

# THE IMPACTS OF INTERNATIONAL REDD+ FINANCE

## VIETNAM CASE STUDY

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## ACRONYMS

ER-PIN	Emission Reductions Program Idea Note
FCPF	Forest Carbon Partnership Facility
FLEGT	Forest Law, Governance and Trade
FOMIS	National Forest Monitoring and Information System
FPIC	Free, prior and informed consent
ha	Hectare
MARD	Ministry of Agriculture and Rural Development
NFIMAP	National Forest Inventory, Monitoring and Assessment program
NRAP	National REDD+ action plan
ODA	Official development assistance
PFES	Payments for forest ecosystem services
PRAP	Provincial REDD+ action plan
RBF	Results-based finance
R-PP	Readiness Preparation Proposal
SFC	State forest company
UN-REDD	United Nations REDD+ program
VRO	Vietnam REDD+ office
VPA	Voluntary Partnership Agreement

Note that throughout this report all dollar amounts are U.S. dollars.

## CONTENTS

ACRONYMS.....	2
CONTENTS .....	3
INTRODUCTION TO REDD+ FINANCE IN VIETNAM.....	4
OBSERVED IMPACTS OF INTERNATIONAL REDD+ FINANCE.....	6
Environmental impacts .....	6
Economic impacts .....	7
Political impacts .....	7
Policy impacts.....	8
Stakeholder perception and participation .....	10
Impacts on capacities .....	10
IMPACTS ON VIETNAM’S FOREST SECTOR PATHWAY.....	12
FACTORS THAT AFFECT THE IMPACTS OF REDD+ FINANCE .....	14
CONCLUSIONS AND OUTLOOK .....	17
REFERENCES .....	19

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## INTRODUCTION TO REDD+ FINANCE IN VIETNAM

In contrast to most other developing countries, Vietnam had successfully tackled deforestation long before REDD+ entered the agenda of domestic and international policy discussions. These efforts have been supported by many donor countries with significant official development assistance (ODA) for the land use sector, which plays a key role in the country's economic development. REDD+ was therefore perceived and domestically discussed from the start by Vietnam as contributing to the national policy objectives of its forestry sector, and that carbon sequestration is only one of many ecosystem services provided by forests. Greater emphasis has been focused on hydrological services that have been successfully valued through a national "payments for forest ecosystem services (PFES)" scheme. When REDD+ emerged it was considered a new approach that complements Vietnam's ongoing activities, and thus was welcomed early on by the Vietnamese government (Hoan & Catacutan, 2014).

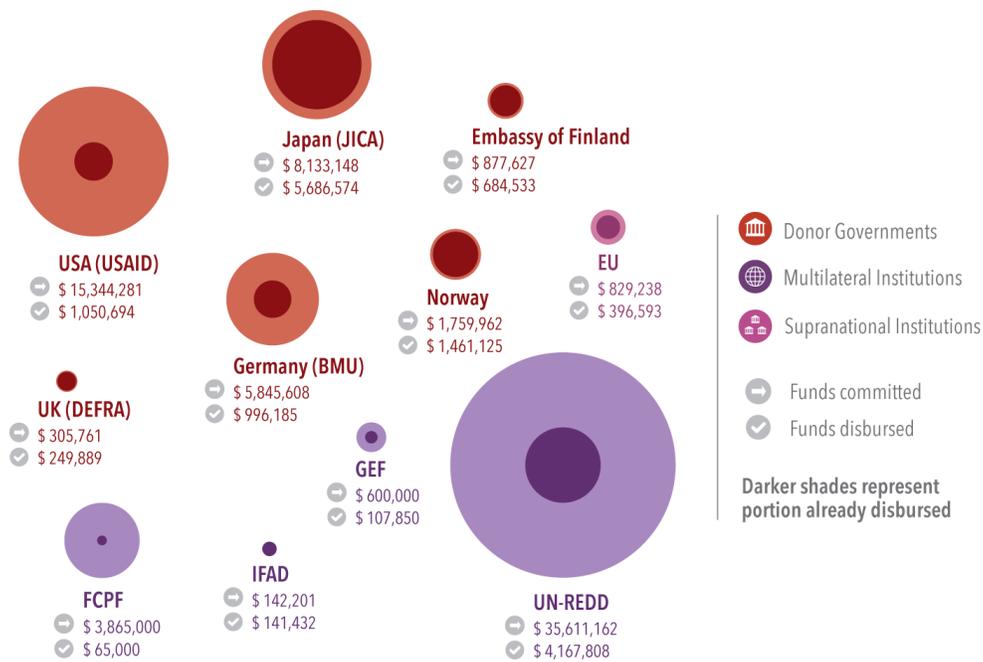
In order to meet the requirements for REDD+, Vietnam sought bilateral and multilateral financial support for the readiness process and design of a national approach for REDD+. In 2009, its request for readiness support was approved by the board of the UN-REDD programme (UN-REDD, 2010). Vietnam also presented in 2010 its REDD Readiness Preparation Proposal (R-PP) to the World Bank's Forest Carbon Partnership Facility (FCPF) to obtain further support through the FCPF's Readiness Fund (Pham et al., 2012). A National REDD+ Steering Committee was established in January 2011, and in June 2012 the Prime Minister of Vietnam approved the "national action program on reducing green-house gas emissions through efforts to mitigate deforestation and forest degradation, sustainable management of forest resources, and conservation and enhancement of forest carbon stocks" during 2011-2020 (*decision 799/QD-TTg*)—the so-called National REDD+ Action Plan (NRAP). Furthermore, in 2014 the government approved *decision 403/QD-TTg*, the *National Action Plan on Green Growth 2014-2020*, which links the NRAP and its proposed activities to the broader agenda for sustainable development in Vietnam.

