co-benefits together with increases in carbon stocks. The use of weighted coefficients would be a practical way to factor attention to the production of co-benefits into the sub-national allocation of REDD+ funds (see Text Box 6.2).

The coefficient would then be applied to the area that was under a performance requirement (hectares) and the degree to which the performance requirement was met (100%, 50% and so on).

6.5 Linking benefit distribution to performance

The distribution of REDD+ benefits at the sub-national level will have to be linked to actual performance. This requirement involves two tasks. First, Viet Nam will have to develop a carbon measurement system that combines appropriate measurement techniques with a suitable institutional structure. The technical aspects of such measurement are not the subject of this report. The focus here, therefore, is on a suitable institutional structure for the assessment of performance. Second, Viet Nam's sub-national payment distribution mechanism will need to make payments dependent on performance. This can be achieved not only by making distribution of REDD+ benefits conditional upon measured performance but also by timing REDD+ payments in an appropriate manner.

Sections 6.1 and 6.2 survey experience from Viet Nam and other countries on how payments for ecosystem services can be linked to performance. It included a brief review of the 661 Programme, pointing out the lack of enforceable conditionality to the lack of a suitable institutional structure. It finds a similar problem in the PFES schemes in Viet Nam and other countries. In contrast, payments in CDM and voluntary carbon market projects are fully based on measured performance, yet they typically require high start-up investments from third parties. The section finally turns to two reforestation initiatives in Viet Nam, as those apply interesting micro finance approaches that combine attention to the required upfront incentives and resources with a clear link to performance.

As pointed out above (see Chapters 2 and 3), to a large extent the current land management system in Viet Nam relies on narrow legal prescriptions to entice appropriate land use. This implies that forest managers are paid for management practices which they are obliged to implement by forest regulations anyway (cf. Wunder et al. 2005). Yet in practice, forest managers often have a choice how they want to use forestland and manage forests. Paying forest managers for forest conservation, therefore, is justifiable in practice and should be closely tied to performance. National legislation, including Viet Nam's forestland classification scheme, needs to provide the required legal framework to do so.

It is clear that Viet Nam's future REDD+ Programme will have to develop new technical and institutional approaches to the measurement of performance. The technical components of performance measurement are clearly recognized and not the subject of this report. Institutional aspects have received less attention but are crucial for a measurement system that is sufficiently accurate to indicate actual performance and recognized by the international REDD+ architecture. The most important step for developing a sound system is to separate the entities that measure performance from those handling payments. The lack of separation creates a conflict of interest that may lead to systematic bias in measurements and will not be acceptable under the international REDD+ architecture.

REDD+ requirements closely parallel those of the Forest Law Enforcement, Governance, and Trade (FLEGT) initiative. Forest law enforcement includes a continuum of measures,

from prevention, detection to suppression with aim to protect the forest from violation triggered by illegal practices. If these measures fail to be effectively enforced, the government is unable to monitor and regulate the forest and consequently REDD+ requirement is not meet. For example, the existing problems of land conversion from the forest to cash crop plantation, stagnation of forest land allocation, illegal timber practices, the huge gap of wood supply for furniture production and export in the country, overlapping and conflicting claims to the forestland and forest resources are barriers to the future of REDD+ in the Viet Nam.

Viet Nam can draw from a variety of experiences with how payments may be linked to measured performance (see Table 6.4). The key issue revealed by the comparison above is that ex post performance-based payments may not provide the ex ante incentives and means required by project developers to improve forest management. Viet Nam’s future sub-national finance mechanism needs to balance the need for ex post performance-based rewards with ex ante creation of incentives and possibilities. An interesting model emerges from the conditional savings books used in KfW-funded reforestation projects. The savings books provide incentives and means for households to engage in tree planting from the beginning, yet they are also tied to measured performance (even though the latter element may need to be strengthened). They include a distribution of risk that may be acceptable to households, bank and state agencies.

Table 6.4: Options for linking payments to performance

	Ex post payments	Ex ante payments	Conditional savings books	Loans with ex post payments
Performance base	• very high	• very low	• high	• very high
Upfront means & incentives	• none	• very high	• high	• very high
Distribution of risk	• recipients only	• mostly government	• recipients and government	• recipients only
Political acceptance	• low	• very high	• high	• low

6.6 Issues and Recommendations

This chapter has identified five key issues that need attention by the GoV:

- The types of forestland owners eligible to receive REDD+ benefits
- Principles for the distribution of REDD+ benefits at the sub-national level
- The balance between a distribution of benefits *ex post* and the provision of resources and incentives upfront
- The law enforcement required for performance-based distribution
- Critical elements of an institutional structure facilitating performance-based distribution

This section revisits each briefly, synthesizing the issue, available options, recommendations and required actions. In addition, it highlights the need for a facilitated learning process on REDD+ involving key stakeholders inside and outside the GoV. The summary of the section is presented in the Table 6.5.

Table 6.5. Summary of recommendations for Viet Nam’s REDD+ benefit distribution structure

Policy issues	Problems/ Constraints	Policy options	Recommendations	Required actions
Forest owners eligible to REDD+ benefits	Most of payments currently channeled to SOCs, PAMBs, households, but groups/communities maybe potential recipients	(i) GoV maintains the same way; (ii) creates legal framework for community to participate; (iii) prioritizes community	- GoV creates a level of playing field for community	(i) Independent evaluations of CFM to be used for formulation of enabling legislation; (ii) Piloting community-based REDD+
Principle of distribution of REDD+ benefits	Inefficiencies in budget allocation owing to centralized administrative procedures	(i) GoV defines REDD+ payments at national level; (ii) creates enabling framework for sub-national REDD+ funds; (iii) transfer payment decisions to sub-national funds	GoV creates enabling framework for sub-national funds.	External evaluations of PFES schemes to serve as foundation for formulating enabling framework
Balance ex post payment with upfront resources and incentives	Carbon finance is determined based on performance. But upfront incentives and resources required for forest management	(i) GoV makes all payments ex post; (ii) disburses benefits upfront and payment is conditional; (iii) combines ex post and upfront incentive and resources	Combine ex post with the provision of upfront incentives and resources	Review existing microfinance in forestry to inform the design of microfinance approach to provide the upfront and incentive. Explore other potential financial sources
Law enforcement	Weak law enforcement. Local households and communities don’t require adequate legal support	(i) GoV makes the recipients liable to non-performance; (ii) waives the liability of payment recipients; (iii) develops effective law enforcement	GoV develops operational structures for effective law enforcement	Community-based law enforcement should be built in regulations; capacity building for officials
Critical elements of institutional structure	The structure needs check and balance systems. Focus on single institution is not effective for allocation	(i) GoV enables district FPUs to receive payments and has other agency checked them; (ii) mandates district	GoV mandates district FPUs to monitor and enforce payment recipients’ compliance	Assessment of institutional structures of PFES schemes in Son La and Lam Dong, of 661 Programme to use for inform the

		FPU to monitor and enforce payment compliance		institutional design sub-national REDD+ scheme
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The balance between a distribution of benefits ex post and the provision of resources and incentives upfront

Viet Nam will only receive REDD+ finance from the international community if it can demonstrate appropriate performance. Moreover, payments by the international community are most likely to take place *ex post*, that is, after the performance has been measured and verified. As a result, the distribution of REDD+ benefits will need to take place *ex post*, even at the sub-national level. Sub-national REDD+ Funds will release REDD+ benefits to recipients only after their performance has been measured and verified. The introduction of *ex post* payments could build on initial experiences gained under the Lam Dong and Son La PFES schemes, which include inspections of contracted forests and the possibility to withhold payments in the case of non-compliance with contractual obligations. Nevertheless, *ex post* payments present a radical challenge to the GoV, as they imply a radical break with past practice.

At the same time, the GoV may want to combine the distribution of benefits *ex post* with the provision of incentives and resources upfront. Viet Nam’s experience with the use of micro finance approaches for reforestation indicates how that can be done. The establishment of conditional savings books would allow sub-national REDD+ funds to create strong upfront incentives and provide forest managers with the means to improve forest conservation, while simultaneously maintaining the principle of *ex post* payments. The GoV could grant sub-national REDD+ Funds such a possibility by making the necessary arrangements with the Bank for Social Policies similar to those under the KfW projects. A national arrangement would allow sub-national REDD+ Funds to apply for a credit line on the basis of expected future REDD+ payments. The Funds could then use the credit line to offer the opening of conditional savings books to prospective payment recipients with the Bank for Social Policies. It would then be up to forest managers to decide if they wanted to take advantage of the offer or wait for the disbursement of payments *ex post*. The necessary bridging funds could come from the government budget, which already provides a large volume of loans to forest managers under the 661 Programme, or ODA.

The conditional savings books would need to be backed up by carefully calibrated risk management. Its overarching principle would be that risks are shared between forest managers, the Bank for Social Policies, sub-national REDD+ Funds and the national REDD+ Fund. Such risk-sharing can be supported by the use of an insurance premium on savings books and the establishment of a national REDD+ insurance. The distribution would need to vary with the kinds of risk, differentiating between damages caused by forest managers’ negligence (e.g., lack of patrolling) and those caused by factors outside forest managers’ control (e.g., large-scale forest fires). The risk management would have to be closely tied to the law enforcement measures discussed above.

