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The Pilot Payments for Forest Environmental Services Policy in Vietnam and PES pilot sites in the Dong Nai River Basin

IWLEARN Regional Workshop on Payments for Environmental Services

Melia Hotel, Hanoi Vietnam

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Vietnam's national forest policy development context

- National Forest Management Strategy Target: Increase forest cover from 12.7 million ha in 2006 to 16 million ha by 2020
- Major constraints: opportunity costs of conversion of forests to agricultural lands are too high
- The current investment level from the Government meets 26-27% of the expected forest management needs
- Current national forest management strategy is based on direct values of timber and NTFP production and does not capture indirect environmental services forestry values



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Key aspects of the pilot PES policy

- Purpose is to:
 - ♦ Establish the basis for the development of the legal framework for a national policy on payment for forest environmental services to be applied in Vietnam,
 - ♦ Clearly define the responsibilities and benefits of the providers and users of forest environmental services
 - ♦ Socialize and mainstream the forestry sector in support of the national economy
 - ♦ Mobilize additional resources from society to sustain protection and development of forest
- Pilot implementation is to last two years from 2008-2010



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Key aspects of the pilot PES policy – Organizations using services and having to pay for the forest environmental services are identified:

- The Water Supply Company of Ho Chi Minh City (SAWACO)
- The Water Supply Company of Bien Hoa City of Dong Nai Province
- The Da Nhim Hydropower plant in Ninh Thuan province
- The Dai Ninh Hydropower plant in Binh Thuan province
- The Hoa Binh Hydropower Plant of the Vietnam General Electricity Company
- Phu Yen and Moc Chau Branches of the Son La Water Supply Company, Son La Province
- The Suoi Sap Hydropower Plant situated in Phu Yen district of Son La province
- Organizations and individuals conducting ecotourism business with resident tourism offices



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Key aspects of the pilot PES policy – forest owners/service providers are defined

- Defined according to the stipulation of the Forest Protection and Development Law
- Those that are subject to the pilot policy include:
 - ◆ The Management Boards of protection forests
 - ◆ The Management Boards of special use Forests
 - ◆ Economic organizations managing production forests/SFEs
 - ◆ Households and individuals living in these areas
 - ◆ Village communities



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Key aspects of the pilot PES policy – intermediary organizations

- The payment transfer mechanism is to be piloted in two provinces in Vietnam
- It is to be managed by the following agencies/stakeholders:
 - ◆ Provincial People's Committees SCs and WGs
 - ◆ Provincial Forest Protection and Development Fund
 - ◆ Forest Management Boards
 - ◆ Mass organizations/CCUs



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Key aspects of the pilot PES policy

- The price of services to be charged to the EVN is VND 20/Kwh
 - ♦ Payments for Environmental Services are based on:
 - ♦ Vu Tan Phuong, RCFEE: Water regulation and soil conservation value of forest in Thac Ba watershed, Vietnam
 - ♦ Vuong Van Quynh, Xuan Mai Forest University: Water regulation and soil conservation value of forests for Son La hydro-power
- The price of services to be charged to the HCM City Water Company is VND 40/m³ of water
 - ♦ Based on Dr. Dang Thanh Ha's WTP study suggesting that Ho Chi Minh City urban households are willing to pay an average of VND 231/m³
- Overhead charges are not to exceed 30% of the funds



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Key outstanding issues of the pilot PES policy

- Mechanism design is left up to the provinces depending on conditions, presence/capacity of existing institutions
- Aesthetic values payment structure needs more assessment and will undergo further assessment under the pilot policy
- Forest ownership by “communities” needs further legal definition
- Clearer distinction needs to be made for buyers who are unsure about the difference between PES, existing natural resources taxes, and PPP
- Clearer distinction needs to be made in the MARD that the policy is an incentives/service based one
- More clarification needs to be made about the roles and responsibilities that should be carried out as a part of the up to 30% of funds that will be allocated to manage PES mechanisms