It remains a challenge to present an accurate and up-to-date overview on disbursed and expected public finance specifically dedicated for REDD+. According to Forests Trends (Huong & Quang, 2013), between 2009 and 2012 Vietnam received bilateral and multilateral REDD+ finance commitments of over \$72 million while approximately \$15 million was disbursed (see Figure 1), including \$4.4 million between 2009 and 2011 for phase I of the UN-REDD program. Further support has been granted and pledged since 2012, including \$30 million by the Norwegian Government for phase II of the UN-REDD program. Originally planned for 2013 to 2015, its implementation and the establishment of provincial REDD+ programs in Lao Cai, Bac Kan, Ha Tinh, Binh Thuan, Lam Dong and Ca Mau has been delayed but made notable progress recently and further disbursements are expected in the near future. The UN-REDD program finances a number of activities that can be considered as readiness support, but also includes support for implementation of the national REDD+ action program.

Most of the disbursed REDD+ finance has been dedicated for investments and activities related to REDD+ readiness activities. According to the ER-PIN (FCPF, 2014) there are 23 REDD+ related projects that are in the process of being implemented throughout the country, many with bilateral support from Norway, Japan, Germany, Finland and the United States, and more recently South Korea. With regards to the various donor-funded activities one expert emphasized that some only partially contributed to the implementation of REDD+, with unclear budgets and individual interests.

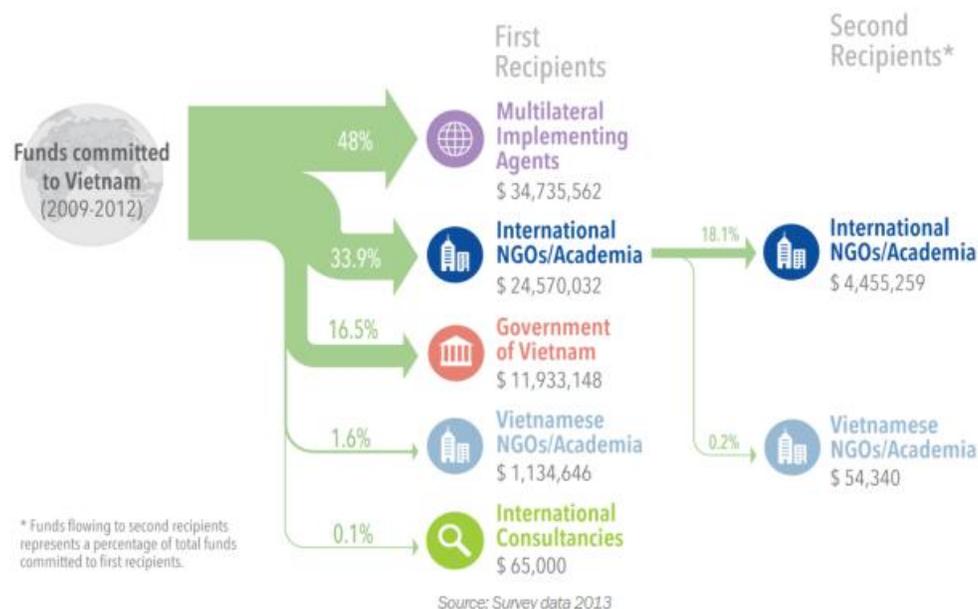
Regarding the third category, results-based finance (RBF), in 2014 Vietnam entered the pipeline of the FCPF's Carbon Fund and signed a letter of intent with the World Bank for the potential purchase of up to 10.3 million tons of "emission reductions from sustainable management of forests through low emissions development planning for green growth in the North Central Agro-Ecological Region" (FCPF, 2015). Pending successful negotiations of the Emission Reduction Payment Agreement, Vietnam can expect up to \$50 million of RBF if it successfully reduces emissions in approximately 5.1 million hectares (ha) of forested lands of the six provinces from Thua Thien Hue to Thanh Hoa, for the period between 2016 until 2020 (FCPF 2014, 2015).

**Figure 1: Donor funding for Vietnam, disbursed and committed as of 2012 (REDDX, Forest Trends<sup>1</sup> 2015)**



The analysis provided by Huong & Quang (2013) of the recipients also shows that funding is dispersed through many different institutions.

**Figure 2: Commitments to different recipients between 2009 and 2012 (REDDX, Huong & Quang 2013)**



<sup>1</sup> <http://reddx.forest-trends.org/country/vietnam/donors>, accessed 28.3.2015

## OBSERVED IMPACTS OF INTERNATIONAL REDD+ FINANCE

This section is based on a literature review and the results of twelve interviews conducted in March and April 2015 with representatives and experts from national and provincial ministries, NGOs, academia, and international donor organizations and donor countries.

### ENVIRONMENTAL IMPACTS

Vietnam has made impressive progress in the forest sector in recent years, with positive environmental impacts. However, this cannot yet be attributed to REDD+ finance for two reasons: firstly, most REDD+ funding has been disbursed for REDD+ infrastructure and creating an enabling environment, and secondly, the amount of disbursed funding is relatively small—as one expert expressed “it [REDD+ finance in Vietnam] is a peanut. A big peanut ... but a peanut”.

The most recent Forest Sector Development Report (MARD 2015) provides a comprehensive overview of the progress made towards achieving the forest-related policy objectives outlined by the *Forestry Development Strategy 2006–2020* and the *National Action Plan on Green Growth 2014–2020*: sustainable management of forest resources as contributions to rural development, poverty alleviation, economic growth, the conservation of biodiversity and securing the provision of vital ecosystem services. According to this report, forest cover has increased since 2012 from 40.7% (13.8 million ha) to 41.5% in 2014, progressing towards the target developed in 2006 to reestablish a 47% forest cover by 2020. The increase of forest area includes production forests, protection forests (for specific ecosystem services, e.g. watershed management) and special use forests (protected areas, conservation being the primary objective). However, the main emphasis is on establishing plantations mainly used for wood chip production (Harwood & Nambiar, 2014)—a well-established and functioning but low-profit value chain (Harwood, 2011; MARD, 2015).