POLICY DECISION 6.1 Balancing performance-based payments <i>ex post</i> with the provision of upfront resources and incentives	
Issue to be addressed	Viet Nam will receive international carbon finance on the basis of actual performance, that is, after the performance has been measured and verified. Performance measurement and verification is unlikely to take place on an annual basis and perhaps every five years only. Yet forest managers require upfront incentives and resources to engage in carbon-enhancing forest management.
Options	<ul style="list-style-type: none"> a) GoV makes all REDD+ payments to recipients <i>ex post</i>, that is, after performance has been measured and verified. b) GoV disburses REDD+ payments upfront and makes them conditional upon verified performance. c) GoV combines <i>ex post</i> payments with the provision of upfront incentives and resources through the establishment of conditional savings books
Recommended principle or policy to be adopted	The GoV should combine <i>ex post</i> payments with the provision of upfront incentives and resources. Viet Nam's existing experience with the use of conditional savings books in forestry suggests that they provide a suitable means to balance the requirements of a credible performance base with the needs of forest managers.
Actions required to confirm policy option	There is an urgent need to review existing experiences with the use of micro finance approaches in the forestry sector. The review would inform the design of a suitable microfinance approach to provide upfront resources and incentives under REDD+. In addition, work is needed on potential sources of bridging funding, including government budget and ODA.

The law enforcement required for a performance-based distribution

Linking the distribution of REDD+ benefits to performance requires effective law enforcement support for forest managers. Forest managers can only be held liable for non-performance if they are able to exclude other people and stop encroachment. As soon as forest managers are unable to exercise their right to exclude others, the performance base is lost, or at least significantly weakened.

The future distribution of REDD+ benefits can only be based on performance if Viet Nam finds effective ways to enforce the exclusion rights of payment recipients. As indicated by work on FLEG, current forest law enforcement often targets villagers and other people at the end of illegal logging chains. There is an urgent need to reorient law enforcement to target the actors at higher levels of illegal operations and to enforce forest managers' exclusion rights. Effective law enforcement will have to combine activities undertaken by FPU with higher-level operational capacities, such as a central forest inspectorate with a hotline for reports about abuses of power by lower-level units.

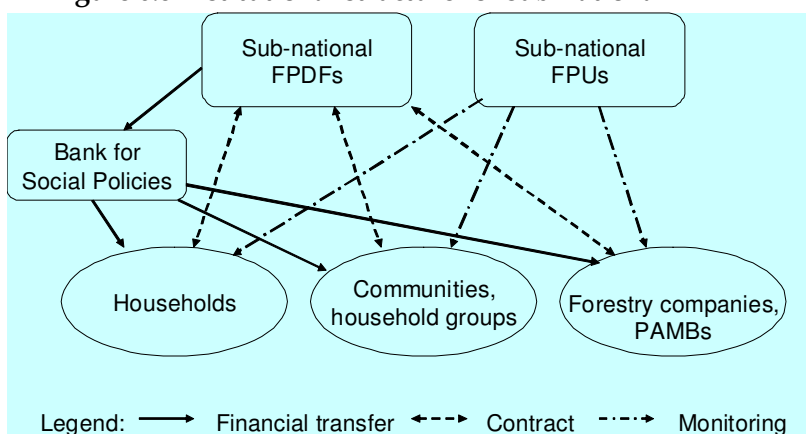
POLICY DECISION 6.2 Strengthened law enforcement for a performance-based distribution	
Issue to be addressed	Forest law enforcement continues to be weak in Viet Nam. In particular, issues such as illegal logging and encroachment have the effect of counteracting other initiatives undertaken to reduce 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 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

Improving forest law enforcement in Viet Nam will require significant investments and take time. In the meantime, the GoV needs to develop procedures to regulate the liability of forest managers. For example, forest managers may not be held liable for carbon losses if they report encroachments in a timely manner.

Critical elements of an institutional structure facilitating performance-based distribution

The GoV needs to develop an institutional structure for a performance-based sub-national distribution of REDD+ benefits. A critical element in such an institutional structure will be the strict separation of tasks in order to achieve a system of checks and balances. A suitable institutional structure is depicted in Figure 4.2. Sub-national REDD+ Funds make regulatory decisions about the distribution of REDD+ benefits and offer the establishment of conditional savings books to prospective recipients. They also handle the distribution of payments and receive a management fee in return. Sub-national forestry divisions monitor forest managers' compliance with legal and contractual conditions and perform the local-level carbon monitoring together with prospective

Figure 6.8 Institutional structure for sub-national REDD+



payment recipients. The Bank for Social Policies handles all payments and savings books against a small fee. Individual households, village communities/groups, and Forestry Companies/PAMBs receive REDD+ payments and have the opportunity to open conditional savings books if desired.

The separation of tasks implies a move away from the implementation structure used in the 661 Programme. A key reason for the failure of many 661 projects is that district-level agencies combine the tasks of implementation and control, leading to conflicts of interest and biased performance assessments. Under Viet Nam’s future REDD+ programme, district-level forestry agencies should not be allowed to receive REDD+ benefits (except certain management fees), as they have the mandate to monitor and enforce compliance with forest regulations. Similarly, Forestry Companies and PAMBs should only be allowed to receive REDD+ benefits if they accept monitoring by district-level forestry agencies.

POLICY DECISION 6.3 Institutional structure for a performance-based sub-national distribution of REDD+ benefits	
Issue to be addressed	International best practice demonstrates that right institutional design is a precondition for the success of performance-based payments. Institutional structures only achieve to efficiently allocate and credible enforce payments if they include a system of checks and balances among several institutions. A focus on a single institution often creates a conflict of interests detrimental to an efficient allocation of project funds and effective conditionality of payments. This is also a key lesson learned from the weak performance of 661 projects in Viet Nam where district-level FPU's and Forestry Companies often combine the tasks of implementation and enforcement.
Options	a) GoV enables district-level FPU's to receive payments and puts another agency in charge of enforcing their compliance with forest regulations and contractual conditions.

POLICY DECISION 6.3	
Institutional structure for a performance-based sub-national distribution of REDD+ benefits	
	b) GoV mandates district-level FPU's to monitor and enforce payment recipients' compliance with forest regulations and contractual conditions, ruling them out as a payment recipient
Recommended principle or policy to be adopted	The GoV should mandate district-level FPU's to monitor and enforce payment recipients' compliance with forest regulations and contractual conditions against a suitable fee. They should not be eligible for REDD+ payments, though, as that would create a conflict of interest.
Actions required to confirm policy option	The GoV should assess the institutional structures used for the implementation of the 661 Programme and PFES schemes in Son La and Lam Dong. The assessment should inform the institutional design of the sub-national component of Viet Nam's future REDD+ Programme.

The need for a facilitated learning process

REDD+ will require the GoV to make significant changes to Viet Nam's forest policy. Therefore, it will be crucial to involve a wide range of stakeholders from inside and outside the GoV in a learning process on REDD+. The learning process could take place through the REDD+ Network and Working Group set up by the GoV recently. It would require professional facilitation by a qualified resource person.

Over the course of 2010, the REDD+ Working Group could visit selected projects that provide relevant insights for the design of a REDD+ sub-national finance mechanism. The visits would need to be prepared and evaluated carefully with suitable technical assistance. The REDD+ Network could serve consultations at regional and national levels on critical issues and priority needs arising in relation to the REDD+ sub-national finance mechanism.

In the medium-term (2011-2013), the REDD+ Working Group could be a suitable vehicle to coordinate a variety of REDD+ pilot projects and to synthesize lessons from them. Again, the Working Group would require technical assistance to do so.

7: Monitoring Performance

Monitoring is an essential component of any BDS. This chapter identifies the concepts, ideas and requirements for monitoring REDD+ Benefit Sharing for Viet Nam. The two basic financial and economic variables which will determine the profitability and acceptability of REDD+ for its participants in Viet Nam, and thus the effectiveness of the programme in reducing emissions, are the costs associated with the programme and the payments received (see Sections 5.1 and 5.2).

The principles that will determine the acceptability of REDD+ for participants outside Viet Nam are those that will confirm the effectiveness of the programme in reducing emissions. In particular, as noted previously in this report, the key principles include:

- Performance-linkage
- Additionality
- Equity
- Transparency

A REDD-compliant BDS must therefore satisfy each of these key principles, and monitoring must provide the basis for demonstrating that each principle has been satisfactorily addressed. This implies that there need to be four monitoring functions, as shown in Table 7.1, below:

Table 7.1: Monitoring functions in a REDD-compliant BDS

Type of monitoring	Key principle addressed
Monitoring of changes in emissions	Performance-linkage
Monitoring of REDD+ interventions and actions	Additionality
Monitoring of revenue disbursement	Equity
Monitoring of financial transactions	Transparency

This chapter begins with a review of the principles and practices of effective monitoring, with particular reference to REDD+ (Section 7.1). Thereafter, in section 7.2, each of the four monitoring functions described in Table 7.1 is considered in the context of Viet Nam. Section 7.3 considers appropriate institutions to implement the required monitoring functions. Inevitably, any BDS is going to generate cases of complaints and dissatisfaction, so, a comprehensive system has to allow for a process of recourse, and this is discussed in Section 7.4. Finally, options and recommendations for developing and implementing effective REDD-compliant monitoring systems for Viet Nam are presented in Section 7.5.

