

POLICY BRIEF

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Forests, Trees and Agroforestry
Livelihoods, Landscapes and Governance



MAJOR CHALLENGES AND LESSONS LEARNT FROM PAYMENTS FOR FOREST ENVIRONMENTAL SERVICES (PFES) SCHEMES IN VIETNAM

Key Messages

- Detailed guidelines on PFES implementation are most needed at the local level such as provincial Forest Protection and Development Fund, province, district and commune PES management boards and village management boards.
- PFES schemes need to be designed in a participatory manner, in ways that generate greater support and commitment amongst stakeholders.
- PFES need to be supplemented with continuous education, training and awareness-building by government and non-government organizations and the private sector.
- PFES need to be directly linked with service delivery, and current monitoring of environmental services needs to be strengthened.

BACKGROUND

Vietnam is an emerging leader in the area of Payment for Forest Environmental Services (PFES) in the Southeast Asia region. However, there is limited analysis on the success and challenges of the implementation of national PFES policies that can be shared amongst wider regional and national communities. Facilitated by the World Agroforestry Centre (ICRAF) and Centre for International Forestry Research (CIFOR), PES practitioners, researchers and supporters representing 10 organizations (SNV, GIZ, CIFOR, ICRAF, Winrock International, Forest Trends, Oxfam GB, JICA, Lam Dong Provincial Forest Protection and Development Fund (PPPDF), Son La Provincial Forest Protection and Development Fund) gathered at a seminar-workshop to generate lessons, identify research gaps and draw practical recommendations for the government over the implementation of PFES in May 2012. These actors are currently implementing and supporting PES activities in Son La, Bac Kan, Yen Bai, Hoa Binh, Quang Binh, Ninh Thuan, Quang Nam and Lam Dong province (Figure 1). This policy brief presents highlights from the seminar workshop. It first presents the concept of Payment for Environmental Services (PES) and then discusses the key lessons learnt and recommendations from the implementation of Decree 99/2010/ND-CP.

WHAT IS PES?

The concept of Payment for Environmental Services (PES) was developed as an economic tool to improve the delivery of environmental services (ES). The basic principles behind PES are to effectively employ people, both at an individual and community level, to provide environmental services and to compensate them for the costs of their services. Environmental payments or rewards could take various forms, such as direct payments, financial incentives, or in-kind compensation. Key features that differentiate PES from other environmental economic instruments are “conditionality,” that is, payments are only made if the services are delivered (Wertz-Kanounnikoff and Kongphan-Apirak 2008), and “additionality,” which means that payment are expected to result in the improved provision of environmental services relative to what is currently provided.

KEY CHALLENGES IN THE IMPLEMENTATION OF PES POLICIES IN VIETNAM

1. Lack of clear ES performance indicators and monitoring system

When buyers pay for ES, it is expected that the quantity and quality of ES is measured and monitored, and “conditionality” of any payment is agreed. Recent global reviews of PES by van Noordwijk et al. (2012) and Pattanayak et al. (2010) highlighted that the lack of comprehensive monitoring and evaluation of PES schemes is the most critical limitation of current PES policies and programs in the world. Analyses from PFES implementation in six provinces shared the same findings. There was no monitoring or assessment of whether performance of environmental services has actually improved. There was also no monitoring of social indicators such as poverty reduction, which cast doubt among ES buyers on the effectiveness of the PFES scheme. This also limited evidence on the effectiveness of PFES policy and programs. In all cases, monitoring ES is difficult due to the lack of or unsystematic documentation of, activities, and unavailable or inconsistent data on land use plans and land allocation.

2. High transaction costs

Transaction costs refer to time and resources spent in searching for information, negotiation, approval, monitoring, enforcement, and conflict resolution. Transaction costs reduce the economic gains for participants and can negatively affect the effectiveness and efficiency of PES schemes. Results from PFES implementation in all cases indicated that transaction costs were higher due to: (i) lack of or poor aggregation of ES providers to produce tradable ES (economies of scale); (ii) cumbersome administrative systems with overlapping functions amongst government agencies; (iii) lack of reliable or accurate data on land use plans, land allocation and land users/owners, which makes it difficult to identify ES providers; and, (iv) the limited number and management capacity of government staff. Weak coordination and collaboration between and among stakeholders vertically and horizontally also adds another layer of transaction costs.