Regarding carbon stocks and carbon stock fluctuations there is no reliable information available yet (Mant et al., 2013), but it is believed that the increase of forest area compensates for the emissions generated within the remaining local hotspots of deforestation (FCPF, 2014). In the past, the main causes of deforestation have been rapid demographic and economic growth and increasing demands for food, fuel wood, timber and commodity crops for export (de Koninck, 1999). Today, deforestation for planting agricultural commodities (rubber, cashew and coffee) and even more so forest degradation (illegal logging) remain problematic only in specific regions of Vietnam, especially in the Central Highlands, Central Coast and Southeast regions (FCFP, 2014; WWF, 2013).

There is a general consensus that Vietnam has reversed its deforestation trend, and overcome the rapid deforestation that characterized much of the last century but the overall quality of the majority of Vietnam’s forests remains low (MARD, 2007) and so-called “rich and medium natural forests” account for only 8% of the natural forest area (MARD, 2015). As such, there remains considerable potential to enhance carbon storage through reducing degradation and promoting restoration activities in forested landscapes. This would require significant investments to overcome the financing gaps of forest owners, and interviewees expressed that REDD+ finance for implementation could help in achieving it. They also mentioned that the expectations for such funding have not materialized yet, and that difficulties experienced during the readiness phase prevented much thought about how performance can be achieved.

Interviewees agreed that Vietnam is making notable progress in the forest sector—not only the forest cover is increasing, but a range of efforts are being undertaken to secure the provision of different ecosystem services (Hoan & Catacutan, 2014). They shared the view that with its successfully implemented PFES scheme Vietnam generates domestic funding (see Section 2.2) with more tangible impacts on forest protection than REDD+ has to date. Some

experts are convinced that environmental impacts would become even more visible if REDD+ finance for implementation and RBF were to significantly increase.

### ECONOMIC IMPACTS

The advanced stage of Vietnam's forest transition has resulted in a broad awareness and appreciation of the provision of ecosystem goods and services from forests. This occurred long before discussions on REDD+ and carbon sequestration entered into the international political discourse on climate change. In order to upscale successful examples of economic instruments that value nature and ecosystem services, Vietnam adopted *Decree 99/2010/ND-CP* which emphasizes the importance of hydrological services for water provision and set the basis for the national PFES system (Pham et al., 2013). Implemented during the last three years, the PFES funds are generated from electricity (97.7%) and drinking water (2.2%) consumption through the suppliers. So far over \$157 million have been collected and disbursed through 37 provincial Forest Protection and Development Funds (MARD, 2015). Despite challenges regarding the effective use and allocation of PFES funding, those interviewed considered such funds as "real" and significant amounts have been disbursed to local landholders. They also emphasized that there is considerable potential for further, positive environmental impacts, as the program currently only covers around four million ha of forests in watershed areas (MARD 2015).

When asked about economic impacts of REDD+ finance, the interviewees responded that so far and in contrast to PFES, it has not yet shown noteworthy impacts. As in the previous section some interviewees expect this to change if, in the future, significant amounts of REDD+ RBF become tangible. Others were more skeptical and emphasized that the funding will most likely not be sufficient to compete with the opportunity costs, and that there is a need for business models that are synergistic to the objectives of REDD+ yet also meet the economic needs of forest owners and landholders, such as state forest companies (SFCs), communities and individual forest owners. Several experts emphasized that the massive reforestation efforts from the last years were enabled by the development of a functional value chain and business model for fast growing tree species (acacia, eucalyptus and pine) for wood chip production. A goal of Vietnam's sector strategies is to enhance the profitability of the forestry sector, and different measures are being taken to reach this goal, e.g. prioritizing timber over wood chip production (MARD, 2015). One interviewee clearly stated that the accessibility of significant RBF would help in designing business models with mitigation benefits, but that at the moment the attention of key actors is not yet focused on developing such strategic options.

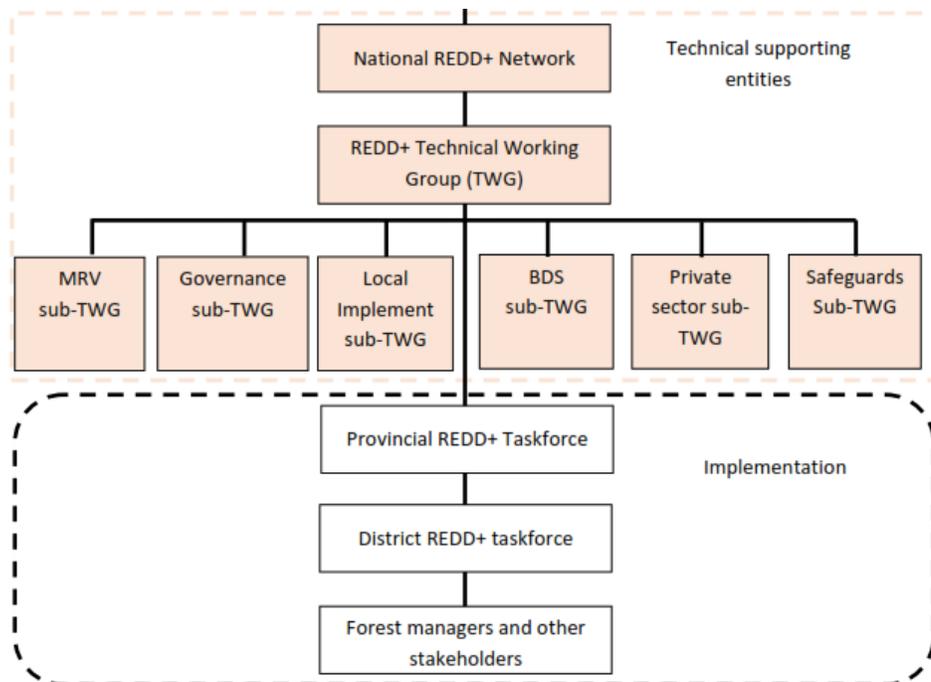
### POLITICAL IMPACTS

Vietnam is widely perceived as an advanced REDD+ country which demonstrated early political will and declared to implement a REDD+ program, as it is in line with the Vietnamese agenda for sustainable development (Pham et al., 2012). A range of different institutions were established to facilitate the needed coordination among political stakeholders, in particular government ministries, to meet the required technical prerequisites and attract international financial support for readiness efforts. The interviewed experts mostly agreed that the international negotiations and debates on REDD+, and the expectation of significant future funding, has had notable impacts on the political landscape of Vietnam dealing with environmental issues and land use management. REDD+ in Vietnam is governed by two key institutions established specifically to coordinate the national design and the implementation process:

- the inter-ministerial National REDD+ Action Steering Committee, chaired by MARD, is responsible for the coordination with six other ministries
- the Vietnam REDD+ office (VRO) is the dedicated institution for managing and coordinating all relevant activities.