7.1 Principles and practices of effective monitoring

Principles of effective monitoring

Different options are being discussed internationally for monitoring, reporting and verification that balance participation and ownership by stakeholders with enhanced transparency and accountability. The best approach will depend on the aims of the standards and the interests of the users. The draft REDD+ Social & Environmental Standards⁴⁵ from the Climate Community and Biodiversity Alliance (CCBA) proposes some principles. These include some that relate to Benefit Sharing:

- Principle 2: The benefits of the REDD+ programme are shared equitably among all stakeholders and rights holders.
- Principle 3: The REDD+ programme contributes to sustainable livelihoods and poverty alleviation for forest-dependent peoples.
- Principle 4: The REDD+ programme contributes to broader sustainable development and good governance objectives.
- Principle 6: All relevant stakeholders and rights holders are able to participate fully and effectively in the REDD+ programme.
- Principle 7: All stakeholders and rights holders have timely access to appropriate and accurate information to enable good governance of the REDD+ programme.

Monitoring of a REDD+ process may have to check for the implementation of principles such as these, and the related criteria and indicators, against the appropriate metrics. Principles 2, 3, 6 and 7 can conceivably have monitoring processes that relate to them and would require the consideration, development and implementation of suitable measures and metrics. There is also the requirement to identify the options with respect to those who might do monitoring.

Eventually, if not immediately, the types of monitoring and implementation that the commercial markets and private sector demand will need to be incorporated in a comprehensive monitoring programme. Experience from payments for environmental services demonstrates that the reach of commercial interests has been generally limited to payments for products, volumes of water for example, at the point of take-off. The reporting requirements for the private sector then took over 'above' that take-off point. Carbon will rest *in situ* and it may be that the requirements for monitoring to meet commercial comfort levels will extend to that 'take-off' point being the local ground level. Reporting on implementation may also be needed by commercial actors.

⁴⁵ CCBA Version 2 October 2009 Draft REDD+ Social & Environmental Standards

From the consideration of research and experience on benefit sharing, participatory monitoring and related aspects a set of **overall principles** can be identified, together with a set of **operational principles** governing management planning and financing of

Box 7.1: Principles of monitoring

Overall Principles:

- International REDD revenues will be distributed on a transparent, clearly explained and understood and equitable basis.
- The incentives directed to influencing the practices and behaviour should be provided at the lowest feasible level, down to local communities and local government as much as possible.
- Revenues retained by central government and sub-national entities will only cover their costs of administering the revenue distribution system.
- REDD revenues contribute to sustainable livelihoods and poverty alleviation for forest-dependent peoples.
- All relevant stakeholders and rights holders are able to participate fully and effectively in REDD.
- All stakeholders and rights holders have timely access to appropriate and accurate information to enable good governance of the REDD.
- The relevant commercial monitoring and financial checks and balances will be required.

Operational Principles:

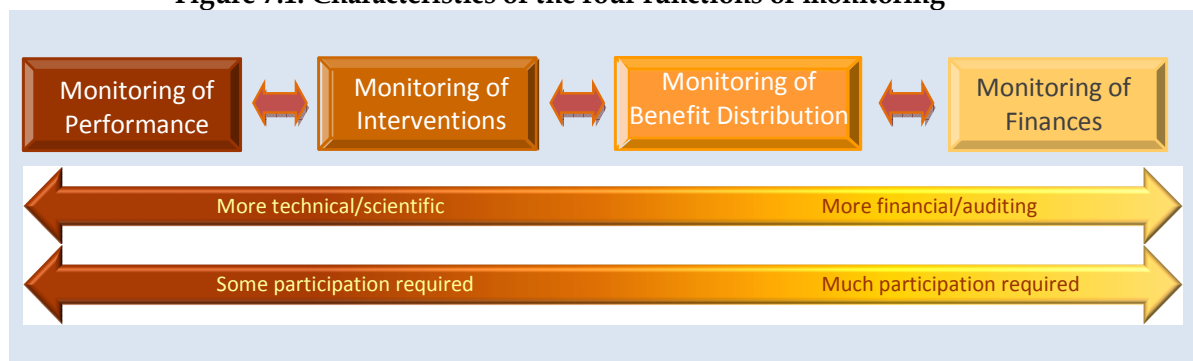
- Monitoring should be based on clear, accepted and simply measured data
- Monitoring should be conducted at the lowest level that balances costs of monitoring and meaningful metrics
- Capacity to measure must be present or can be built
- Methods and means of monitoring should be consistent between measurements in space and time or the data collected able to be compared between samples in space and time.

monitoring that will be critical for credibility (see Box 6.1). Meeting the requirement for equity, effectiveness, efficiency and transparency will be a function both of what is measured, and its relevance, and the source of data that is measured, who carries out the monitoring. There is a wide range of data and information to be collected, processed, analysed and reported. It will range from operational data to the more sophisticated measures that may be needed for monitoring transactions.

An important consideration is therefore to determine the degree of participation required for each monitoring function, and the institutions that need to be engaged in

the monitoring. The nature and degree of participation that is feasible vary by the type of monitoring, as shown in Figure 7.1, below:

Figure 7.1: Characteristics of the four functions of monitoring



Given this, the main policy decisions concern the degree of participation involved in the different monitoring functions, and the institutional arrangements for each. That is; where do the appropriate mixes of capacity, skills and independence exist already that

can be applied to monitoring and if not how can they be developed. The potential mix of participation and capacity is identified throughout this chapter, commencing with an examination of participatory monitoring experiences in natural resources and research.

The need for participatory monitoring and options for methodologies

The term “participatory monitoring” identifies measuring activities that involve local people. In many, most, cases they may have not received training and will have differing skills and interests. Nonetheless local people can record information about their landscape. Monitoring has been conducted by local people for timber harvesting, non-timber forest products, and other aspects and involves vegetation samples, transects, fire calendars, field diaries, community workshops, rainfall measurements and many other metrics⁴⁶. Reasons to monitor include:

- Monitoring helps forest and land managers and users to answer questions or concerns
 - Having or developing clear questions is a key element in developing a programme, local people can participate by defining and asking core questions, or experts, professionals and authorities can define the questions, in any case local people can provide the data.
 - The data collected depends on the questions and must relate clearly and explicitly to management goals.
- Monitoring “creates a culture of questioning” and acts as a “catalyst for learning processes” about the landscape and the cycle of planning, action, assessment and learning
- For REDD+, monitoring is potentially a key, and essential, means of checking on compliance with standards, norms and procedures and identifying enforcement requirements.

One REDD+ related proposal⁴⁷ identifies the need for a “Transparent, Multi-stakeholder Disbursement Mechanisms in-country”. For the purposes of the proposal they make the Prince’s Rainforest Project has identified a need to ensure that the “funds provided would be used effectively and equitably.” It is appreciated that addressing the drivers of deforestation will require the involvement of local communities, the private sector, indigenous peoples, NGOs and provincial/district governments. They point out national governments would play a key role but a multi-stakeholder approach would also be needed. The incentives and altered circumstances that are directed to influencing the practices and behaviour of the various actors should in principle be provided at the lowest feasible level, down to local communities and local government as much as possible.

Forest Trends⁴⁸ evaluated the key issues and challenges facing evaluation of social benefits from multiple PES projects. They found that the cost of conventional impact

⁴⁶ Evans, Kristen and Manuel R. Guariguata 2008 Participatory monitoring in tropical forest management: a review of tools, concepts and lessons learned. Center for International Forestry Research (CIFOR)

⁴⁷ Prince’s Rainforest Project, 2009 March, An Emergency Package for Tropical Forests

⁴⁸ Dr. Michael Richards 2008 Issues and Challenges for Social Evaluation or Impact Assessment of ‘Multiple-Benefit’ PES Projects DRAFT August, Consultant to Forest Trends

assessment “may be prohibitive for community-based projects”. The high cost is due mainly to the problems with being able to demonstrate that changes are due to the interventions implemented. There is also discussion of the issues of indicator selection (what to measure?) and data collection or research methods (how to measure?). There needs to be a balance between a core set of outcome indicators for all projects, and a participatory or stakeholder-defined set of indicators for a specific project. Also identified was that the costs of any credible evaluation or impact assessment approach for PFES will be significant. Participatory monitoring programmes have been found to strengthen local institutions and communities⁴⁹.

So for a balance of increasing engagement, stimulating commitment and conducting monitoring at most efficient and best reasonable costs participatory monitoring has merit.

Characteristics of Participatory Approaches

In one project⁵⁰, communities of local farmers produced their own monitoring plans and undertook most of the monitoring, with occasional and sample checking by the technical team, a local company contracted for this purpose. This example suggests that local people can be competent in making measurements, applying in this case a manual of procedures.

