



Supporting REDD Implementation in Vietnam, Laos and Cambodia through the Design of a REDD-compliant Benefit Distribution System

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1. Introduction:

Exports of carbon credits are no different from exports of timber, fish, shoes, cars or carpets, in the sense that all are subject to ever stricter social and environmental standards in international markets. But REDD (Reducing Emissions from Deforestation and Forest Degradation in developing countries) is still a moving target: the rules have not been fixed yet.

What is already clear is that the extent to which an individual country will be able to attract international investment and REDD payments will depend to a considerable extent on its ability to put in place a system that rewards forest managers who are changing their behaviour to reduce deforestation and degradation. In other words, they need to establish a benefit distribution system (BDS) that is transparent and efficient, and is seen to reward those actually providing the (emissions reduction) service. In addition to this, the establishment of a Monitoring, Reporting and Verification (MRV) system will be equally critical (although this subject is not addressed in this report which only focuses on the BDS).

For Vietnam, Laos and Cambodia there are huge opportunities in REDD. But can they carve a niche for themselves vis-à-vis the competition of biomass rich “big hitters” such as Brazil, Indonesia or the countries of the Congo Basin, as a provider of carbon emissions reduction credits that offer *real* environmental and socio-economic benefits? And will the flow of funds to them be sufficient enough to make the system viable?

For this to happen, they must upgrade and adapt their forest management systems to demonstrate clear and direct links between the carbon performance, the economic and biodiversity co-benefits, and the payment. In all three countries, seemingly all-powerful States in reality have demonstrated a weak capacity for enforcing regulatory frameworks efficiently and fairly on the ground. For the success of REDD, the importance of ensuring that financial benefits also reach the local forest stewards, i.e. the rural communities and local administrations, cannot be overstated.

This Sida-SENSA supported project was developed to build on work started by IUCN under UN-REDD in Vietnam, to share experience and approaches from Vietnam with Lao PDR and Cambodia, and to initiate similar work in these two countries.

Established in 2008 and initially primarily funded by the Norwegian government, the UN-REDD Programme (<http://www.un-redd.org/>) helps developing countries to get ready to participate in a future REDD+ mechanism. Of the “REDD readiness” issues that need to be addressed, the government of Vietnam identified the design of a transparent and equitable benefit distribution system (BDS) as a priority. This was innovative because few countries have looked at how benefits should be distributed. It was also courageous because, unlike carbon monitoring and other technical challenges, it raises sensitive governance issues.

To assist the government of Vietnam design a REDD+ BDS, UN-REDD funded a study of BDS issues and options under the leadership of the Ministry of Agriculture and Rural Development (MARD). The study was coordinated by IUCN and carried out by a team of national and international consultants in late 2009. The study identified constraints that need to be addressed in order to create a REDD+ BDS, and ways to address them. In doing so it examined the practicalities of REDD+ implementation in Vietnam. It therefore provided a reality check at a time when much of the REDD+ discourse is abstract and theoretical.

2. Objectives, Outputs and Activities

The **objective** of the present project was the delivery of “Support to the successful implementation of future REDD initiatives in Vietnam, Laos and Cambodia” through the provision of input to the design of a “REDD-compliant benefit distribution system” in each country. The specific **outputs** of this project were:

1. Additional work to fill some of the gaps emerging from the BDS study that IUCN was contracted to conduct in Vietnam for UN-REDD.
2. A rapid BDS study that provides a roadmap for the legal and administrative reforms that Laos will need to implement to fully benefit from REDD (using the study from Vietnam as a model)
3. A preliminary study on REDD BDS possibilities and issues in Cambodia
4. Briefing of government and non-government stakeholders on the results of the studies, and specific reforms that will be required in order for these countries to position themselves to benefit from REDD (including addressing the flow of illegal timber from Laos and Cambodia into Vietnam).