In addition a National REDD+ Steering Committee and a National REDD+ network with six technical working groups have been established (figure 3).

**Figure 3:** Technical supporting units for REDD+ implementation in Vietnam (Forest Trends, 2013, based on FCPF, 2012 and Quang & Dung, 2014)



Especially in the initial readiness phase Vietnam made rapid progress in the development of its National REDD+ program (NRAP). However, despite the rapid initial progress, since 2012 the pace has slowed down considerably. Some experts stated that the newly created institutions dedicated to facilitate the implementation of REDD+ have not yet reached a satisfactory degree of functionality—REDD+ finance has stimulated their establishment but “then they ran out of steam”. The interviewed experts furthermore agree that it has helped to keep the issues of forest protection and sustainable management of forests high on the political agenda. However, its inherent complexity and the challenges arising from many parallel REDD+ activities at the same time have kept the national REDD+ debate mainly at the national level and among experts. This is currently changing with the development of provincial REDD+ action plans (PRAP) in selected provinces.

Generally, the REDD+ discussions in Vietnam are marked by high expectations regarding future finance. At the same time, stakeholders working on preparing REDD+ implementation at the provincial level hardly understand the complex logic and the requirements, and only now are they beginning to realize that their expectations of REDD+ finance may not be realistic. As a conclusion it must be noted that there is still a clear imbalance between the capacities and knowledge about REDD+ at the national and at the provincial levels; what is well understood at the provincial level is the relationship between forest protection and climate change. This, however, cannot be attributed as an impact of REDD+ finance since most of the readiness funding is so far used for developing capacities at the national level.

### POLICY IMPACTS

This section provides an overview of why progress on halting and reversing forest cover loss is an outcome of existing policy pathways, and cannot be attributed to REDD+ finance. Numerous policies and measures have helped to stabilize and revert forest cover loss, except in some provinces within the Central Highlands, the Central Coast and

the South East where there are “*clearly defined pockets of deforestation*” (FCPF, 2012). Logging bans since 1995 (in combination with reforestation policies) have had positive impacts on Vietnam’s deforestation rates (Mant et al., 2013). After dropping from 43% of forest cover in 1943 to 27% in 1990 (MARD, 2007), government policies and support programs were enacted at all administrative levels and have resulted in massive reforestation. In particular, the *Land Laws* of 1993 and 2003, the so-called *5-Million ha program*, and more recently the *Forestry Development Strategy 2006–2020*. Other relevant legal instruments include laws on *Environmental Protection* (2005), on *Biodiversity* (2008), and on *Forest Protection and Development* (2004) which provide the basis for participatory forest monitoring and reporting by local stakeholders and the 10-year forest protection and development plan for 2011-2020 (*Decision 57/QD-TTg*).

Concerning the impacts of REDD+ finance, the National REDD+ Action Program of 2012 is the key policy that regulates the responsibilities for the implementation and the key measures to ensure cross-sectoral coordination and consistency with the various policy objectives and existing instruments. On a more general level the *National Target Program (NTP) to respond to Climate Change* of 2008 covers the following priorities: adaptation, mitigation and the creation of a pathway towards developing a low-carbon economy (*decision No 158/2008/QD-TTg*). Currently efforts are being undertaken to develop PRAPs, in the context of the FCPF Carbon Fund and the UN-REDD Program. So far only two PRAPs have been completed for Lam Dong and Dien Bien.

REDD+ is considered as one of many elements and instruments for promoting forest protection and the sustainable management of forests in Vietnam. The most important policies and processes are listed below; they are not the result of REDD+ finance but they are relevant for implementation and require considerable efforts for alignment with REDD+:

- The PFES policy is a key strategy to protect forests in a significant portion of watershed areas (Decree 99/2010/ND-CP). For its operationalization the national Forest Protection and Development Fund was established in 2008 “to mobilize all resources of the society to protect and develop forests”. In the meantime, 37 Provincial Forest Protection and Development Funds have been created under the Provincial People Committees to administer and disburse the funding generated through PFES, with a disbursement rate of approximately 70% (MARD, 2015). Some experts pointed out that the national REDD+ debate has helped significantly in fostering and strengthening the commitment to implementing PFES; they claim that although PFES was agreed before REDD+ was discussed, REDD+ has helped to promote the issue of forest protection and both policy approaches are generally synergistic in their objectives. However, the current REDD+ pilot activities are not yet explicitly linked with PFES, despite the obvious potentials for synergies.
- In 2014 the Vietnamese government approved the “scheme for strengthening management of natural forest exploitation for the period 2014-2020” (Decision No. 2242/QD-TTg), which aims to improve the management and protection of natural forests and reduce their exploitation. Part of this is a logging ban for all natural forests, except for two FSC certified State forest Companies, and a subsidy to compensate companies suffering from this logging ban. However, in contrast to the Indonesian concession moratorium two experts noted that this policy was not motivated by REDD+ finance or the desire to reduce forest sector emissions.
- Since 2010 Vietnam has engaged in negotiations with the EU on Forest Law, Governance and Trade (FLEGT) and a Voluntary Partnership Agreement (VPA) for a licensing system to ensure legality of Vietnamese timber and timber products exported to EU markets. The VPA was scheduled for signature by the end of 2014 but has been delayed for various reasons; one expert said that REDD+ and expected RBF has absorbed much government capacity and temporarily withdrawn the political attention needed to make progress on this matter.