In a review by CIFOR it was noted that when developing a volunteer-based (local) monitoring system of forest ecosystems in Canada it was important to:

- Secure adequate funding and commitment prior to initiation of monitoring activities.
- Provide feedback to volunteers on how their work was contributing to planning and management.
- Understand participant motivations and skill level, and match these to the monitoring protocols selected.
- Collaborate with organizations already monitoring through partnership development.
- Utilize simple and scientifically tested methodologies.
- Incorporate training on monitoring protocols, field supervision and data verification into the design of community-based monitoring.
- Establish a “volunteer recognition” programme.
- Focus on outcomes that serve society by delivering information relevant to policy.

Stuart-Hill et al. (2005) provide recommendations for designing a participatory monitoring system that meets the objectives of managers—not scientists. An important separation, that in REDD+ terms suggests a focus for participatory monitoring on:

- Building sustainable monitoring systems rather than obtaining data at all costs.
- Understanding the working environment of local people and forest managers to realistically assess capacity to commit to monitoring.
- Topics relevant and understood by local people and forest managers.

⁴⁹ Evans, Kristen and Manuel R. Guariguata 2008. Ibid

⁵⁰ Tipper 2002. Cited in: M. Skutsch, 2004. Reducing carbon transaction costs in community based forest management. University of Twente, Box 217, 7500 AE Enschede Netherlands

- Building on small successes rather than being too ambitious.

CIFOR (2007) discusses two aspects of management that should be examined when developing a monitoring programme: processes and impacts. Process monitoring examines the implementation of management actions in order to understand how—and if—they are being carried out. Impact monitoring examines the changes resulting from management action. By monitoring both, the linkage between action and impact can be established.

Scaling up these mainly small scale monitoring programmes is possible as long as the methods are simple, adaptable and locally relevant. If information between different forests or at different scales needs to be comparable, then a small set of easy-to measure indicators should be selected. Furthermore, information needs to be returned to local communities so that they may understand the monitoring programme's relevance and can use the information in their own decision-making. Danielsen et al. (2005b) identify six principles that contribute to the sustainability of a locally-based monitoring programme without external support (see Box 7.2).

Box 7.2: Principles of locally-based monitoring (Danielson et al., 2005)

- Locally-based monitoring has to identify and respond to the benefits that the community derives from the habitat or population being monitored.
- The benefits to local people participating in monitoring should exceed the costs.
- Monitoring schemes must ensure that conflicts and politics between government managers and communities do not constrain the involvement of local stakeholders in the monitoring process.
- Monitoring should build on existing traditional institutions and other management structures as much as possible.
- It is crucial to institutionalize the work at multiple levels, from countrywide policies down to the job descriptions of local government officers.
- Data should be stored and analyzed locally to the extent feasible. It should also remain accessible to local people.
- Experience in the area of monitoring at local scales provides a clear and strong basis for developing relevant participatory REDD monitoring. Starting the process will require identifying suitable data for both checks and balances and performance measures. These are discussed

Monitoring Requirement: review and identify participatory monitoring methods that have a history of effectiveness. Identify the data to be collected and the metrics and methodology to be applied. Consider the limitations, if any, of the capacity at the local level for participatory monitoring.

National to Local Levels

The scale of monitoring may sometimes have important implications for monitoring methodology. This is most clearly seen in relation to monitoring of performance. At the national level, performance will be measured against a Reference Emission Level (REL), using methodologies to be determined by the UNFCCC. It is not unreasonable to anticipate that REL methodology used to establish the national baseline might also be applied sub-nationally, at least provincially. In such a case, the sum of provincial RELs would equal the national REL.

However, at lower levels in the performance hierarchy (District/Local/Community) it may not be feasible to apply the yet-to-be-determined REL methodology.

There are several reasons why this is the case, but most notably, disaggregation of data at such scales may be too time-consuming, or may generate results that do not accurately reflect local conditions. Consequently, it may be necessary to identify surrogate measures of performance at local levels. However, such measures should still demonstrate high correlation with measures that would be generated by application of REL methodology, in order that evidence of performance is consistent with provincial and national levels.

7.2 Monitoring functions for REDD+ in the context of Viet Nam

Monitoring for performance

As mentioned above, the first function of monitoring under a REDD-compliant BDS is monitoring of changes in emissions, which is necessary to satisfy the principle of performance-linkage. This is a technical process that will have to meet the requirements for Monitoring, Reporting and Verification agreed to at the UNFCCC and articulated in subsequent agreements by subsidiary bodies and ad hoc working groups. Various actors have noted that forest area change may be useful and an initial proxy measure of performance, but that capacity to measure actual emissions should be built over time. Each of remote sensing, field studies and modelling will be necessary to do this effectively and efficiently.

Some of the operational services required for monitoring carbon stocks and emissions change may be provided by governments, agencies, local people and the private sector. Consequently it could be that one beneficial change to the circumstance of local people is the opportunity for income from such service provision, though the 'benefit' is not 'shared'. However, the process of monitoring changes in emissions comes before REDD+ revenues enter the BDS, and is therefore not a focus for this study.

Operational Monitoring: Linking performance to payments at all levels of the payment chain

Purpose Statement: The performance once measured, triggers payment. This monitoring confirms activities are happening. It could be led by government with Civil Society Organization (CSO) involvement.

The second function of monitoring is to ensure that the interventions and activities are being implemented as planned, are directly related to avoided deforestation/forest degradation and specified results are being achieved. That is; that the actions, tasks and steps to alter, reduce or reverse the drivers of greenhouse gas emissions change are confirmed. Some elements will be monitored by the national MRV system. Others require specific reporting against commitments and in relation to the emissions being targeted for change (reduction). There is also a need to ensure that the outcomes for social and community aspects are being met, the changes required for that are being undertaken and essential existing local level activities persist as appropriate. This may well deal with indicators of performance, production or persistence.

As noted above, monitoring of REDD+ interventions and activities is essential in order to satisfy the principle of additionality, that is, to ensure that REDD+ payments are made to reward actions that would not otherwise have occurred. This is particularly relevant in a country like Viet Nam, which has been very active in promoting PFES. Improved forest conservation that would have occurred in the absence of REDD+ should not qualify for REDD+ benefits.

The 'operations' that are to be monitored must include all interventions that might address drivers of forest change, designed to reduce emissions below the baseline. Such operations may include:

- Resolution of perverse policy incentives to deforest or degrade forest land
- Spatial Planning at the local level
- Clarification and security of land tenure
- Creation of alternative incomes and livelihood options
- Rehabilitation of degraded areas
- Mitigation or reversal of negative impacts of infrastructure developments, plantations and resettlement programmes
- Support to preventative enforcement
- Facilitation of regular law enforcement

All of the potential actions noted will be conducted or manifested at the local level. Some of them will be the responsibility, at least in terms of documentation and records, of offices of government at the local level or higher. Others may follow from the provision of related services, contracted locally, by contractors or generated at the community level. A number require formalisation at higher levels. This suggests overall that, depending on the action, the appropriate monitoring may be conducted by local people, local government staff, independent actors or groups or a combination of these.

Monitoring Requirement: Review and identify the performance metrics that relate to effective implementation of activities and tasks. Identify the data to be collected and the metrics and methodology to be applied. Consider the mix of monitoring metrics and approaches in terms of the existing capacity and skills needed consistent with the principle that monitoring should be at the lowest level that balances costs of monitoring and meaningful metrics.

Monitoring Investment and Expenditure on Interventions and Activities

Purpose Statement: The investment and expenditure is monitored to ensure it is being applied to the interventions and activities specified. This is to ensure that the funds are directed to REDD activities as planned and not held up, redirected or dissipated. Financial processes must meet standards for probity in both government and others. This is similar to the third party financial audit role as already practiced by the 'big five' auditing firms and others.

The third function of monitoring involves reporting on the investment and expenditures being made to undertake the interventions and activities designed to reduce deforestation and forest degradation. This relates to plans and budgets of REDD-related interventions

and activities, so the monitoring needs to be tied to plans and budgets. The approach will be a straight forward checking against the plan, costs and achievements. One aspect of planning that will be critical is formulation of measurable milestones and concrete actions that can be assessed when completed. These will both provide a focus for where the funds go and a basis for monitoring performance. Additionally the criteria used to develop the benefit sharing proportions (R-coefficients) will have to be reviewed periodically to ensure that the intent of applying them, equity and transparency, are met.

As a guide to the costs that can be included as additional due to REDD+, 'admissible', some guidance should be provided on these and also on 'non-admissible' costs (see Section 5.3). Experience in Viet Nam suggests that the definition of 'other costs associated with activities reducing carbon emissions' is insufficient to prevent the misuse of funds or the use of funds for counter-productive activities (e.g., forest law enforcement following the current approach). In this case, REDD+, the performance is critical so the definition of admissible and non-admissible costs will support the preparation of plans that include the detail of those costs explicitly. These would be "retained costs" subtracted from the gross revenues at each level before the net revenues are distributed.