OUTPUTS	Objectively Verifiable Indicators	Means of Verification	Assumptions/Risks
1. Analytical studies filling gaps in study that IUCN is already conducting in Vietnam	Study implemented and published	Published document	Different stakeholders cannot reach agreement on the most appropriate design of the system
2. Rapid BDS study that provides a roadmap for legal and administrative reforms that Laos will need to implement to fully benefit from REDD	Study implemented and published	Published document	Different stakeholders cannot reach agreement on the most appropriate design of the system
3. A preliminary study on REDD BDS possibilities in Cambodia	Study implemented and published	Published Document	Different stakeholders cannot reach agreement on the most appropriate design of the system
4. Briefing of stakeholders on results and specific reforms required to benefit from REDD (including addressing flow of illegal timber from Laos and Cambodia into Vietnam).	Number of briefing meetings held in each country	Meeting reports, lists of participants, participants feedback	Some key stakeholders are not interested or available to attend the briefing meetings Illegal logging issues may be considered too sensitive by some

The main questions that the studies set out to address were as follows:

- What are the relevant laws for receipt of international revenues? Are they adequate?
- To what extent do the forest laws and environmental law enforcement systems of the countries contribute to successful REDD development?
- Are there agreed legal definitions of key terms relating to benefit sharing
- Who owns the carbon?
- What central government agency and fund should receive REDD revenue?
- What should the respective roles be of different ministries?
- What % of revenue should be retained by central government?
- For what REDD activities should the funds be retained?
- Which entities should receive revenues transferred to sub-national levels? PPC? DARD? Other?
- What % of revenue should be retained by sub-national entities?
- Should disbursement to sub-national entities be based on performance?
- If so, how should performance at sub-national level be measured?
- How should payments to the ultimate beneficiaries be structured? Households? Communities?
- At how many levels can performance-based payments realistically be made?
- Participatory procedures: who can participate?
- How will the local communities be engaged and what will be their rights (participation, right to access resources) in REDD project areas?
- What accounting/reporting standards need to be applied to ensure payments are based on performance and there is appropriate financial management?
- What conflict resolution/recourse mechanisms are needed to address complaints and concerns?
- What are the countries' comparative advantage in a future REDD carbon market? (and what may be the recommendations for improving a good climate for investors)
- What are the regional leakage issues, and options for addressing them?
- What approximate level of long-term income could REDD generate for the countries?

In addition to conducting the studies, the main **activities** of the project consisted of a series of workshops and briefings to share the Vietnam experience with Laos and Cambodia, in order to encourage similar reforms in all countries. A number of communication materials were produced in English and local languages, including Issue Briefs, and web articles.

3) Main Results of the Project

Sida's Swedish Environmental Secretariat for Asia (SENSA) has supported this IUCN project to review issues relating to REDD compliant Benefit Distribution Systems in Vietnam, Cambodia and Lao PDR. This built on, and followed-up on activities IUCN had already facilitated for UN-REDD in Vietnam, with a series of REDD+ BDS research, workshops and outreach in Laos and Cambodia to accelerate learning between neighbouring countries. It also provided the opportunity for IUCN to link into discussions on the UN REDD-readiness Roadmap process for Cambodia. Results of the studies, workshops and discussions are presented in this report.

Summary Findings from Vietnam

Vietnam is well placed to develop a REDD+ compliant BDS as a result of many years of experience with similar systems such as Programme 661 (also known as the Five Million Hectare Reforestation Programme), which pays households to protect forests, and internationally supported payments for forest environmental services (PFES) pilot projects.

Vietnam's functioning administration, social stability, and relatively high degree of tenure security are assets that Vietnam can use to gain a competitive edge in a future international REDD+ regime. Vietnam also has large areas of degraded forest that if allowed to regenerate naturally could rapidly sequester carbon and conserve soil and water. (In fact, 1.2 million out of Vietnam's 16 million hectares of forest are classified as "chua co rung" or "not yet forested".)

To assist the government of Vietnam design a REDD+ BDS, UN-REDD funded a study of BDS issues and options under the leadership of the Ministry of Agriculture and Rural Development (MARD). The study was coordinated by IUCN and carried out by a team of national and international consultants in late 2009. The study's executive summary was presented at COP15 and a final version was completed in January 2010 and is available from <http://tinyurl.com/vietnam-bds-study>. Several conclusions of note are:

Potential revenues

REDD+ could generate about \$80-100 million/year in Vietnam—3-4 times current ODA support to the forestry sector. However, this potential can only be realized if government 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.