The plethora of policies does not mean that all efforts are as successful as the Vietnamese PFES scheme. Some are not well implemented, but all in all they demonstrate the awareness and dedication of the Vietnamese government

and provincial counterparts to make the transition to sustainable management and protect their natural resources. Since many of these policies have been modified and further developed by different institutions, it presents a considerable challenge to ensure consistency and coherence among them.

Unsurprisingly this is seen as a major deficit by many experts; they emphasized the need to work more intensively on integrating REDD+ into national strategy programs, in particular the *forestry development strategy*, the *NTP on responses to climate change, emission reduction plan in agriculture and rural development*, and the *10-year forest protection and development plan for 2011-2020*. REDD+ is mentioned in most of them, reflecting the effort to integrate the concept in Vietnam's forest governance. However, some also pointed out that the high expectations for significant REDD+ finance in the near future has reduced the attention and dedication to other policies and processes, such as the FLEGT VPA, while it has strengthened efforts to further develop and implement PFES and the forest protection and development funds.

### STAKEHOLDER PERCEPTION AND PARTICIPATION

Raising awareness of the importance of forests and forests protection for combatting climate change as well as adapting to it is an important element of Vietnamese policy efforts for the forestry sector. Vietnam has undertaken various efforts to communicate the role of forests in the context of climate change to the wider public, e.g. through concerted media campaigns. For instance, the *Steering Committee on the Forest Protection and Development Plan* released six documentary films broadcasted on Vietnam Television and four programs on forest management and protection on "*The Voice of Vietnam*". Furthermore, special columns in newspapers aim at explaining the objectives of forest protection and the links to sustainable development nationwide, with forest owners as an explicit target group (MARD, 2015). This cannot be directly attributed to REDD+ finance but experts agree that such communication activities have reached a new dimension in recent years and are supported by public authorities.

Despite these efforts, awareness and understanding of the evolving REDD+ mechanism and the logic of RBF outside of expert circles remains very limited. As the report on the forest sector development states: "*REDD+ is a new issue and therefore there remain inconsistent understanding on REDD+ at different levels, sectors, forest owners and local people so as resulting in their limited participation in REDD+ implementation*" (MARD, 2015).

In the effort to cope with these deficits and to allow for active stakeholder participation, a significant amount of REDD+ readiness finance was spent in selected pilot provinces. For example, UN-REDD and SNV carried out a number of activities on approaches for implementing REDD+ safeguards and the principle of free, prior and informed consent (FPIC). In regards to these activities, some experts mentioned a notable impact which is the enhanced participation and involvement of various stakeholders. In Vietnam, often policies are implemented top-down, but with the support of REDD+ finance for safeguard processes and benefit sharing mechanisms a number of progressive bottom-up stakeholder consultations were initiated, such as the creation of a benefit distribution system in the Lam Dong and Bac Kan provinces (WWF, 2013).

### IMPACTS ON CAPACITIES

At the national level Vietnam has spent tremendous efforts in increasing and improving its existing technical capacities financed to a large extent with REDD+ finance. For example, the National Forest Inventory, Monitoring and Assessment program (NFIMAP) has been operational since the 1990s, and provides regular monitoring and updated information on the status of forest resources in Vietnam (e.g. monitoring forest cover, timber products, non-timber forest products etc.). As such, Vietnam has built a database that provides good knowledge and understanding related to not only the changes in forest cover, but also in regards to the drivers and underlying causes of deforestation. However, there are still challenges of how to update and adapt the system to allow for robust and accurate MRV of carbon stock changes. The data of the first carbon map refers to the year 2005, and the estimations of the average stocks deviates by more than 30% from those of the FAO's Forests Resources Assessment of 2010 (Mant et al., 2013).

The data quality has to be further improved, including a quantification of uncertainties, if they are to be robust enough for RBF.

Despite the remaining shortcomings, with the aid of international REDD+ finance monitoring capacities have been significantly improved during recent years. It appears to be more a matter of time than of readiness finance to reach a level sufficiently robust and accurate for RBF: allometric equations for main forest types have been developed for six ecological regions in Vietnam and currently the program is being refined and further improved with support from the FAO, while the National Forest Monitoring and Information System (FOMIS) is in the process of being developed with support from the Government of Finland. The implementation and further development of these programs and systems is an important element of the UN-REDD phase II project to be able to provide MRV for REDD+ sufficient for applying for RBF. In conclusion, there are well-developed capacities in place, but the specific requirements for REDD+ make it necessary to adapt the existing system, and to improve and adjust the systems over time—especially in order to assess carbon stock changes in forests. The experts agreed that in this regard, REDD+ finance has had a considerable impact, which will become increasingly evident as Vietnam progresses with phase II of REDD+.

Evaluating the status of specific technical and further capacities needed for REDD+ is a matter of perspective—one can consider the glass as half full and highlight what has been achieved or as half empty and emphasize the remaining gaps. Hoan & Catacutan (2014) have recently assessed Vietnam's readiness and come to a more critical conclusion than this assessment, but it also reveals the diverse perceptions on the influence and role of REDD+ in the mix of different policy instruments contributing to forest governance in the country. Generally, there is a consensus that REDD+ readiness finance has helped to notably advance different capacities needed for REDD+ implementation.

## IMPACTS ON VIETNAM'S FOREST SECTOR PATHWAY

Similar to Costa Rica and South Korea in the 1970s, Vietnam has realized how destroyed forests deprive economic growth and development, and began to address deforestation by reforming their land laws and implementing a variety of regulatory and economic instruments in the early 1990s. The success of Vietnam's reforestation efforts is evident, and the expansion of mainly short-rotation plantations is believed to already compensate for the emissions from the "pockets" of deforestation and ongoing degradation. An in-depth analysis of the forest governance, including tenure, regulatory policies at national and provincial level and economic incentives, reveals some of the reasons why Vietnam is considered as advanced on the forest transition curve, compared to many other developing countries.