There is strong experience that the most effective way to achieve a sensible use of funds is to give as much as possible to forest owners and managers and let them decide how to use them (this will require a concerted and inclusive programme of awareness raising), providing adequate checks and balances are in place to ensure that funds are used for REDD-related investments. Funding provided to the administrative bureaucracy tends to generate bureaucratic measures that do not address the field problems. REDD+ will involve many participants and, as identified in Chapter 5, it will be crucial to involve a wide range of stakeholders from inside and outside the GoV in a learning process on REDD+. The combination of devolving responsibility as close to the field as reasonable and enhanced appreciation of REDD+ will support the sensible use of funds.

Table 7.2: Possible Admissible and Non-admissible costs by Administrative Level

Level	Admissible Costs	Non-admissible Costs
National	<ul style="list-style-type: none"> • Administration of National REDD+ strategy • Administration of BDS • Monitoring of forest cover/carbon stocks/emissions • Monitoring of REDD+ investments • Independent external audits • Investments in measures to reduce emissions, for example, increased capacity for REDD+ specific forest law enforcement; targeted public awareness campaigns, etc. 	<ul style="list-style-type: none"> • Normal budgetary costs of MARD (or other ministries/ agencies) • Investment in national social development programmes, such as education, health • Investment in infrastructure (roads, schools, buildings, offices, dams, bridges etc) unless specifically required for AD/D activities
Provincial / District	<ul style="list-style-type: none"> • Administration of BDS at provincial/ /district level • Participatory monitoring of forest cover/carbon stocks/emissions • Participatory monitoring of REDD+ investments 	<ul style="list-style-type: none"> • Normal budgetary costs of PPC, DARD (or other departments/ agencies) • Investment in provincial social development programmes, such as education, health (at District level some would be admissible, if a strong

	<ul style="list-style-type: none"> • Public awareness campaigns on REDD+ and measures to reduce emissions • Other investments in measures to reduce emissions, for example, increased capacity for participatory forest planning, etc. 	justification of link to emissions reductions can be made and is demonstrated that is an agreed/effective incentive for avoided deforestation/forest degradation) <ul style="list-style-type: none"> • Infrastructure development projects unless specifically required for AD/D activities
Local	<ul style="list-style-type: none"> • Actual costs of activities to reduce emissions 	<ul style="list-style-type: none"> • Infrastructure development projects unless specifically required for AD/D activities or is demonstrated that is an agreed/effective incentive for avoided deforestation/forest degradation

As discussed in Chapter 5, transaction costs are distinct from implementation costs. They comprise expenditures on quantifying existing carbon stocks and measuring changes in them, developing a REDD+ strategy, preparing and negotiating REDD+ projects, validating and verifying them; monitoring and reporting on REDD+ compliance, and so on. These are included as admissible costs in Table 7.2. Chapter 5 also explains that opportunity costs will accrue at all levels in Viet Nam, but will be felt for the most part as real losses and expenses to forest managers and owners – and are thus reflected as admissible costs in Table 7.2.

The nature of monitoring the activities to be undertaken lends itself to the existing approaches of ensuring planning is in place, plans are implemented, and confirmation that the activities are carried out to the appropriate standards. The existing processes of checks and balances for planning and the financial checks and balances on expenditure should be reviewed to ensure applicability for REDD+. As with activities there would be some monitoring required from the local level with financial checks and balances occurring through all levels to ensure funds are directed to REDD+ activities as planned and not held up, redirected or dissipated.

Monitoring Requirement: Analyze and confirm specific budgets for reducing emissions under REDD+ produced with the necessary level of detail and clarity. Identify the standards, norms and procedures to be put in place and a transparent monitoring process will be applied to them. Assess and review the criteria (R-coefficients) used to allocate benefits for anomalies, distortion and balance.

Monitoring Effectiveness and Efficiency of the BDS System – Financial Flows and Process

Purpose Statement: Ensuring the distribution of the benefits is effective and efficient; that benefit distribution is to the right people. That is; cash and non-cash benefit gets to the households, communities and government agencies to which it is due.

The final component of REDD-related monitoring involves assurance that the performance-linked, additional, and equitable financial flows have actually taken place – this is a classical auditing process.

It is likely that local payment mechanisms will have to consider the provision of both cash and non-cash benefits. Therefore, the distribution of cash and non-cash benefits will have to be monitored and audited to ensure effectiveness and efficiency. Generally this task is allocated to independent firms that specialise in this sort of work.

Monitoring Requirement: Identify the criteria and the metrics to assess effectiveness and efficiency of financial flows and processes. Apply the standards, norms and procedures selected to the financial flows and processes of the benefit sharing system. Independent audit and review is required.

7.3 Institutions and Bodies for Monitoring

In considering the scope and complexity of REDD+ monitoring requirements, it is a challenge to identify suitable bodies for monitoring. There are two basic approaches – either the different monitoring requirements can be assigned piecemeal to various bodies having relevant mandates, or overall responsibility can be assigned to a single body which is then responsible for ensuring that the necessary expertise in different institutions is mobilized effectively. Either approach also requires that the requirements for certain levels of participation are met, as discussed above.

The need for effectiveness and efficiency in overall implementation of REDD+ suggests that the second option is preferable. At the national level, a 'REDD+ monitoring body' should be established to take care of all independent monitoring matters related to REDD+. Members of this body could be drawn from Government Inspection (and probably MoF, depending how much they are involved in the disbursement), an independent financial auditing company (e.g. Viet Nam National Independent Auditing Company Limited) and Vietnamese civil society organizations (e.g. Education for Nature-Viet Nam). FPD and FIPI can be involved in this body given the experience they have on forest resource monitoring at national and local level. While it might initially have a full time secretariat, a decision could be made later as to whether members of this body should be full time, depending on the scale of the work required.

A national 'REDD+ monitoring body' could have provincial level subsidiaries, under the PPC. The provincial body would have a similar structure to that of the national body, but members of the provincial body would not necessarily have to come from within the province. For example, civil societies or sub-FIPI can come from outside (regional or national level). If there is much work to do, members from provincial monitoring body should work on full-time basis.

Below the provincial level, transaction costs would likely be too great to justify similar, local organizations. However, mass organizations like the Farmers' Associations, Women's Unions and Youth Unions may play roles in monitoring of REDD+, particularly as they have branches down to commune/village level.

Funding of monitoring operations would be part of the “retained revenues” at the national level. This approach complies with the government’s traditional approach in monitoring in Viet Nam, government organizations monitoring the government’s activities, but with additional measures to ensure transparency, and with checks and balances to minimise the risks of collusion, corruption and distortion of the monitoring. For example, having members from Civil Society Organizations (CSOs) and communities may help reduce such risks. Education would likely be needed to improve the limited understanding of local communities about quality /performance of services and what they should/can expect.

Monitoring Performance

The national 'REDD+ monitoring body' would establish a framework for monitoring performance at different levels. As discussed elsewhere, at national and provincial levels, performance would be measured against RELs; at district and local levels, other metrics would need to be designed. The Forest Science Institute of Viet Nam, Forest Inventory and Planning Institute, Viet Nam Forestry University, and Forestry Departments of DARD would be assigned specific roles under the guidance of the 'REDD+ monitoring body'. Independent CSOs would assist in ensuring transparency, while the provincial 'REDD+ monitoring bodies' would also be responsible for ensuring that local communities are empowered to play a participatory role.

Monitoring Operations

Since most of the interventions and activities undertaken to reduce emissions will occur at provincial or local levels, monitoring operations will involve monitoring of provincial and local organizations. The national 'REDD+ monitoring body' will need to establish procedures which take account of existing processes for reporting and monitoring on government plans and activities, but which incorporate additional elements of participation, so as to promote transparency. Such procedures may include, for example, sub-contracting of CSOs by provincial 'REDD+ monitoring bodies' to undertake additional spot-checks, or to undertake thematic assessments, for example, of strengthened law enforcement, or of implementation of revised policies.

Monitoring Benefit Distribution

The monitoring of benefit distribution, consistent with the principle of setting monitoring at the lowest feasible level, may involve representatives from local organizations; villages, local authorities, forest owners, and CSOs.

For the village/community level, REDD+ benefits may be distributed in the form of a ‘development fund’, or other monetary or non-monetary benefits. Monitoring of a development fund is needed to make sure benefits will go to the activities prioritized by local people. This may involve participatory village planning with involvement from all households, local organizations and commune representatives to define and prioritize the activities. REDD+ benefits will be distributed to the village based on the village development plan approved by local authorities (commune and district) in order to avoid any overlaps in funding allocation. Local authorities (commune, district, province), and

local banks might then make sure and/or monitor the benefits that go to the fund with the village setting up a financial monitoring team including members from existing organizations (farmers, youth, women's, veterans) and CSOs to monitor the use of fund.

For the allocation/transaction of the fund from provincial/district level to local household, the distribution of the benefits at the local level, representatives of locally-based government organizations (farmers, youth, women's, veterans), and from CSOs may be contracted by the provincial 'REDD+ monitoring bodies' to undertake the task according to guidelines established by the national 'REDD+ monitoring body'. Such monitoring will need to ensure that formulae, such as 'R-coefficients' are applied correctly so that the benefit (in cash) for each individual household is fair.

Monitoring of financial flows/auditing

Auditing of the entire REDD+ BDS will apply standard auditing procedures. The national 'REDD+ monitoring body' will be responsible for contracting an appropriate international auditing firm (see Policy Decision 7.3, below) to undertake a comprehensive audit, probably on an annual basis.

