



# Will the Country Forest Note's strong analysis lead Vietnam to achieve the intended results?

## INTRODUCTION

The [Country Forest Note](#) (CFN), dated June 2019 and publicly disclosed October 7, 2019, highlights how the country's forest ecosystems offer substantial economic prosperity and climate co-benefits. It offers not only an exhaustive list of ongoing and upcoming donor forestry projects,<sup>1</sup> but it also details a substantive range of key challenges, potential responses, and priority interventions.<sup>2</sup> The level at which these issues and corresponding solutions are described is a welcome evolution since the World Bank began preparing these CFNs after the adoption of its Forest Action Plan (FAP) in April 2016.

In the case of Vietnam, the CFN offers these key messages:

- Vietnam's expanding forest cover is inextricably linked to its continued economic growth, job creation, and poverty alleviation.
- The government must help strengthen rights over land and forest areas through more collaborative forest management approaches. This includes formalizing forest land allocation (FLA).
- There is a need for active management measures to rehabilitate natural forests and protect them from conversion.

- Institutional capacity and governance of the forest sector needs to be enhanced.
- Private sector forest engagement should be harnessed to better enable forest enterprises transition to a more "bankable" state of management.

The CFN identifies the following as the main challenges to managing Vietnam's forests:

- Drivers of deforestation and degradation (e.g. competing land uses)
- Vietnam's vulnerability as a high climate hazard-prone country
- Mounting risks of supply shortages for higher quality (non-wood chip) timber
- Insufficient capacity for forest governance and monitoring

While these messages and the discussion of financial tools (see below) are welcome, we are concerned by the relative absence of attention to direct forest conservation/protection, community forest management, donor coordination, and disbursement/project execution.

## SUMMARY OF THE VIETNAM CFN

According to the CFN, Vietnam's forest cover is estimated

<sup>1</sup>. Country Forest Note, Appendix C: pp. 55-61.

<sup>2</sup>. Country Forest Note, Appendix D: pp. 62-66.

at 14,415,381 ha (as of December 2017), or 42 percent of its land area, with natural forests accounting for 71 percent of total forest cover and plantations accounting for 29 percent. The forest products industry is thriving with forest product exports reaching \$9.4 billion in 2018, nearly 4 percent of gross domestic product (GDP).<sup>3</sup> However, while forest cover continues to increase in large part due to the expansion of forest plantations,<sup>4</sup> the quality of native (or natural) forests continues to deteriorate.

Unlike some countries, Vietnam's commitment to the forest sector is enshrined in its constitution. The constitution has been mainstreamed in national development plans and is reinforced by the new Forestry Law (2017) and Planning Law (2017) which are expected to strengthen the forest sector and cross-sectoral integration of the industry.<sup>5</sup> The Planning Law effectively synchronizes and unifies current planning regulations, coupling the planning processes between the central and grassroots levels in an effort to create enhanced transparency.

In Vietnam, the main driver of deforestation and forest degradation stems from competing land uses, in particular from agricultural expansion. According to the CFN, rubber was the primary contributor to deforestation during the past decade, but due to falling international demand and pricing, the impacts of rubber are expected to be much lower. Instead, demand for coffee, for which prices are rising, is expected to be higher, thereby exerting pressure to acquire land for coffee production. To mitigate impacts on forests, the CFN mentions increasing initiatives for coffee production to adopt shade grown and agroforestry models; however, to date this has not been applied at scale. Vietnam is making similar efforts to develop sustainable rubber production practices. Still, more information on market dynamics, production practices and technologies is required. It is also worth noting that all 460 (327,205 ha) existing rubber plantations are located in defined "production forests" while coffee plantations (645,400 ha) have largely displaced existing agricultural (subsistence) areas rather than further expand into forests. In both cases, this has reduced the impacts of these crops on natural forests. The World Bank-supported [Vietnam Sustainable Agriculture Transformation \(VnSAT\) Project](#) (2015-2020) was approved with the intention of supporting the transformation of its coffee sector to more sustainable practices which would curb coffee plantation encroachment into natural forests. Despite this effort, the CFN clarifies the need for additional resources to address the threat coffee plantation renewals pose for further deforestation.

The CFN identifies that existing supply gaps for domestic sawnwood production can be met through the transformation of a portion of the 4 million ha of acacia short-rotation

<sup>3</sup> Country Forest Note, p. 9, Figure 4. Forest Products Export Turnover By Year (2010-18)

<sup>4</sup> This has greatly benefited smallholders - See Figure 8. Total Forest Plantation Area: p. 24.