After having stabilized its forest cover and successfully reestablished forests on several millions of hectares of barren and/or heavily degraded lands, deforestation is perceived as a local problem. Land use change for subsistence agriculture (including cassava, acacia and other marketable commodities) continues at relatively high rates, especially in certain parts of the Central Highlands in Vietnam. Forest degradation through illegal logging remains a significant problem throughout the country. The main underlying causes are still poverty, dependence on subsistence agriculture and the lack of livelihood alternatives, and difficulties enforcing the many existing laws and regulations. However, these factors are dynamic, and the success of many policies aiming at decreasing rural poverty rates is reflected in the successful reversal of forest cover loss. In line with this one respondent stated that "*REDD+ in Vietnam is old water in a new box*"—forest protection and reforestation are not a revolutionary approach, they just address the land use sector from a different perspective. This is a view that was confirmed by many interviewed experts. There is a consensus that much more needs to be done in the forest sector, and that tremendous potential exists regarding the functionality of forest ecosystems and the provision of forest ecosystem services. REDD+ finance is still believed to have the potential to help in these efforts, but the original enthusiasm has given way to a more realistic view on the transaction costs and the tangible benefits.

Similar to many other developing countries, Vietnam still faces a strong competition for arable land dedicated for producing marketable commodities (coffee, rubber, cassava, shrimp and aquaculture, timber). At the same time there is already a high degree of awareness for and appreciation of non-marketable ecosystem services provided by forests. The latter tends to be valued by societies when they are not available in abundance any more, and the external costs arising have to be borne by society. This explains why the nationwide PFES system was designed for valuing the specific hydrological forest ecosystem services—a success story that has not only collected significant funding for provincial forest protection funds but, in contrast to REDD+ finance so far, is disbursed directly to the forest owners and the communities. REDD+ and related finance are seen as complementary to the efforts of better balancing the economic and ecological interests of different stakeholders, and to further improve the values generated from different land uses. Of course, the funding from PFES will not be sufficient to protect the forests but the largest share of PFES finance is distributed to local people in the watershed areas to protect the forest, and with it the stable and reliable generation of hydropower—the most important source of electricity generation in Vietnam. In combination with better enforcement of laws, land allocation to individuals and communes, as well as improvements on the clarity on land use rights (e.g. using the so-called red books) PFES has so far created a larger, more tangible impact than REDD+ finance.

Except within expert circles, REDD+ is widely perceived as a complex and unclear concept, and it is not clear what benefits the country can expect from it. The many activities by donors have raised considerable expectations regarding funding for a cause that is well understood—the protection of forests. It is less clear, even to the experts, if and how REDD+ can be used for improving the quality of the forest. As long as REDD+ is perceived as requiring a very complex set of measures while the benefits remain unclear, Vietnam has little incentive to invest more in REDD+ than it already has. By no means does this indicate that Vietnam is less dedicated to implementation, but there are simply stronger incentives impacting land use policies and decisions which outweigh those of current REDD+ finance.

As described in previous sections, all measures to improve the cover and the quality of forests have to be in line with the broader development agenda of the country. The dependence on reliable and increased amounts of energy is vital for an economy where the average GDP is growing at a rate of 6% per year<sup>2</sup>. As a consequence the link between forest protection and the production of reliable power, including in remote rural areas, is supported by a broad set of private and public stakeholders. Combatting poverty and securing livelihoods is another key priority, visible through the continued emphasis on land allocation. So far REDD+ finance has contributed very little to these objectives, as most funding has been spent on REDD+ readiness at the national level; at the provincial level very little finance has been invested to develop capacities or to implement REDD+ programs. This may change with the implementation of UN-REDD phase II and the Carbon Fund program of the FCPF. However it is unclear if and how much funding will be made available, and whether it will only be used for REDD+ readiness and the development of PRAPs or also for specific investments that will contribute to the successful acquisition of future RBF.

In order to further reduce GHG emissions from the forest sector and to enhance sequestration of CO<sub>2</sub>, there is a clear need of specific incentives that help implement existing policies and land use strategies. Vietnam has the advantage that it already has many policies in place, but funding has to reach forest owners, and the implementation of the regulatory policies needs supportive economic instruments. For Vietnam the largest potential is in the ‘+’ activities (enhancement of forest carbon stocks and sustainable management of forests). It is widely recognized that more than 60% of the remaining natural forests are in a poor state and there is considerable potential to improve the overall forest quality (biodiversity, ecosystem functions and services). Activities such as enrichment planting, rehabilitation and forest restoration can significantly enhance forest carbon stocks while also contributing to livelihoods and other environmental objectives. Furthermore, these activities are vital in terms of adaptation to climate change, as short-rotation plantations (Acacia, Eucalyptus, and rubber which is treated as an agricultural commodity) are vulnerable to typhoons, heavy monsoon events and forest fires after droughts. Such events have a detrimental effect on the sequestered carbon; increasing the forest quality helps to ensure the permanence of forest carbon stocks.

Increasing the ecological and economic value of its production forests is expressed as a key objective of many sector-relevant policies. During the last two decades Vietnam has successfully developed a significant export-oriented furniture industry. Demand for timber exceeds supply by far, and currently 80% of the timber for this industry is imported from Brazil, South Africa, Australia and other countries. In the future there will be a significant need for sourcing legally produced domestic timber to meet the resource needs of the furniture industry (World Bank, 2010). However, making the transition towards sustainable forest management creates significant challenges for forest owners—SFCs, communes and individual forest owners alike—as they have to cover their living expenses and the labor costs of their workers.

Most of the plantation wood is currently used for the low-value production of wood chips. In order to make the shift towards carbon-rich sustainably managed forests there is a need for specific investments that are in line with the objectives of REDD+ and forest sector policies. However, so far REDD+ finance has not been available for this kind of intervention. Accordingly, its impacts are primarily attributable to the development of REDD+ specific technical capacities and political institutions. The expected finance, in particular RBF, remains vague and uncertain, but the debates about it have raised notable expectations that it will help in developing Vietnam’s agenda for land use and development. However, it is not well understood that RBF will to a large extent award the successful and measurable outcomes of activities the country has to facilitate itself.