Implementation at the national level

Because REDD+ is still under negotiation, it doesn't exist legally yet. This fact is obscured by the many "REDD" projects that are underway in Vietnam and other countries targeting the voluntary carbon market. But REDD+ will probably be implemented at the national level in order to avoid the problem of within-country leakage. This implies that funds will flow to a national entity before distribution to those responsible for the emissions reductions (assuming emissions have indeed been reduced below the reference level). Reporting on national performance is more complex than reporting on site performance because it must encompass the entire forest estate, not just "islands" of conservation success in a "sea" of deforestation.

REDD+ can learn from PES, but they are not the same thing

Finally, REDD+ has much to learn from PFES projects, which have been successfully piloted in Vietnam, 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, including the fact that under PFES as currently practiced in Vietnam, the buyers of environmental services are local companies that have been mandated to do so by central government at an administratively set price. Buyers of REDD+ credits, on the other hand, would be foreign entities that offer prices that have been determined internationally, possibly through market forces. This means that REDD+ may not be managed in the same way as existing PFES schemes.

Of the study's policy recommendations, several stand out.

Addressing Legal constraints to Community involvement

Experience from Lam Dong and other projects shows that the allocation of forest to communities rather than households increases equity in the payment distribution and reduces the scope for elite capture. The 2004 Forest Protection and Development Law recognizes communities as forest owners. But the Civil Code does not recognize "community" as a legal entity, which means that they cannot sign contracts. A MARD review of community forestry in 34 of Vietnam's 40 forested provinces showed that provincial governments are reluctant to grant long-term forest tenure to communities because they cannot assign responsibility to individuals for breaches of contract. Given the government's obsession with fire suppression, government officials are understandably nervous about allocating forests to groups that cannot be legally held to account for their actions.

Avoiding Perverse Outcomes

It is necessary to avoid a potentially perverse outcome of putting a price on forest carbon without the necessary safeguards. If this price is high enough there will be a strong incentive to control forest, and since two-thirds of Vietnam's forest is owned by state owned companies or people's committees, REDD+ could run counter to the government's long standing policy of allocating forest to households and communities. In some provinces, the allocation of forest that belongs to bankrupt state forest enterprises has stalled because the provinces do not want to take

responsibility for the ensuing redundancy payments. If the value of the standing forest increased sharply, the incentive to allocate forests to non-state actors might weaken.

Establishing a Credible Recourse Mechanism

Any BDS, however well designed, will inevitably give rise to complaints about who benefits. To ensure the credibility of the BDS, it is necessary to build in a recourse mechanism so that complaints can be independently reported and addressed. In Vietnam, citizens' complaints have to be submitted to the responsible government department. But if the same department is responsible for the BDS, then a conflict of interest arises. Some form of third-party oversight is required. Vietnam has little experience of civil society participation in environmental decision making and there are no models that can be used as-is. However, a Vietnamese NGO has established a telephone hotline and case tracking system that has demonstrably increased public participation in reporting on the illegal wildlife trade (over 2,300 cases have been logged since the hotline started in January 2005). The NGO also monitors the government response and publishes a quarterly newsletter. A REDD+ compliant BDS could apply a similar model.

Summary Findings from Cambodia

The unique history of Cambodia, its trajectory of rapid development and the current challenges it faces over land tenure, governance and technical capacity result in a requirement for careful consideration and study of the Cambodian context for project planning if REDD is to be introduced successfully. This report presents information on some of those general challenges, as well as more specific issues relating to BDS design, and presents key conclusions and options for dealing with the challenges.

There are a number of important big picture constraints in Cambodia which must be addressed as part of successful REDD development.