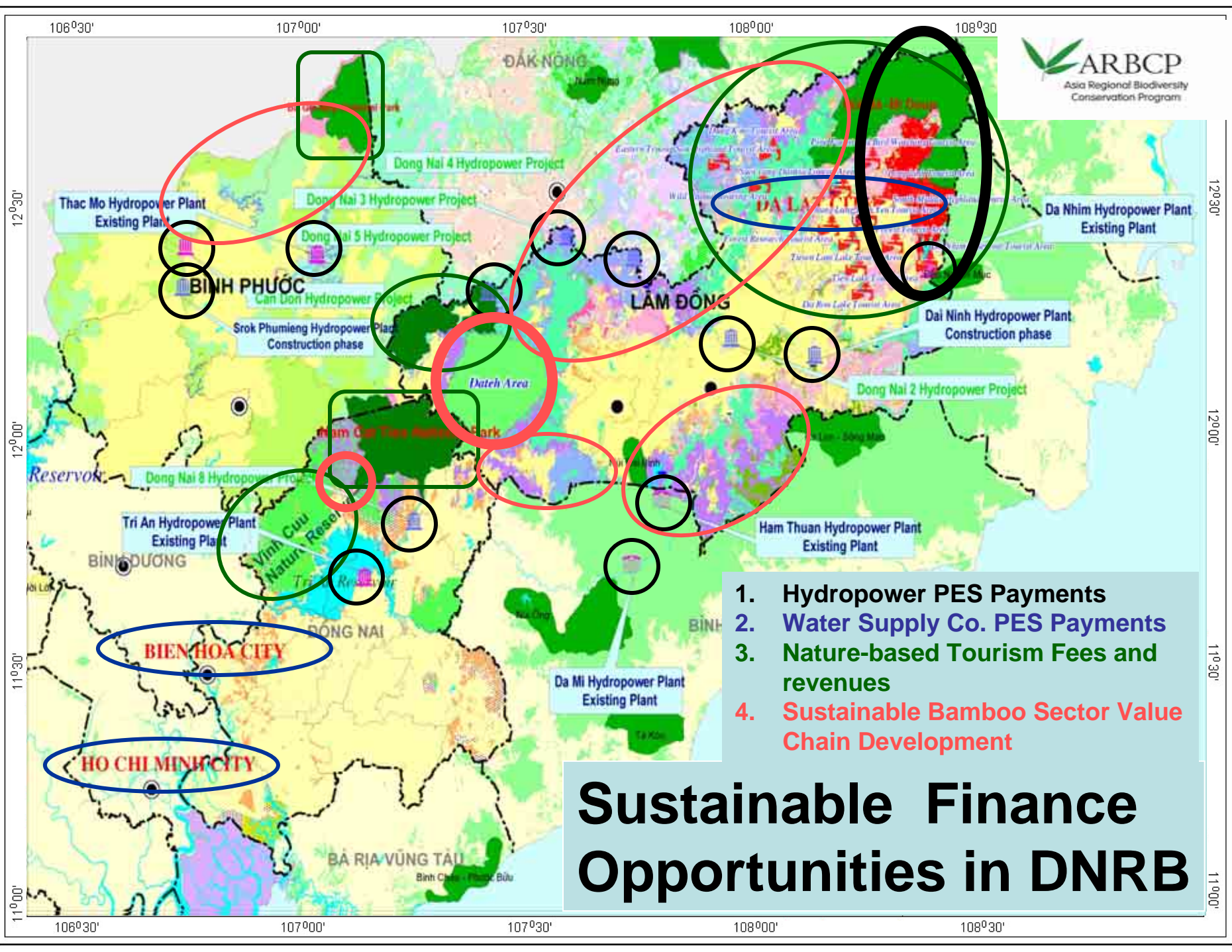


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PES and the Suggested Strategic Sustainable Finance Mechanism Development Approach

- Determine science-based payment priorities and mechanisms with strong buyer and local input
- Negotiate and clearly define royalty and fee assessments
- Develop joint investment strategy with provinces and private buyers to consolidate conservation services values
- Invest in value-added sustainable forest resource mgnt strategies (bamboo, tourism, essential oils) where possible
- Ear-mark funds with transparent processes and procedures for disbursement to participating local level stakeholders
- Develop low-cost, science-based participatory monitoring approach to evaluate the disbursement mechanism, enforce agreements, and strengthen existing markets



1. Hydropower PES Payments
2. Water Supply Co. PES Payments
3. Nature-based Tourism Fees and revenues
4. Sustainable Bamboo Sector Value Chain Development

Sustainable Finance Opportunities in DNRB



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Existing PES Pilot Agreement in Da Teh