Figure 1- PES in some Provinces in Vietnam



TYPES OF ENVIRONMENTAL SERVICES	LOCATION	ES USERS	ES PROVIDERS	INTERMEDIARIES
Regulation and maintenance of water production	Lam Dong, Son La & Quang Nam Quang Binh Yen Bai Ninh Thuan, Bac Kan	Hydropower plants Water Supply companies	Forest owners as households, individuals, local communities Forest owners as organizations	Son La DARD, Son La PFPDF, GIZ and CIFOR Lam Dong PFPDF, Quang Nam, DARD, Winrock International
Landscape beauty and biodiversity conservation	Lam Dong And BacKan Ba Be National Park PNKB National Park (study still ongoing)	Tourisms companies in Lam Dong Revenues from tourism in Ba Ba National Park (feasibility study) Revenues for m tourism in PNKB NP(feasibility study still ongoing)	Organizations with forest management responsibilities but are not forest owners	Lam Dong PFPDF, Lam Dong DARD in Lam Dong ICRAF and IFAD in Bac Kan GIZ project "Preservation of biodiversity in forest Ecosystems in Vietnam" GIZ project "Nature Conservation and Sustainable Management of Natural Resources in the Phong Nha-Ku Bang National Park
Carbon sequestration	Cat Tien, Hoa Binh and Bac Kan	Unknown	Local people & Non Profit Organisations	SNV in Cat Tien JICA and Honda in Hoa Binh ICRAF and IFAD in Bac Kan

3. Limited participation of local people in making key decisions

PES should be holistic and explicitly aim to balance poverty reduction with conservation and ensure social justice and equity. Equitable PES could, in appropriate circumstances, deliver both sustainable natural resource management and improved livelihood security for the rural poor. However, what has been shown in most cases was that local people were not considered in the k-factor formula. In Hoa Binh and Cat Tien/Lam Dong, exclusion could also be observed when only official land owners were selected to participate in the PES program, creating a disincentive for landless people to participate in forest conservation.

4. Weak compliance and poor engagement of ES buyers

The People's Committee of Lam Dong requested that ES buyers submit their financial reports and disburse payments to the Provincial Forest Protection and Development Fund no later than 20 days upon receipt of a payment request. However, experience in Lam Dong and Son La shows that ES users/buyers (e.g. the hydropower plants and tourism companies) did not make timely payments, which delayed payments to local people. Such delays created mistrust between local people, village and commune officials and government personnel involved in PES implementation. In Son La, PFES funds from some hydropower plants were delayed for more than a year, while it took the Forest Protection and Development Fund in Lam Dong several months to request payments from buyers. Low compliance of "conditionality" was due to: (i) weak law enforcement or lack of guidance in dealing with late payers (ES buyers); (ii) limited understanding of the PES scheme by ES buyers; and, (iii) low willingness to pay by the private sector (ES buyers). The case in Quang Nam highlighted that weak involvement of ES buyers during the contract negotiation process and in the establishment of institutional arrangements for PES reduced their willingness to pay.

5. Equity and effectiveness

Although different K-factor coefficients were designed to promote forest protection activities when applied to different forest categories, stakeholders decided to opt for a "K coefficient = 1" to ensure equal payment to all ES providers. However, in Lam Dong and Son La, the K=1 formula has not encouraged or promoted forest quality. The flat rate received resistance from local households, because



they payments to stakeholders did not vary regardless of how much they succeeded in enhancing forest quality. Currently, in Son La, ES payments are ineffectively used by local communities, limiting impacts on both environmental protection and poverty reduction. This could be due to an absence of conditionality or a lack of monitoring. The effectiveness of the PFES program in Son La could have been improved with complementary programs such as extension services, capacity building, or follow-up activities after payments are made.

6. PFES for landscape beauty and biodiversity conservation in Protected Areas

It is difficult to identify the main ES providers/beneficiaries into this type of PFES scheme. Previous studies show that Protected Area and local communities are the two main ES providers for landscape beauty and biodiversity conservation. Protected Areas directly benefit from tourism activities, mainly from entrance fees, while local communities do not--this is because local communities are only contracted to do forest protection activities. This could create challenges for setting up a payment and monitoring mechanism, and raises questions about transaction costs. Furthermore, Decree 99 regulates that tourism business carried out by individuals and organizations have to pay 1-2% from their revenues to the provincial Forest Protection and Development Fund. However, it is difficult to obtain a record of income from tourism activities organized by individual tourist operators, with which to base the 1-2% ES payment. The revenue-based payment from tourism operations requires a very high number of tourists to generate sufficient revenue to be able to pay for maintaining ecosystem services.