Limited capacity to monitor forest management and distribute revenues in the natural resource sector in an equitable and transparent manner

A BDS system requires the ability of the concerned institutions to manage funds generated from REDD projects in a manner consistent with international best practise – separate from state budgets autonomous from state political influence and with mechanisms which ensure accountability and transparency. Furthermore a BDS must efficiently link payments from international carbon buyers with the outcomes of forest management at the local level. Cambodia has faced many challenges in distributing funds from central authorities to the local level according to such criteria. As Part of the Kingdom's process of Decentralisation and De-concentration, communes received funding for critical infrastructure projects. Although there were undoubtedly success stories from the project there have also been wide scale accounts of politicisation and interference from powerful patrons in the management of such funds. Local communities have also faced similar problems in the area of land and natural resource management.

The issue of Land Tenure, which forms the platform for which REDD projects are built upon, remains a largely controversial issue within the Kingdom:

The issue of economic land concessions has caused considerable controversy within the Kingdom. Recent intensification of conflict relating to these concessions has placed Cambodia at the centre of extensive criticism. Insecurity in land tenure has also been on the rise in rural areas. Security of Community Forestry areas has also not been without its challenges where in some cases, community forests have been encroached upon by private and government actors.

Cambodia faces a low level of capacity to monitor the social and ecological indicators required for the success of REDD projects:

Cambodia, being one of the most aid dependant countries in the world, is only now starting to develop the capacity of indigenous institutions to carry out the nation's development programs. A requirement of any REDD project is that there is a clear transfer of capacity from developed to developing world. For instance, Cambodia should eventually be able to conduct its own ecological and social monitoring of projects and cater the specifics of such projects to a Cambodian context. Cambodia is currently far from having the capacity to do such monitoring on its own and would thus be dependent on foreign entities. Many past projects have failed to adequately consider how capacity development can realistically be achieved and have preferred to employ expensive foreign consultants.

Land alienation among Indigenous communities:

Indigenous land issues have become a major concern of many of the donors and governments which have bilateral relations with Cambodia. REDD documentation specifically mentions the need to ensure the inclusiveness of indigenous participants in any REDD projects – and ensuring that there are mechanisms to guarantee they receive benefit from projects on par with non indigenous participants. A currently major concern is the slow pace indigenous communities have been receiving land title. The process has been characterised by political interference and only three communities have thus managed to formally register as legal communities (with two still awaiting provision of land). Also of concern is the manner in which some donors and NGOs have pushed ahead with natural resource management projects in collaboration with the RGC, without adequately resolving the issues surrounding indigenous land relations. Some REDD projects are likely to be on land indigenous people are dependent on.

The need for a cautious approach

There is need to strike a balance between the deficiencies in institutional capacity and the inevitability of Cambodia being a major site of REDD activities. Some suggest that *Cambodia is not ready* to be host to REDD projects: the human rights situation, lack of separation between judiciary and administration, a culture of impunity, an increasingly entrenched system of patron client relationships, lack of land tenure and the governments slow progress with titling projects, wholesale selling of state owned natural assets, inability to effectively manage forest areas, continued granting of large scale illegal land concessions by the government and the critical situation indigenous communities face in increasing land alienation all seemingly provide some justifications as to why Cambodia should not host any REDD projects. To others, a major

justification for continuing the REDD program in Cambodia is that activities will actively contribute to resolving these issues which require urgent attention.

Cambodia needs a cautious approach, and could even be seen as a special case within the UN-REDD programme which requires considerable investment and extra pre project preparation compared to other countries. At this point it would be much more effective (in terms of both money and time) if effort was primarily invested in improving the environment in which REDD activities are likely to operate rather than narrowly focusing on projects and legislation in isolation.

Initial focus on research

Initially activities could focus on research. This should be done in collaboration with Cambodian institutions, so as both capacity and technical skills can be transferred from developed world intuitions and researchers and so an extensive research programme can be set up which prepares the country for REDD implementation. The aims of such a programme could be: to produce a detailed needs assessment for what is needed for the country to host REDD projects, contribute to a greater understanding of how the Cambodian political economic environment affects natural resource management, conduct extensive field research to evaluate previous REDD related or community conservation projects and extensive research with local and government stakeholders to establish expectations, concerns and possible ways forward for REDD in Cambodia.