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<sup>2</sup> <http://www.tradingeconomics.com/vietnam/gdp-growth>

## FACTORS THAT AFFECT THE IMPACTS OF REDD+ FINANCE

This section analyzes the factors and conditions that literature suggests are necessary for international finance to be effective. In light of the long history of coping with forest cover loss prior to REDD+ it remains contested what can be attributed as influential factors on the impacts of REDD+ finance. The interviewed participants agreed that the below-described factors have been influential on how REDD+ evolved, but also that so far the overall impact of REDD+ finance must be considered as very low.

**Pre-existing conditions:** Due to the plethora of already existing policies and instruments, REDD+ finance has not been sufficient to notably accelerate or improve the ongoing developments, except for concerted efforts to improve the availability of robust data and information. Vietnam started in the early 1990s to cope with its forest loss, beginning with the adoption of laws to clarify land use rights and several forest sector reforms. Marked by extremely high rates of poverty and hunger, the land allocation process was a very important step in the reforestation of barren and heavily degraded lands. It was supported by the five million ha program and many other policies that also helped to establish a functioning value chain for wood chips produced in very short rotation periods of only three to six years.

Through development of PFES, Vietnam has installed a functioning incentive mechanism with decentralized and dedicated forest protection funds. These structures and capacities can also be used for REDD+, e.g. the national Forest Protection and Development Fund is supposed to catalyze trust funds from international and domestic organizations and individuals besides PFES payments. Regarding access and benefit sharing, the National Forest Protection and Development Fund and its provincial counterparts seem predestined to channel RBF for REDD+ in the future. Despite remaining challenges, these structures provide a solid foundation for functional access and benefit sharing mechanisms which may prove advantageous in later stages of REDD+ implementation.

Another aspect concerns the preexisting conditions through various donor organizations: the development of the land use sector in Vietnam has been substantially supported for decades through technical and financial support, e.g. by Germany, United States, Japan, Netherlands, Finland, Norway and many others. In addition the World Bank has been very active in the forest sector of Vietnam for a long time, e.g. through its Forest Sector Development Project. This long-standing and extensive support has helped the country in addressing different forest-related issues within this heterogeneous country through a plethora of different projects in different provinces. However, as in many countries this donor engagement is seldom coordinated, and the work has taken place in different regions with varying results. Today's bilateral and multilateral support for REDD+ is scattered among different parts of the country and it is a great challenge for MARD and the Vietnamese forest administration "VN Forest" to oversee and coordinate the different institutions and their many activities. While Vietnam's pre-existing donor support has shown impact in so far that it has enabled Vietnam to commit early to implement REDD+, the fragmentation of activities currently slow down the initial progress. Without improved coordination this "prerequisite for success" has created new challenges and reduced the potential impact of REDD+ finance, but if this challenge can be overcome—through more needs-oriented support—Vietnam can draw on a considerable advantage in this context.

**Country ownership:** The REDDX report for Vietnam (Huong & Quang, 2013) shows that a lot of REDD+ funding is used to finance different institutions which independently develop the specific elements needed for REDD+. Their work is supposed to be coordinated through the Vietnam REDD+ Office and the six technical working groups. However, the parallel development of the many activities create considerable challenges for the VRO as they lack the resources to oversee all the simultaneous activities of institutions which partly compete for funding and have diverging perspectives on country priorities, as well as how REDD+ should be implemented. These findings emphasize the need to streamline REDD+ with all the other ongoing policy developments in the forestry sector, and to harmonize the objectives of MARD with other ministries.

So far many REDD+ readiness activities are driven by donor institutions, and the important factor of country ownership could be significantly improved. This has been recognized and may change in the near future: recently new staff was appointed for key ministry positions, the REDD+ working groups are meeting again, and UN-REDD as well as the FCPF Carbon Fund program have entered a new stage in which Vietnam is moving towards implementing pilot projects in selected jurisdictions. With this, it is expected that country ownership may increase and the conditions for REDD+ finance to unfold positive impacts may improve.

**Alignment:** One of the reasons why REDD+ finance for Vietnam has not yet unfolded tremendous impacts and why the initially fast progress has notably slowed in 2013 is that a number of relevant forest sector regulatory and economic policy instruments are still in the process of being implemented. It must be emphasized again that most of these policies are independent of REDD+ and cannot be attributed to REDD+ finance. Nonetheless, implementation of REDD+ requires a high degree of alignment of these fragmented strategies and policy instruments, including inter-sectoral and inter-ministerial coordination. Here there are clear but recognized deficits. Different branches of MARD play a key role in all of them and the ministry has to coordinate their implementation with six other ministries: the Ministry of Natural Resources and Environment, the Ministry of Planning and Investment, the Ministry of Finance, the State Committee for Ethnic Minority and Mountainous Area Affairs, the Ministry of Industry and Trade and the Ministry of Transport. In light of different priorities, inter-sectoral coordination remains a challenge and explains why REDD+ does not advance as fast as in the initial stages of its development. Interestingly, the interviewed experts did not relate this to the issue of unclear future finance but to the fact that resolving this complex overlap of interests requires time.

In addition, it is perceived as hard to align existing policies with REDD+ since the UNFCCC negotiations on REDD+ took a lot longer than expected. For Vietnam it is only rational to focus on improving pre-existing domestic policy instruments such as the national PFES scheme, the allocation process of forest land and forest certification. All of these policies and activities have to be aligned with the broader development agenda, which already has a strong emphasis on sustainable development, including poverty alleviation and other macro-economic objectives such as enhancing the land use sector contribution to the gross domestic product and securing employment. If the low degree of alignment is enhanced this may result in significant progress and synergies for REDD+ performance, the impact of REDD+ finance and the policies listed in Section 2.