7.4 Building in safeguards: redress procedures and responsibilities, conflict resolution

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. The first type of complaint is probably fairly straightforward to deal with, the second more complex. Since a perfect BDS cannot be designed, it is necessary to build in a recourse mechanism so that complaints can be freely reported and independently addressed.

The contact point for complaints cannot be the local FPD or other government agency responsible for distributing benefits. It could be a provincial government department with the capacity to receive and investigate complaints but with no vested interest in any particular outcome. Or the point of contact could be centrally located and managed with a degree of civil society participation. The advantage of this model is two-fold. It would be far removed from the field and so unlikely to be influenced by any particular stakeholder and civil society participation would enhance its credibility when it comes to investigating and resolving complaints.

A centrally located contact point would also facilitate the collection and monitoring of complaints, which may provide important insights into the performance of the overall BDS. This would encourage an institutional culture that instead of seeking to suppress complaints uses this information to fine-tune and improve the system. Once the complaints have been received and processed, an appropriate agency would need to investigate. One option is that this responsibility is given to the PPC in the relevant province, which would in turn delegate responsibility to a given agency. This assumes that the provincial authorities or delegated agency do not have a vested interest in the

outcome. In cases involving major conflicts, a delegation from Hanoi may need to be sent to investigate.

Viet Nam's political system does provide space for public complaints. Indeed, Viet Nam's environmental protection system has been described as a "complaints-based system" (O'Rourke 2002). Groups and individuals can and do complain about local government officials, particularly when it comes to urban pollution. They can also speak to the media and Vietnamese newspapers frequently run stories about public complaints against corrupt or incompetent officials.

There is also growing scope for civil society participation in environmental monitoring. For example, the Vietnamese NGO, Education for Nature-Viet Nam (ENV), in an effort to engage the public in combating the illegal trade in endangered wildlife, instituted a hotline run out of its office in Hanoi (www.enVietNam.org). Informants call the free-of-charge hotline number and leave information anonymously about, for example, restaurants serving endangered wildlife or gibbons held illegally as pets. Since the hotline was established in January 2005, ENV has received over 3,500 calls. The caller is given a reference number, and the information is entered into a case tracking system and reported to the relevant authorities. ENV staff follow up with the authorities to ensure that appropriate action has been taken. The caller is contacted to confirm that the information was acted upon.

A REDD+ BDS recourse mechanism could also use a similar hotline system. This would exclude plaintiffs living in areas without telephone coverage or who do not speak Vietnamese. The vast majority of potential beneficiaries, however, would be covered. The ENV hotline has clearly resulted in greater civil society participation in combating the wildlife trade. And since the information is documented in a database with summaries reported quarterly, it has provided an incentive for local authorities to act. Indeed, FPD has welcomed this initiative in helping them address the leading threat to Viet Nam's biodiversity. Civil society participation in a REDD+ BDS recourse mechanism could have similar benefits. And give the growing number of NGOs based in the provinces, a network of NGOs could be involved with the local knowledge and contacts to play an effective "watch dog" role.

7.5 Options and Recommendations

As discussed above, the actual processes adopted to implement monitoring in support of a REDD+ BDS will depend to a large degree on the volume of REDD+ revenues likely, and the consequent willingness of the GoV to embrace potentially innovative approaches. However, the principles that govern monitoring are unaffected by the magnitude of revenues. It has been noted that some of the key principles involve participation by stakeholders in the BDS. Some of these principles, compiled from boxes 7.1 and 7.2, are:

- Monitoring should be conducted at the lowest level that balances costs of monitoring and meaningful metrics
- Capacity to measure must be present or can be built

- Locally-based monitoring has to identify and respond to the benefits that the community derives from the forest/activities being monitored.
- The benefits to local people participating in monitoring should exceed the costs.
- Monitoring schemes must ensure that conflicts and politics between government managers and communities do not constrain the involvement of local stakeholders in monitoring.
- Monitoring should build on existing traditional institutions and other management structures as much as possible.
- It is crucial to institutionalize the work at multiple levels.
- Data should be stored and analyzed locally to the extent feasible. It should also remain accessible to local people.

Participation in Monitoring

An important consideration in monitoring for REDD+ is to determine the degree of participation required for each monitoring function, and the institutions that need to be engaged in the monitoring. The nature and degree of participation that is feasible vary by the type of monitoring, as shown in Figure 7.1, above.

Given this, a main policy decision concerns the degree of participation involved in the different monitoring functions. As mentioned previously, the approach to monitoring of performance lies outside the scope of this study, but recommendations for the other monitoring functions follow.

POLICY DECISION 7.1 Participatory Monitoring	
Issue to be addressed	<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>
Options	<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</p>

	the local area
Recommended principle or policy to be adopted	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.
Actions required to confirm policy option	GoV should review participatory monitoring methods with a demonstrated history of success. Based on this review, GoV should prepare principles for participatory REDD+ monitoring.

Institutional Responsibility for Monitoring

As noted above, there are four types of monitoring required for REDD+ (Figure 7.1), requiring different mixes of skills and capacity. It is therefore impossible to envisage that any single existing institution is capable of providing all of the monitoring functions.

Monitoring of interventions is essential in order to satisfy the principle of additionality, and may be undertaken by various local stakeholders. However, as it is not acceptable for those who plan and implement REDD+ interventions to monitor themselves, this eliminates the various Peoples' Committees from consideration. The obvious candidate agencies are the Forest Protection Department, and sub-department of forest protection, although the extent to which they themselves might be involved in REDD+ interventions needs to be considered. Effective means of measuring REDD+ interventions and actions have to be developed or existing approaches, created for other purposes, tested and adapted. Monitoring of benefit disbursements will require other processes, probably with a higher degree of stakeholder participation.

Given these considerations, a basic policy choice involves the assignment of monitoring responsibilities piecemeal to those agencies having a mandate or the capacity to undertake them, versus the establishment of a REDD+ monitoring agency, with a mandate to establish the necessary processes and regulations to ensure seamless and effective monitoring. Such an agency might operate at the national level, with sub-national entities having responsibility at provincial levels and below.

POLICY DECISION 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</p>

	<p>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 and participatory 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>

Auditing of Financial Transactions

The principles of equity and accountability requires that financial transactions be audited, so as to ensure that there is no diversion of REDD+ revenues, and that disbursements are made according to the policies established for revenue retention, eligibility of beneficiaries, and payment structuring. Once again, given that those responsible for the activities being monitored cannot themselves conduct the monitoring.

Investors and carbon offset purchasers will require independent confirmation that financial transactions are undertaken properly, an audit function is needed. In the absence of this sort of third party verification, access to the REDD+ fund or market mechanisms will be reduced, or may not be possible.

POLICY DECISION 7.3 Auditing of financial transactions

Issue to be addressed	Financial transactions for REDD+, must be audited to ensure that revenues are disbursed according to established policies, and that there is no diversion of funds of unnecessary hold-up in disbursement. Financial processes must meet standards for probity in both GoV and international stakeholders. Investors and carbon offset purchasers will require independent confirmation that financial transactions are undertaken properly, an audit function is needed. In the absence of this sort of third party verification access to the REDD+ market mechanisms will not be possible. This is similar to the third party financial audit role as already practiced by the 'big five' auditing firms and others.
Options	<p>a) Independent external auditing is undertaken which meets the standards and norms required by the UNFCCC and international stakeholders.</p> <p>b) Auditing of financial transactions follows standards and norms used for other national funds</p>
Recommended principle or policy to be adopted	Since auditing of financial transactions will be critical for credibility and is likely to be a pre-requisite for large scale investment, adopting any norms and standards other than those imposed or expected by international stakeholders, especially the UNFCCC and potential REDD+ investors or fund managers will endanger REDD+ revenue flows. Consequently, GoV should confirm that REDD+ revenue disbursement will be subject to independent external auditing.
Actions required to confirm policy option	<p>Develop guidelines to be used to ensure the application of relevant international standards, norms and procedures for auditing of REDD+ financial flows.</p> <p>Undertake a comprehensive awareness raising and training programme to ensure that all officials potentially involved in disbursement of REDD+ revenues are aware of the policies and procedures for disbursement and the intent to apply international standards of auditing to financial management.</p>

Recourse mechanism

Since no BDS can be perfect, one that is compelling in terms of international acceptance requires a process to allow stakeholders who may be dissatisfied or harbour complaints an opportunity to have them considered in an open and non-threatening way. It may be possible to identify government agencies or party organs which can fulfil this role, but the alternative option, to seek a role for civil society organizations as well, will offer greater safeguards to stakeholders.

POLICY DECISION 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 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	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.

Chapter 8: Implications for Policy Decisions

Previous chapters have described the issues that need to be addressed in the design of a REDD-compliant BDS for Viet Nam, in order to meet international expectations in terms of transparency, equity, and linkage to performance. A number of critical issues have emerged which require action on the part of the GoV in terms of setting policy that will permit the establishment of a REDD-compliant BDS. Additionally, for some of these issues, additional studies or trials will need to be implemented in order to indicate appropriate policy decisions. Such additional work will be carried out starting in 2010.