Summary findings from Laos

Laos has a large forest area (especially per capita), and relatively high per capita emissions (including from fuel wood). While globally deforestation and forest degradation account for ca. 20% of greenhouse gas emissions, in Laos it is 72%. In the Lao context, the forest resources that will be generating carbon credits will most likely be claimed or classified as State property by the GoL that are being held in trust for the entire country.

Establishing the legal basis for REDD+

It is suggested that a legal enabling document is drafted and enacted in the near future that will create a REDD+ Special State Fund for the purpose of pooling and distributing monies being made available from the international community for REDD+ activities, including donor funds that are earmarked for the implementation of the REDD+ Strategic Plan that is scheduled to be drafted and approved later this year. The fund can then be modified as necessary over time in conjunction with the nested (local\province\national) and phased approach that the GoL has already decided is the best way forward in the Lao context.

In addition to financial resources contributed by donors in support of REDD+ activities, a portion of the revenues generated from the various sub-national private sector/voluntary carbon market or future cap & trade related sub-national projects could also be fed directly into the fund in order to ensure that monies generated from these projects go directly back to the local communities that are associated with the forest resources where the carbon credits were generated. The GoL can decide to either create an entirely new fund, or modify an already existing State Fund (i.e. FFRDF, EPF, or PRF) in order to maximize governance efficiency and

to ensure the utilization of already existing knowledge and capacity that exists in the country.

Provisions of a Prime Ministerial Decree

Regardless of the option ultimately chosen by the GoL, there are certain provisions that should be incorporated into a Prime Ministerial Decree in order to ensure that the fund mechanism ultimately chosen will meet minimum standards and protocols of the international community that is ultimately supporting such a fund. The following are general examples:

- Organizational makeup: The fund management should have participation from all relevant government institutional organizations, private sector representatives, donors, civil society and local government.
- Transparency: Financial data and planning documentation should be readily available for public review.
- Use of funds: REDD+ Fund resources should be able to be used for natural resources management and conservation activities in the forestry sector, governance capacity building and also community development/poverty reduction activities.

The project reviewed experiences with existing payment mechanisms in Laos, providing useful insights for future REDD+ payments with respect to revenue retention, and payment structure.

Revenue Retention

Source of funds for administration: The first issue is where the funds for administering the REDD+ funds and payment system should come from: the REDD+ revenue or the Lao government budget? In one instance, the administrative costs are covered by the State budget (Forest Resources Development Fund, FRDF) while in other cases the costs are paid by donor funds (Environmental Protection Fund, EPF; and Poverty Reduction Fund, PRF).

How much for administration? The second issue, then, is how much of REDD+ funds should be retained to pay for administration costs. The PRF has used around 20% of the total fund for administration, which is lower than the 25% permissible by the World Bank. In Vietnam, the Five Million Hectare Reforestation Program (5MHRP) set a flat rate for management costs at 10% of the total budget; of which 0.7% is for national level, 1.3% for provincial level and 8% for the project developers¹. The PES Pilot payment scheme set a rate of 19% of the total revenue to be used to cover administration costs (10% at the provincial and 9% at the district level). Nevertheless, fixed percentages risk leading to a situation where some entities cannot cover their costs, and may encourage inappropriate expenditures by others. It is, therefore, advisable that the rate be based on **real costs**.

Flexibility to deal with changing costs: Finally, as REDD+ fund allocation is contingent on performance, that is on achieving the specified emissions reductions targets that a given level of government administration is mandated to deliver, any method for calculating retention levels should also be flexible enough to cope with changes in costs over time. Normally, costs of

¹ Decision 100/2007/QĐ-TTg of the Prime Minister of Vietnam, dated 6 July 2007

introducing and setting up REDD+ programs will be higher than the subsequent costs of running the system once it is established.