<sup>5</sup> See Box. 21. Key Policies and Programs: p. 5.

plantations (predominantly used for wood-chip production) toward longer-rotation acacia plantations which allow production of sawnwood and high-value native trees. This shift/change would, according to the CFN, result in a significant socioeconomic impact in terms of job creation. Specifically, it would add another 244,000 jobs by 2040 and \$5 billion to the Vietnamese GDP, as well as sequester the equivalent of 70 million tons CO<sub>2</sub> by 2040.<sup>6</sup> This approach would also limit (and hopefully avoid) concerns regarding the import of timber from countries that might be high-risk for illegal harvesting.

Vietnam is one of the leading countries in operationalizing a payment for ecosystem services (PES) system. Since 2012, its PES program has directed over USD \$500 million to forest owners as financial compensation for maintaining forest cover.<sup>7</sup> The CFN acknowledges the challenges inhibiting the effectiveness of this program and offers recommendations. Namely, the CFN suggests that to catalyze change, payments offered need to be raised significantly, better targeted, and/or combined with livelihood support programs.<sup>8</sup> Longer-term capacity building is essential as well for the efficient implementation of this scheme. Challenges that have hindered payments include: incomplete forest inventory, lack of technical and financial capacity at central and provincial levels, slow land allocation processes, and weak coordination among government agencies. The Bank emphasizes the importance of revising the PES scheme to integrate performance-based incentives, thereby creating a more equitable distribution of payments and boosting pro-forest outcomes. Broadly speaking, concerns still exist as to whether these payments are creating sufficient incentives for long-term behavioral changes, both because of the institutional process in which forest stewards are paid (relatively informal) and the modest amounts which they receive as compensation.<sup>9</sup>

Vietnam's forest sector also struggles from the lack of adaptive management measures aimed at rehabilitating forests and safeguarding them from conversion, illegal logging, and agricultural encroachment — all of which continue to be

<sup>6</sup> Country Forest Note, p. 38.

<sup>7</sup> Winrock International - <http://www.winrock.org/helping-vietnam-track-its-pfes-impacts/> (Dec. 2019).

<sup>8</sup> Country Forest Note, (ix). BIC and others agree that a significant increase in the price per ton of forest carbon — from the prevailing \$3-5 to \$15-20, with escalations, is needed for such programs to succeed. See "[Is The World Bank Meeting Its Forest Commitments?](#)" p. 12. See also "[Conserving and restoring forests won't be cheap and easy after all](#)," by Carol J. Clouse, February 10, 2020, GreenBiz. While in the US and Europe, prices for carbon offsets could be \$50-\$100 per ton for domestic offsets, in the Global South, a price of as low as \$20 per ton dramatically could slow deforestation, especially in Africa, and suck up nearly six gigatons of carbon dioxide, according to Nature Climate Change Letters June 2019, "[Potential for low-cost carbon dioxide removal through tropical reforestation](#)."

<sup>9</sup> See Country Forest Note, p. 31.

main drivers of deforestation and forest degradation. To address this shortcoming, the CFN discusses the institution of Adaptive Collaborative Management Approaches (ACMA) with local communities and Forest Management Units (FMUs). These methods aim to provide greater clarity and agreement on forest boundaries, forest and land use rights, the sharing of benefits from protection forests such as forest carbon and forest ecological services and to allow investments in livelihood activities.<sup>10</sup> Such approaches are also identified as one of Vietnam's major efforts to improve forest governance by devolving more rights and ownership to local actors. However, the CFN makes clear that Vietnam suffers from extreme institutional capacity issues, inadequate enforcement of existing laws and regulations, lack of mechanisms to engage local communities in the conservation of biodiversity and tropical forests, and a weak network of environmentally oriented civil society organizations capable of external advocacy.<sup>11,12</sup> These factors constrain effective forest governance and make reform efforts less impactful.

## A WELCOME INNOVATION: FINANCIAL TOOLS FOR SMALLHOLDERS

We welcome the CFN's robust analysis of the financial needs for enhancing sustainable agriculture. Limited access to formal or semi-formal lines of credit continues to drive smallholders towards the informal finance sector (e.g. loans from friends, relatives, or input traders).<sup>13</sup> The CFN identifies the need for further designing and assessment of viable financial products that are supported internationally and domestically (or both) that could be integrated into future programmatic approaches. Once tested/assessed and implemented, the CFN suggests this could alleviate issues surrounding access to credit.

An insurance scheme offers another recommended tool for supporting the transition of smallholders to longer-rotation plantations. Smallholders are currently hesitant to make this switch given the perceived weather-related risks. Instituting an insurance scheme, coupled with the establishment of an early warning system and disease mapping, are among the suite of interventions being proposed to allay concerns regarding longer crop rotations.<sup>14</sup>

The CFN also proposes forming farmer cooperatives which could facilitate access to finance. The Bank encourages the deployment of pilot collaborative forest production models

<sup>10</sup> See Country Forest Note p. 21, Box 5. Adaptive Collaborative Management Approach (ACMA).