**Building local capacity:** So far, the funding spent for REDD+ has mostly been spent on building capacities at the national level. Accordingly there has been little notable impact on available capacities at the local or at the provincial level. Only recently, as the preparation of PRAPs in selected provinces has gained momentum, it appears as if funding is increasingly earmarked to also strengthen local institutions and procedures. Since results have to be achieved at these lower policy levels, it is crucial to consider options for further strengthening institutions at the provincial level, including the Forest Protection Departments and Forest Management Boards.

**Coordination of support:** A lack of coordination among donor activities and with domestic policy processes has reduced the effectiveness of REDD+ support. It partly explains the above mentioned delays after initial rapid progress and is a key impediment for REDD+ finance to unfold and show more impacts. The various streams of REDD+ finance are not well harmonized and there is considerable room for improving the coordination among donor organizations, which have different regional focuses and considerable thematic overlaps. It can be stated that an impact of the various and uncoordinated funding sources have contributed to the visible fragmentation of REDD+-related activities in Vietnam. The necessary coordination cannot be expected to happen without the guidance of the main donor organizations (cf. section on ownership). However, this has also been an important lesson learned, and the agreed coordination between the governments of Germany, Norway and the United Kingdom could serve as a role model for even broader coordination of support for REDD+ within a specific country context. This would enable a much more efficient use of limited public funding, allow for more impacts and help the authorities of Vietnam to make progress in the development of REDD+.

**Private sector engagement:** As most REDD+ funding is spent on the national level for readiness activities, the private sector is not yet actively included in the efforts to implement REDD+. However, there is a large potential that can be tapped if the private sector is engaged. For example, PFES and the forest protection and development funds generate large and increasing amounts of private sector finance used for forest protection. While the focus of PFES is the provision of hydrological services, there are significant and direct co-benefits of this approach that are also applicable for the objectives of REDD+ (e.g. carbon mitigation). Another aspect is that Vietnam is currently restructuring its SFCs, with both opportunities and risks for REDD+. SFCs have to operate profitably, and their options depend on whether there will be a suitable environment for business models that contribute to the carbon mitigation performance of the sector. At the moment there are only fragmented activities that explore deforestation-free commodity supply chains and sustainable timber production. If funding for implementation is increased and used to invest in such activities and respective enabling environments there is a large potential for impacts.

## CONCLUSIONS AND OUTLOOK

Vietnam was an early proponent of REDD+ as the country had already recognized, long before REDD+ emerged, the detrimental effects of destroyed forests on vital ecosystem services. As a developing country which rapidly advanced in its efforts of combatting poverty during the last two decades it made impressive progress in simultaneously reforestation and improving its forest governance. REDD+ is recognized as generally being in line with the existing and emerging forest sector and development policies, which explains the strong political will of the government and their early commitment to this mechanism.

With its strong dependence on the land use sector and the lack of abundant arable lands, Vietnam is confronted with considerably diverging interests regarding land use options, and the various policies reflect how challenging it is to develop institutions allowing for coherent and effective environmental governance that successfully balances these interests. Available resources for conservation are scarce and need upscaling. The debates on REDD+ and its promise of significant amounts of RBF have generated high expectations among decision makers that REDD+ would be one of several elements that can support the agenda for sustainable development in the land use sector. These expectations have not been met—partly because the guidance remained unclear and progress on rules and modalities was slower than expected, partly because the concept of RBF is not well understood beyond small expert circles.

The disbursed REDD+ finance for readiness has had notable impacts as it has supported the development of the infrastructure needed for REDD+ but it appears as though it is not significant enough *“to tip the scale”*—in contrast to the funding already generated through PFES, which exceeds not only the disbursed funding but also the pledged funding for REDD+. This may explain why the pace of development has slowed considerably after an initial enthusiasm for REDD+, and why REDD+ in Vietnam has made less progress than expected. However, some have noted that REDD+ finance has helped implementing PFES as it created more awareness regarding the issue of forest protection. In addition, the negotiations with the FCPF Carbon Fund program has brought a new sense of commitment to tap the considerable mitigation potential of the forest sector: MARD as the responsible ministry and its VRO have reactivated relevant working groups and seem dedicated to continue making REDD+ a reality in Vietnam.

Availability of significant amounts of REDD+ finance for implementation and RBF, and clarity regarding requirements for tapping these funds, seem crucial to maintain Vietnam’s commitment. In contrast to most other developing countries it has demonstrated that it is capable of stabilizing its forest cover loss, reversing the unsustainable land use trends and to create the basis for a carbon mitigation performance; however, there is still a large untapped mitigation potential, especially activities focused on enhancing forest carbon stocks and the sustainable management of forests. Vietnam, through its successful PFES, has assumed a considerable amount of national responsibility for financing the protection of its forest resources and created a successful mechanism that has attracted the interest of neighboring countries, such as Laos, Thailand and Myanmar.

Although Vietnam has not yet received massive amounts of REDD+ finance, it is still advanced compared to other countries. Due to the long history of previous, project-based ODA from different donors the support provided so far for REDD+ is fragmented across the country. Limited public funding could be used more efficiently if key donor countries and institutions significantly improved their coordination, recognizing that national and subnational approaches also require new approaches in this regard. Funding has been sufficient for supporting REDD+ readiness activities, while a lack of funding for implementation is becoming increasingly apparent. Such funding should be earmarked for provincial levels where REDD+ implementation will be piloted, e.g. for investments that will lead to better carbon performance including loans to implement scalable business models for sustainable land management practices. Increased clarity regarding the source and availability of future RBF would help in establishing confidence in the inherent concept of REDD+ and support proponents of REDD+. However, there is a need for additional

emphasis on enhancing the understanding of RBF, and to explain the paradigm shift from traditional project-related ODA to RBF.

If the RBF potentials are tapped and the remaining readiness challenges can be overcome, Vietnam can become an exemplary case for developing countries in a late stage of forest transition. Its key challenge is to fully implement and better align the existing policy instruments, and to improve forest governance committed to a path towards sustainable economic development.

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