For ease of reference, the policy decisions identified in each Chapter are reproduced below. As such, they define the constraints and barriers that prevent the establishment of a REDD-compliant BDS at the moment in Viet Nam.

POLICY DECISION 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>

POLICY DECISION 3.2

The types of forestland 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 others not. Many of these problems of rights can be avoided by targeting benefits to village communities, which may be better positioned to produce rapid gains in carbon stocks than other types of forest managers. However, under the current legal framework, 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 DECISION 3.3

Legal framework for REDD+ in Viet Nam

Issue to be addressed	<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</p>
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POLICY DECISION 3.3 Legal framework for REDD+ in Viet Nam	
	<p>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>
Options	<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>
Recommended principle or policy to be adopted	<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>
Actions required to confirm policy option	<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 DECISION 3.4

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 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 DECISION 4.1

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>
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POLICY DECISION 4.1	
Classification of REDD+ revenues and creation of a dedicated REDD+ fund	
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 to confirm policy option	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.

POLICY DECISION 4.2	
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 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. 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.
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 to confirm policy	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

POLICY DECISION 4.2
Sub-national levels at which REDD+ revenues should be managed

option	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.
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POLICY DECISION 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 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 DECISION 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 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.</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</p>
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POLICY DECISION 5.2 Local payment levels and Payment Structuring	
	actors influencing the criteria used for payment structuring, notably international investors.
Options	e) Apply standardized cost norms; or f) Base payments on costs incurred and amount of emissions reduced. <i>and</i> d) Make cash payments only; or a) Combine cash payments and non-monetary benefits.
Recommended principle or policy to be adopted	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.
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 DECISION 5.3 Admissible costs and activities	
Issue to be addressed	The distribution of REDD+ benefits will be closely linked to actual performance - at national and sub-national levels. Reducing deforestation in a REDD-compliant manner requires that funding is spent on the specific actions and processes which are required to achieve these outcomes, unlike the broader conservation goals and less-defined targets that are associated with existing national-level environmental funds in Viet Nam. There is a need to balance a practical approach to budgeting and financial monitoring with the necessity of ensuring that REDD+ funds are spent on their intended purpose.
Options	a) Release funds solely against performance targets; or b) Specify admissible costs and activities.
Recommended principle or policy to be adopted	A broad list of admissible costs and activities to be funded through REDD+ payments should be formulated, which will form the basis of the REDD+ budgets that will be prepared and submitted for approval at the sub-national level. There should be close monitoring of expenditures against these agreed budgets, as well as against the delivery of emissions reductions targets. A different set of metrics will

POLICY DECISION 5.3 Admissible costs and activities	
	however be applied at the local level, although these will include the provision of broad development incentives as admissible expenditures.
Actions required to confirm policy option	<ul style="list-style-type: none"> • In the interests of ensuring that BDSs are both transparent and effective in delivering REDD-compliant emissions reductions, the GoV should make it clear to beneficiaries that there will be certain principles established for the use and spending of REDD+ payments. • Further work will require a list of admissible REDD+ costs and activities to be prepared, and agreed by stakeholders.

POLICY DECISION 5.4 Timing of fund disbursement	
Issue to be addressed	Although it seems probable that global REDD+ payments to Viet Nam will be made <i>ex post</i> or “on delivery”, the costs of undertaking actions to reduce deforestation will start to be incurred well before this. There is a need for <i>a priori</i> funding, especially to cover start-up costs and to foster stakeholder buy-in. Many participants will not be in a position to pre-finance the upfront costs of REDD+ actions or to bear the risks of delayed payment delivery.
Options	<ul style="list-style-type: none"> a) Release funds <i>ex-post</i>: after delivery of agreed activities; or b) Make a phased release of funds from initiation onwards.
Recommended principle or policy to be adopted	The timing and frequency of REDD+ payments made within Viet Nam should be phased to start when actions to reduce deforestation are first initiated, and subsequently disbursed on a regular basis so as to match the timing of costs incurred and to provide a regular flow of benefits to participants. Supplementary funding, from either domestic or international sources, should be sourced to provide this pre-finance.
Actions required to confirm policy option	<ul style="list-style-type: none"> • With a view to shifting the burden of responsibility for pre-financing and bearing the risks of investing in avoided deforestation, the GoV should announce its intention to secure adequate funds to ensure that the distribution of REDD+ payments to participants will begin at the time they commence activities, and will be transferred on a regular basis thereafter. • Further work will require that indicative projections of required REDD+ cashflows over time are prepared, and initial discussions are held between the GoV and international donors about possible sources of funds to pre-finance payment distribution.

POLICY DECISION 6.1 Balancing performance-based payments <i>ex post</i> with the provision of upfront resources and incentives	
Issue to be addressed	Viet Nam will receive international carbon finance on the basis of actual performance, that is, after the performance has been measured and verified. Performance measurement and verification is unlikely to take place on an annual basis and perhaps every five years only. Yet forest managers require upfront incentives and resources to engage in carbon-enhancing forest management.

POLICY DECISION 6.1 Balancing performance-based payments <i>ex post</i> with the provision of upfront resources and incentives	
Options	<p>a) GoV makes all REDD+ payments to recipients <i>ex post</i>, that is, after performance has been measured and verified.</p> <p>b) GoV disburses REDD+ payments upfront and makes them conditional upon verified performance.</p> <p>c) GoV combines <i>ex post</i> payments with the provision of upfront incentives and resources through the establishment of conditional savings books</p>
Recommended principle or policy to be adopted	The GoV should combine <i>ex post</i> payments with the provision of upfront incentives and resources. Viet Nam's existing experience with the use of conditional savings books in forestry suggests that they provide a suitable means to balance the requirements of a credible performance base with the needs of forest managers.
Actions required to confirm policy option	There is an urgent need to review existing experiences with the use of micro finance approaches in the forestry sector. The review would inform the design of a suitable microfinance approach to provide upfront resources and incentives under REDD+. In addition, work is needed on potential sources of bridging funding, including government budget and ODA.

POLICY DECISION 6.2 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	<p>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.</p> <p>b) GoV develops operational structures that offer effective law enforcement to households and communities</p>
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

POLICY DECISION 6.2
Strengthened law enforcement for a performance-based distribution

	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
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POLICY DECISION 6.3
Institutional structure for a performance-based sub-national distribution of REDD+ benefits

Issue to be addressed	International best practice demonstrates that right institutional design is a precondition for the success of performance-based payments. Institutional structures only achieve to efficiently allocate and credible enforce payments if they include a system of checks and balances among several institutions. A focus on a single institution often creates a conflict of interests detrimental to an efficient allocation of project funds and effective conditionality of payments. This is also a key lesson learned from the weak performance of 661 projects in Viet Nam where district-level FPU and Forestry Companies often combine the tasks of implementation and enforcement.
Options	<ul style="list-style-type: none"> a) GoV enables district-level FPUs to receive payments and puts another agency in charge of enforcing their compliance with forest regulations and contractual conditions. b) GoV mandates district-level FPUs to monitor and enforce payment recipients' compliance with forest regulations and contractual conditions, ruling them out as a payment recipient
Recommended principle or policy to be adopted	The GoV should mandate district-level FPUs to monitor and enforce payment recipients' compliance with forest regulations and contractual conditions against a suitable fee. They should not be eligible for REDD+ payments, though, as that would create a conflict of interest.
Actions required to confirm policy option	The GoV should assess the institutional structures used for the implementation of the 661 Programme and PFES schemes in Son La and Lam Dong. The assessment should inform the institutional design of the sub-national component of Viet Nam's future REDD+ Programme.

POLICY DECISION 7.1
Participatory Monitoring

Issue to be addressed	<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</p>
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	<p>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>
Options	<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>
Recommended principle or policy to be adopted	<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>
Actions required to confirm policy option	<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 DECISION 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</p>

	effectiveness and efficiency across all types of monitoring and at all levels from national to local.
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	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.

POLICY DECISION 7.3 Auditing of financial transactions

Issue to be addressed	Financial transactions for REDD+, must be audited to ensure that revenues are disbursed according to established policies, and that there is no diversion of funds of unnecessary hold-up in disbursement. Financial processes must meet standards for probity in both GoV and international stakeholders. Investors and carbon offset purchasers will require independent confirmation that financial transactions are undertaken properly, an audit function is needed. In the absence of this sort of third party verification access to the REDD+ market mechanisms will not be possible. This is similar to the third party financial audit role as already practiced by the 'big five' auditing firms and others.
Options	<p>a) Independent external auditing is undertaken which meets the standards and norms required by the UNFCCC and international stakeholders.</p> <p>b) Auditing of financial transactions follows standards and norms used for other national funds</p>
Recommended principle or policy to be adopted	Since auditing of financial transactions will be critical for credibility and is likely to be a pre-requisite for large scale investment, adopting any norms and standards other than those imposed or expected by international stakeholders, especially the UNFCCC and potential REDD+ investors or fund managers will endanger REDD+ revenue flows. Consequently, GoV should confirm that REDD+ revenue disbursement will be subject to independent external auditing.
Actions required to	Develop guidelines to be used to ensure the application of relevant international standards, norms and procedures for auditing of REDD+

confirm policy option	<p>financial flows.</p> <p>Undertake a comprehensive awareness raising and training programme to ensure that all officials potentially involved in disbursement of REDD+ revenues are aware of the policies and procedures for disbursement and the intent to apply international standards of auditing to financial management.</p>
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POLICY DECISION 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 reduced carbon emissions
Options	<p>a) Recourse mechanism that is entirely managed by government.</p> <p>b) Recourse mechanism that includes civil society participation.</p>
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.