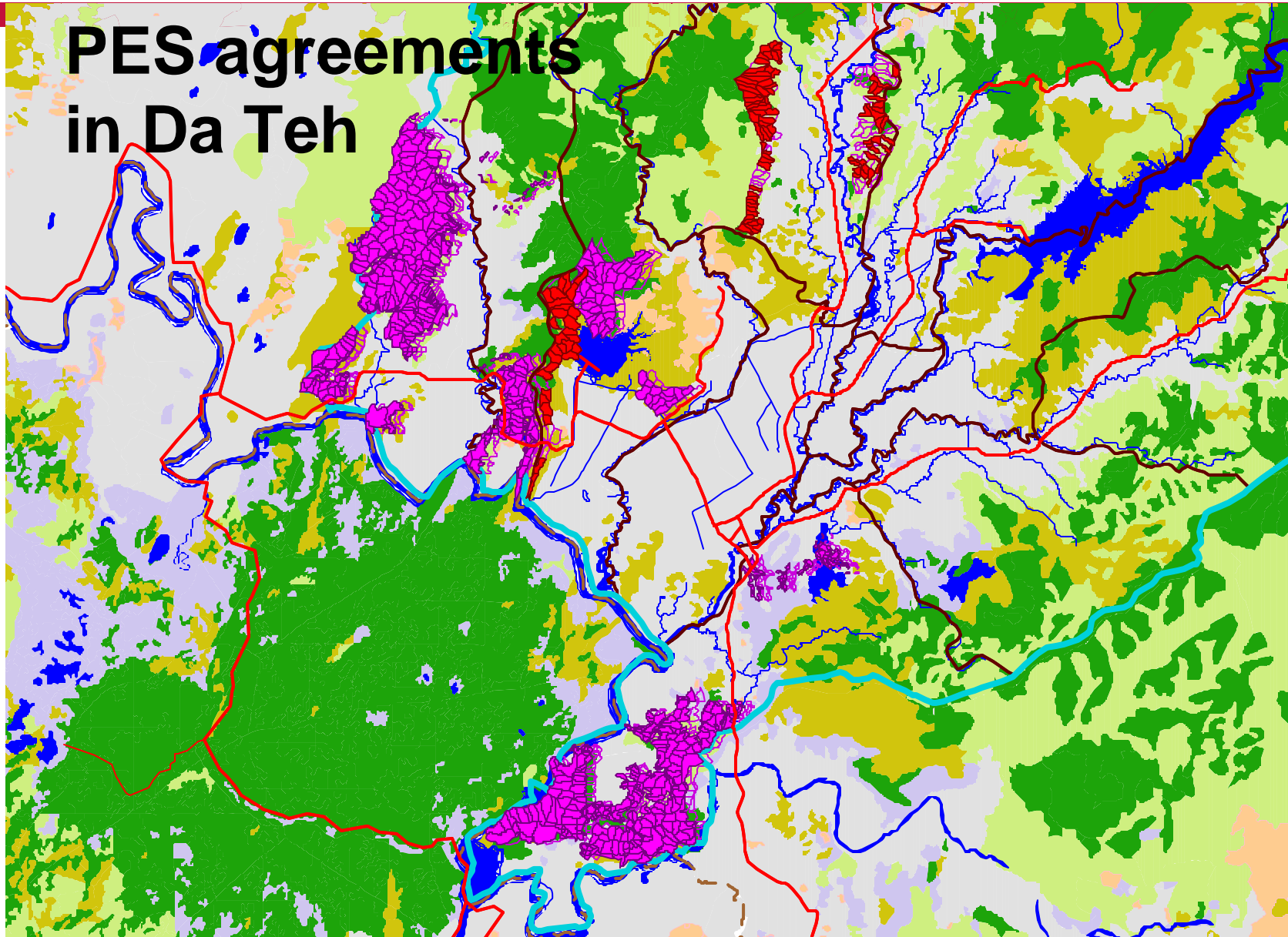
- Local level households get red-book land and bamboo seedlings for agreements not to plant cashew & to protect 10 targeted species
- Agreement is between each household and the Da Teh District FPD.
- Winrock provided seedlings; facilitated private sector support
- Private sector companies agreed to purchase bamboo
- Additionality: bamboo planted in natural forest in contours has higher water and sediment regulation values than cashew
- Additional value-added sustainable livelihood activities facilitated through PPPs
- Enforcement: FPD has enforced agreements



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PES agreements in Da Teh





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Applying the pilot PES policy in Da Nhim

- Payments from Da Nhim Hydropower facility expected to yield VND 20 billion/yr (USD 1.25 million/yr)
- Translates to VND 250,000/ha
- Overhead costs are not to exceed 30% leaving an average of 175,000/ha to cover the entire basin
- Average forest protection contract is about VND 2.1 million/yr
- Under the new payment mechanism average forest protection contract is about VND 5.25 million/yr
- Increases FPC incomes by 250%; significantly increases forest protection incentives for 2500 largely ethnic minority households (about 15,000 beneficiaries)