<sup>11</sup> See Country Forest Note p. 22, Box 6. Principal Causes of Vietnam's Poor Environmental Governance.

<sup>12</sup> Ample resources are flowing towards addressing capacity and safeguard issues (See Appendix C).

<sup>13</sup> See Country Forest Note (Informal financing: small-scale local traders), pp. 33-34.

<sup>14</sup> See Country Forest Note, Box 8: Key findings from the study on smallholders and finance, p. 30.

which bring together rural smallholders and encourage cooperation and links along the value chain. A cooperative model could effectively position a community/association to better access information and business development services, thereby empowering them to bargain along the value chain. Given economies of scale, a cooperative approach also presents a unique opportunity for private sector engagement and further opportunities for access to financial streams aimed at supporting forest sector development.

## AREAS FOR IMPROVEMENT: DISBURSEMENT, EXECUTION, COORDINATION, AND COMMUNITY SUPPORT

Vietnam is highly vulnerable to sea-level rise in addition to other climate-related threats (e.g. storms/typhoons). This heightened exposure underscores the importance of mangroves and coastal forests as a critically-needed landscape resilience measure. While the Bank has invested substantial resources towards rehabilitating Vietnam's forest systems and building in climate resilience,<sup>15</sup> the recurring issue of insufficient disbursement rates emerges. The Mekong Delta Integrated Climate Resilience and Sustainable Livelihoods Project is a large World Bank Group (WBG)-funded project aimed at improving climate resilience and water management practices to safeguard coastal communities.<sup>16</sup> Since the project was approved in June 2016, only \$63 million of the \$310 million loan has been disbursed. At the current pace, it is questionable whether the full sum of approved funds will be disbursed by the closing date in December 2022.

A similar concern exists with the Sustainable Agriculture Transformation Project which seeks to improve farming practices and value chains in targeted regions of Vietnam. Set to close at the end of 2020, this project has only disbursed \$120 million (51 percent) of the total approved \$238 million as of June 2020. While it is encouraging to see such substantial resources flowing towards addressing the critical underlying issues confronting Vietnam's forest governance, the Bank's consistent practice of not fully meeting its approval/disbursement schedules proves disappointing.

A related concern with this CFN is whether the loans/trusts/equity or general flow of finance is effectively benefiting those seeking it. In other words, is the funding being disbursed and reaching those who need it the most? That is not readily clear after reviewing the list of donor projects detailed in Appendix C. While these efforts have generated positive contributions to pro-forest activities, greater transparency on project execution and funds disbursement is essential for adequate accountability

<sup>15</sup> Review of World Bank projects listed in CFN reveals no evidence that forests would be placed at a heightened risk.

<sup>16</sup> Large component focused on mangrove rehabilitation and support for integrated mangrove-shrimp models.

and cross-coordination of investment activities with the World Bank. Integration of World Bank efforts with those of other partners/donors needs to be explicitly addressed.

The CFN also noticeably omits a full discussion of measures to facilitate education and training in community forest management. While a focus on reducing the drivers of deforestation and degradation is an important component of improving forest outcomes, this should not eclipse more focused and localized efforts aimed at straightforward protection. Effective actions might include the hiring and training of park rangers or forest fire monitors to better safeguard against illicit forest activities or harmful natural events that would threaten communities and their surrounding environment. The CFN was not explicit if such measures had been deployed in an effort to better protect natural forest resources.

## CONCLUSION

This CFN is a welcome step towards providing a comprehensive analysis of forest sector issues in Vietnam. It acknowledges the numerous factors inhibiting sustainable development, while also offering programmatic interventions, proposing coordination mechanisms, and filling knowledge gaps. In doing so, the Bank sets the stage for successful pro-forest development by explicitly identifying where resources are needed most and how to deliver them in a vehicle best suited to maximize resource impact. Reforestation clearly represents a central tenet of the country's climate goals and a national priority for safeguarding coastal communities against weather-related disasters.

As in previous evaluations, however, the Bank needs to provide more clarity on the cross-coordination of its activities with other donors. Low disbursement rates of Bank-approved projects also remain a concern. If the money is not getting to where it is needed, projects will fail in their objectives or at least fall short of their potential for pro-forest outcomes. The analysis provided by this CFN lays a foundation for more ambitious steps Vietnam should take to safeguard its fragile ecosystems and align forestry and agricultural practices with national and international sustainability goals. The key now is for the Bank and the government to follow through.