LESSONS LEARNT AND RECOMMENDATIONS

To address the above challenges, several lessons learnt and recommendations have been drawn from the six provinces.

1. Reduce transaction costs

- Strengthen coordination between central organizations and local line agencies (province, district, and commune) with clear roles, rights and responsibilities and capacity.
- Promote group payments, as this entails lower transaction costs than individual payments (as shown in

Bac Kan and Son La).

- Promote and strengthen data and information sharing on forest land, forest land allocation, and forest owners, to reduce costs in creating contracts with local households.
- Combine different monitoring techniques. The choice of monitoring techniques influences transaction costs. Techniques commonly applied in the case studies were field-based monitoring with community involvement, which required higher transaction costs. Combining a variety of techniques such as modelling, remote sensing, field visits and inventories may not only ensure accurate information but may also help reduce transaction costs.
- Improve institutional arrangements around the management of Forest Protection and Development Funds.

2. Enhance conditionality

- Establish a clear and regular monitoring and evaluation system, particularly at the local level.
- Enhance “willingness to pay” by ES buyers and “willingness to provide” by ES providers through education and awareness raising campaigns.
- Engage ES buyers and providers in the design and implementation of PFES schemes to ensure buy-in and increase their commitment to the conditionality aspect of the PFES program.
- Apply participatory forest management (PFM) tools to not only promote transparency and trust-building between buyers and sellers but to improve understanding. Such tools will also be useful in estimating or projecting ES benefits.

3. Ensure effectiveness, efficiency and equity of PES

- Design locally-adapted payment schemes.
- Combine cash payments with in-kind incentives. Non-cash (in-kind) payments are often preferred by local people as cash payments are often too small. It should be noted that participation may not only hinge on payments but on social norms of forest protection. Focusing on cash payments alone may be detrimental to such social norms (as shown in Bac Kan and Son La).
- Bundle environmental service payments (such as carbon, landscape beauty and/or water services). The amount paid to a single ES is not economically attractive; there is a strong demand for bundling ES payments (as shown in Bac Kan, Lam Dong and Son La).
- Provide supportive activities such as capacity building, awareness raising, and the mainstreaming of PES in existing programs (such as forest land allocation, sustainable land use management, extension services or training).
- Adopt an action-learning mode in the implementation of PFES. PFES planners/designers need to be reflexive to effectively address rapidly changing local realities. Top-down PFES procedures also need to be linked with bottom-up approaches.



- Support local authorities in developing relevant guidelines and manuals on monitoring ES and PFES management, in general.

4. Enhance participation and engagement of all social groups

- Involve all forestland users and owners and marginal groups. Their participation is necessary if PES schemes are to reduce the gap between the rich and the poor and to avoid social conflict. Experiences in Hoa Binh and Son La suggest that including all relevant stakeholder groups (including both formal and informal landholders, landless and the poor, and village management boards) can help to avoid the risk of leakage. It will also ensure buy-in of all social groups in forest protection and development. Non-cash rewards would benefit the whole community including the landless, but require local arrangements to address free-rider problems.
- Understand local people's preferences on incentives and joint decision-making to make incentives more meaningful is key to the success of PFES schemes.
- Engage and enhance the role of media in awareness raising for both ES buyers and sellers on PFES, as well as on national PFES regulations (as shown in Son La and Lam Dong).
- Strengthen the role of civil society and mass organisations (such as farmers' associations, women's unions) in monitoring PFES schemes. If appropriately resourced, local organisations could take on the role of trainers, contract administrators, arbitrators, coordinators, and third-party evaluators.

¹Wertz-Kanounnikoff, S., Rankine, H. 2008. How can governments promote strategic approaches to Payments for Environmental Services (PES)? An exploratory analysis for the case of Vietnam. IDDRI Analyses N°03/2008. Institute du développement durable et de relations internationales: Paris.

²Van Noordwijk M, Leimona B, Jindal R, Villamor G B, Vardhan M, Namirembe S, Catacutan D, Kerr J, Minang PA, Tomich TP. 2012. Payments for Ecosystem Services (PES): evolution towards efficient and fair incentives for multifunctional landscapes. Annual Review of Environment and Resources 37.

³Pattanayak, S.K.; Wunder, S.; Ferraro, P.J. 2010. Show me the money: do payments supply environmental services in developing countries?. Review of Environmental Economics and Policy, p 1-21.

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