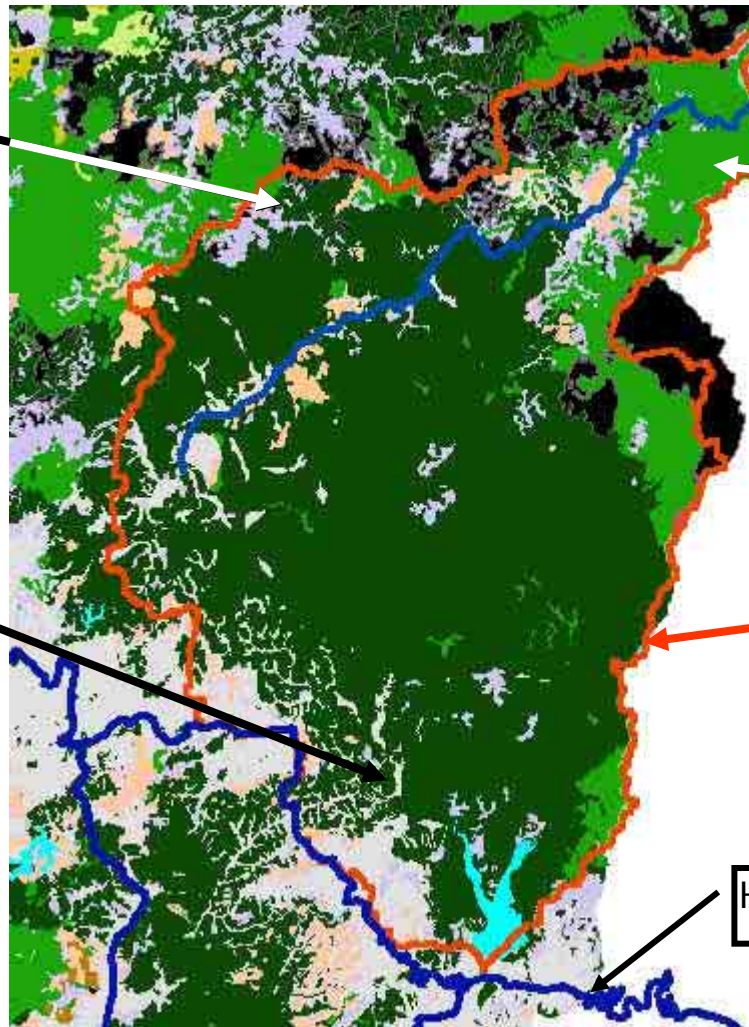


Da Nhim major land uses

Coniferous forest



Agricultural systems watershed



Highway

Evergreen broad-leaf cloud forest

Da Nhim watershed boundary

Highway



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Key components of the pilot PES policy – developing trust

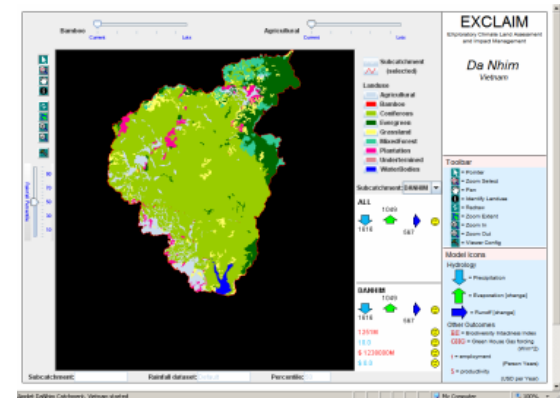
- Working with EVN to define forest vegetation types and link them to relative water and sediment regulation values
- Developing a transparent process for managing funds and participatory monitoring process
- Monitoring the extent to which people are benefiting, opportunity costs are changing, service providers are meeting contract agreements, scientific evidence demonstrates actions carried out under contract agreements provide environmental services
- Monitoring completed through existing institutions and community-based mass organizations



Valuing Watershed Services in Da Nhim

EXCLAIM developed to demonstrate the impacts of land use change and value of services in relation to:

- ◆ Water quantity
- ◆ Sediment delivery
- ◆ Socio-economic parameters
- ◆ Biodiversity intactness
- ◆ Green house gas forcing – carbon sequestration
- ◆ Amenity, tourism values (naturalness-Landscape values)





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Significant milestones achieved through this policy

- Catalyzes the participatory monitoring approach needed to strengthen market ability to meet demand for water and aesthetic resources
- Provides a significantly increased revenue source for thousands of poor rural households, targeting women and ethnic minority people
- Serves as a means to generate national consensus on what is PES and how can it best serve Vietnam?
- It is the first national pilot PES policy in SE Asia
- Serves as a model for other countries considering the same types of legislation



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Significant milestones achieved through this policy

- Creates legal basis for indirect PES payments through gov't agencies
- Generates a minimum \$2M+/yr of internal funds for forest conservation, biodiversity targets, and PES mechanisms in the DNRB
- Decentralizes budgets and decision making to respond to support development of local forestry market conditions
- Creates a policy development feedback loop that extends from local level stakeholders to the Prime Minister and National Assembly
- Expected to become a national policy by 2010



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Next steps:

- Formalize PES mechanisms under the guidance of Lam Dong Working Group
- Determine relative values of different LULC types and service provider activities with buyers, sellers, intermediaries
- Review with LDP conservation and development plan WG and SC and coordinate with conservation and development and socioeconomic development plans
- Work with MARD, FPD, MONRE, DoNRE, EVN, SAWACO and local level stakeholders to develop and strengthen capacity to carry out implementing & monitoring approach
- Implement pilot activities for one year, evaluate, and make recommendations for national policy development



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Thank you!



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