Chapter 9: Summary and Future Work

The current study has reviewed elements of a REDD-compliant BDS for Viet Nam, identified the potential barriers to and constraints on such a system, identified options to overcome these barriers and constraints, and in some cases made specific recommendations. Further work by GoV and others is needed to further define specific options; identifying the optimal course of action requires further analysis, discussion, and testing.

The establishment of a REDD-compliant BDS for Viet Nam will continue to be a GoV priority and will be supported by the UN-REDD Programme. On-going studies are needed to:

- Examine concepts contained in this report, and identify improvements.
- Investigate those issues requiring a more intensive analysis.
- Establish a roadmap to create a REDD-compliant BDS (which needs to be tied to the initiation of REDD+ revenues).

The types of activities that need to be included in further analyses are the identification and drafting of legal instruments, review and evaluation of current initiatives and programmes, further analyses of policy options, research on specific issues, piloting, and design of monitoring and recourse mechanisms.

9.1 Identification and drafting of legal instruments

A performance-related, transparent, and equitable REDD-compliant BDS that meets the expectations of international investors must be founded on a clear and comprehensive legal framework governing rights and governance. Such a framework does not currently exist in Viet Nam. Existing legal instruments, developed for other purposes, may provide the basis for such a framework depending on how they are interpreted. Given the time needed to develop and enact legal instruments, efforts should begin as soon as possible to analyze the legal instruments required to support REDD+ in Viet Nam and to start formulating those instruments.

Given the nature of REDD+, it appears reasonable to classify them as FDI, meaning that they are not part of the State Budget. There are also international expectations regarding the need for REDD+ revenues to be “fire-walled” to prevent co-mingling with other revenues, and for transparency and broad participation in revenue governance, which may be difficult to meet under current arrangements. The governance structure of the REDD+ sub-fund of the FPDF should be determined through a broad-based participatory process to ensure that it meets international standards regarding participation and transparency.

There are several impediments to clear and consistent rights to benefits from REDD+. These include incomplete land allocation, and the absence of legal recognition for some types of forest owners. Under such circumstances an equitable REDD+ BDS cannot be

established. As soon as possible, a programme of legal reform should be implemented to establish the legal basis for rights to REDD+ revenues.

Forest law enforcement continues to be weak in Viet Nam. In particular, households and communities responsible for protecting forests often do not get the required law enforcement support to effectively exclude illegal forest use and users. As long as these problems exist, it will be difficult to guarantee performance and hence REDD+ payments based on performance. Recent experience with community-based law enforcement require assessment and possible translation into national forestry regulations. The new GDF and FPU at the district and provincial levels will need technical assistance to improve their law enforcement capacities. REDD+ pilots should make appropriate law enforcement a central component of project design.

9.2 Reviews and Evaluations of Current Initiatives and Programmes

In order to cast additional light on institutions, policies and processes required for a REDD-compliant BDS, several reviews and analyses need to be conducted. These include:

- An evaluation of PFES pilot projects in Lam Dong and Son La Provinces to inform the formulation of governance structures for the proposed FPDF sub-fund. GoV should hold consultations with different stakeholders (particularly civil society organizations) concerning their potential role with regard to REDD+ funding. In addition, GoV should consult with international organizations on the requirements for REDD+ revenue management in Viet Nam.
- Viet Nam disburses most payments for the protection of natural forests and establishment of tree plantations to SOCs, MBs, and households. Yet village communities may possess advantages over these recipients in terms of producing rapid gains in carbon stocks because of the peer pressure they exert on members to comply with community-wide agreements. To test this assumption, evaluations of community forestry projects, including the community funds established under the KfW-6 project and the Community Forestry Pilot Programme, should be undertaken. The evaluations should inform the formulation of enabling legislation on community forestry and corresponding measures to strengthen the capacity of MARD to support community forestry.
- Viet Nam disburses most payments through centralized administrative procedures, such as in the 661 Programme. These have led to inefficiencies in the allocation of finance under variable local conditions. The PFES projects in Son La and Lam Dong demonstrate the potential of decentralized decision-making that takes into account how different forest types absorb and store carbon. External evaluations are required of these experiences with decentralized governance. Building on these evaluations, GoV should develop a regulatory framework that facilitates decentralized decision-making. It will need to consider the potential use of coefficients (similar to K-factor in PFES) in the distribution of REDD+ benefits to achieve a balance between national standards and local decision-making.
- Viet Nam will receive international carbon finance on the basis of actual performance, that is, after performance has been measured and verified. Performance measurement and verification are unlikely to take place on an annual basis and perhaps only every

five years. Yet forest managers require upfront incentives and resources to engage in carbon-enhancing forest management. There is a need to review existing experiences with the use of micro-finance approaches in the forestry sector. The review would inform the design of a suitable micro-finance approach to provide up-front resources and incentives under REDD+. In addition, work is needed on potential sources of bridge funding, including the government budget and ODA.

9.3 Piloting

While it is relatively clear how REDD+ revenue management at the national level should be structured, it remains unclear which sub-national level(s) are most appropriate for REDD+ revenue management. REDD+ revenue management structures should be piloted in a small number of districts and provinces and capacity building at district level should be supported. The most logical location for such pilots is the UN-REDD pilot province of Lam Dong, and the pilot districts of Lam Ha and Di Linh, but other sites should be considered.

Testing the distribution of REDD+ payments to participants could begin after indicative projections of required REDD+ cash flows over time have been prepared and local strategies developed. Initial discussions need to be held between GoV and international donors about possible sources of funds to pre-finance payment distribution.

9.4 Research

Administration of a BDS incurs administration and management costs. This needs to be balanced with the requirement of ensuring that the REDD+ funds reach the actual forest managers and are used as efficiently and effectively as possible to change their behaviour in ways that reduce deforestation. In relation to national-level government-administered funds in Viet Nam, there are currently no standard procedures for determining permissible management fees. Studies are therefore needed to estimate the magnitude of these costs, and indicative retention levels.

Research will also be needed to estimate broad opportunity cost norms for different areas, groups, production systems and ecological conditions, and to design checks and balances and guidance on calculation of payment weights, or “R-coefficients”

9.5 Analysis and Consultation

In addition to research, reviews and evaluation, some further analyses and consultations are required on some issues. These include:

- There is a need to balance a practical approach to budgeting and financial monitoring with the necessity of ensuring that REDD+ funds are spent on their intended purpose. A list of admissible REDD+ costs and activities should therefore be prepared, and agreed by stakeholders.
- Global experience shows that the right institutional design is a precondition for the success of performance-based payments. Institutional structures only achieve the equitable and efficient allocation of payments if they include a system of checks and balances. Entrusting all powers to a single institution may create a conflict of interest

detrimental to the efficient allocation of funds and conditionality of payments. This is a lesson from the weak performance of 661 projects where district-level FPU and SOCs often combine the tasks of implementation and enforcement. GoV should assess the institutional structures used for the implementation of the 661 Programme and PFES schemes in Son La and Lam Dong. The assessment should inform the institutional design of the sub-national component of Viet Nam's future REDD+ Programme.

- REDD+ payments need to be tied to REDD+ performance, but also take account of other social and economic goals, such as poverty alleviation (sometimes referred to as "co-benefits"). Distribution from the national level to provinces, districts, and local beneficiaries should therefore be based on "R-coefficients", which integrate these co-benefits. Further analysis and consultation is required to identify R-coefficients that still ensure strong linkages to REDD+ performance.
- Experience in the area of local-level forest monitoring provides a strong basis for developing participatory REDD+ monitoring. Monitoring should build on existing traditional institutions and other management structures as much as possible. Further work is required to review and identify participatory monitoring methods that have a history of effectiveness, and identify the data to be collected and the metrics and methodology to be applied.
- 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. A more detailed analysis of the possible institutional structure of a participatory recourse mechanism is needed. This should lead to a communication strategy through which information on the proposed recourse mechanism is widely disseminated to all stakeholders.
- Effective ways to measure REDD+ interventions and actions have to be developed. Carbon offset purchasers will require independent ("third party") confirmation that investments are applied properly. In the absence of third party verification, access to REDD+ market mechanisms will not be possible. A review of the performance metrics that relate to effective implementation of REDD+ activities should be undertaken, and the data to be collected and the metrics and methodology to be applied need to be identified.
- Similarly, carbon offset purchasers will require independent confirmation of revenue disbursement to ensure that the funds are delivered in ways that reward those who have delivered the emissions reduction service. Without third party verification of the payments, access to REDD+ financing will not be possible.

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Annexes

Annex 1: Contributors to the study

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