Payment Structure

Capacity to manage the fund: The existing experiences with the existing Lao funds discussed shows that complex procedures for fund management have been developed to meet the requirements of donors like ADB and WB (PRF and EPF). Over the years, human resources have been developed for fund management. Only PRF appears to have developed a comprehensive structure down to village level. EPF has sub-ordinate offices at the provincial level and FRDF will start offices at this level from late 2010 onward. In addition, experiences so far have only been with managing project grants and little if at all have been with distribution of money to different stakeholders, as should be the case with REDD+ revenue distribution.

Cash or non-cash payment: Cash payments are desirable from the point of view of the ultimate beneficiaries. However, given the lack of experience with cash payment so far, it is advisable to start with non-cash payments while developing the necessary framework for both beneficiaries and staff involved in the REDD+ revenue distribution for cash payments.

Stakeholder participation: so far, in the management of the three existing funds, the decision-making involvement of *non*-state actors (NSAs, i.e. civil society and the private sector) has been minimal. For REDD+ revenue distribution, however, the active involvement of NSAs in the fund management and payment system is pre-requisite to ensure transparency, equity and accountability. The REDD+ payment system will have to take this into account.

Management level: given the in-country experience discussed earlier, it is desirable to work at the national and provincial at the beginning. At the same time, capacity at the district level should be built so that, in the long run, payments can be managed at the district level.

Fund management agency: although the goals of all three existing funds are relevant to REDD+, PRF would seem to have the most adequate set up to manage REDD+ revenues. It has established management structures from the national down to village levels, and developed procedures to meet the strict requirements from international donors. Nevertheless, even the PRF is not yet ready to take over the specific requirements of REDD+ fund management.

Other key issues highlighted by the study relate to beneficiaries, and timing of payments.

Beneficiaries

Which types of resource users should receive REDD funds? For Lao PDR where most of forests are still legally owned by the State, the important issue is how local communities can benefit from future REDD+ revenues. In the short run, local communities can be contracted to protect the forest resources and thus be paid for the labor and time they invest. At the same time, however, it will be necessary to accelerate the forest land allocation to local communities to ensure they will benefit from REDD+ in the long run.

Timing of Payment

Timing and frequency of REDD+ fund disbursement from international sources to Lao PDR and then to ultimate beneficiaries. If REDD+ payments were only to be made *ex post* or “on delivery” of carbon emissions reductions, it would be hard or even impossible for many groups to invest their very limited resources into REDD. The delay in payment would have significant impacts on the ability of different stakeholders to implement REDD+ projects. It is, thus, preferable to establish ex-ante payment at the out-set of a REDD+ project to at least cover some initial costs of establishment, in combination with ex-post performance-related payments. This would increase the likelihood for participation by especially the poor as there is less risk involved. Nevertheless, the issue how to acquire the funds needed for upfront payments still needs to be discussed and resolved.

4) Impact of the Project

The draft executive summary of the Vietnamese study was endorsed by the Vietnamese government and presented at COP15 by the Vietnamese delegation, and was subsequently finalised in January 2010. The study identified a menu of different options for each key policy issue. These have subsequently been discussed in further meetings and preferred choices have been identified. It is likely that most if not all will be implemented in the coming months and years. A final version of the executive summary completed in January 2010 is available from <http://tinyurl.com/vietnam-bds-study>.

The study in Cambodia was a few months ahead of the UN REDD-Readiness Roadmap planning process. In that respect the REDD BDS stakeholder workshops held by this project provided a good “ice-breaker” for the UN process, helped to identify additional key stakeholders to be included in the UN sponsored workshops, and importantly focused in more depth on one specific aspect – the BDS. The project provided an opportunity to raise the profile of IUCN Cambodia, and allowed the IUCN Cambodia office to engage in the REDD debate, where it previously did not have a seat at the table. As a follow up, The Forest Dialogue (TFD) has requested IUCN Cambodia to assist in organising an international Dialogue on REDD in Cambodia in November 2010. The findings of this project are being used as a background paper to be presented to all participants in that workshop. The UN-REDD Readiness roadmap is now being finalised, and IUCN is in a better position to contribute input to that.

The study in Laos provides some very clear options for addressing the different issues related to the establishment of a REDD-complaint BDS. A process of discussing these options with government partners is still ongoing.