

## The potential of REDD+ to finance forestry sector in Vietnam

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### Key messages

- Despite the great potential REDD+ shows for generating and contributing finance to support forestry in Vietnam, a reduction in both funds and funder commitment to REDD+, challenges in meeting funder requirements, and the significant finance required to implement the national REDD+ program in Vietnam, all imply that in reality REDD+'s contribution as a major financial source for the forestry sector is limited.
- Although the government has identified various public and private funding sources to cover the different phases of REDD+, the international public sector remains the primary funding source; limited contributions come from the private sector and state.
- To date the spending of REDD+ finance has been uncoordinated and fragmented, due to a lack of clarity on what Vietnam's REDD+ priorities are.
- Effective and efficient implementation of REDD+ activities in Vietnam is being impeded by: limited and inaccurate data regarding REDD+ finance in Vietnam; an unclear definition of what REDD+ finance is; the absence of a national REDD+ financial tracking system; and limited technical capacity (within both government and civil society organizations) when it comes to monitoring REDD+ finance.
- To increase the potential for REDD+ to financially contribute to forestry in Vietnam, the following is required: better coordination across sectors and amongst donors and government agencies; enhanced capacity building on the tracking and management of REDD+ finance; development and effective implementation of REDD+ policies and measures, so that the government can access result-based payments from different international funding sources.

### Introduction

Reducing Emissions from Deforestation and Forest Degradation (REDD+) offers a potential source of funding to assist countries to cope with climate change, by reducing greenhouse gas emissions through reducing deforestation and forest degradation, ensuring sustainable forest management and improving forest carbon stocks. Vietnam's forestry sector has been proactively responding to REDD+ initiatives since 2008, and REDD+ is expected by government agencies as well as donors to offer a new potential source of funding for the forestry sector. Since 2011, REDD+ has also been integrated into numerous major forestry policies in Vietnam, such as the Vietnam Green Growth Strategy, the Vietnam Forestry Development Strategy for 2006-2020 and the National Target Program on Forest Protection and Development. The National REDD+ Program was approved in 2012 and revised in 2017

with Decision No.419/QĐ-TTg. REDD+ is also included in Vietnam's National Determined Contributions (NDC); this states that by 2030 Vietnam will reduce greenhouse gas emissions by 8% (compared to business-as-usual) with domestic finance alone, or by 25% with international support. Despite the great potential REDD+ shows for generating international and domestic funding, an accurate and up-to-date overview on disbursed and anticipated public and private finance specifically dedicated to REDD+ implementation in Vietnam is now either unavailable or difficult to access (Pistorius 2015).

This brief aims to address this information gap by providing an overview on REDD+ finance in Vietnam, explaining the potential for REDD+ finance and how REDD+ funding has been used, as well as discussing the limited and inconsistent data on REDD+ finance. This will help relevant stakeholders (i) to understand to what extent REDD+ has contributed and can financially contribute to Vietnam's forestry sector; and (ii) to help both donors and the government assess existing gaps and direct REDD+ investments to the most efficient mechanisms. The brief

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is based on a literature review of international and national statistics and reports, as well as in-depth interviews with Ministry of Agriculture and Rural Development (MARD) policy makers in Vietnam.

## The potential of REDD+ to finance vietnam's forestry sector

REDD+ is one of the primary sustainable forest management activities in Vietnam's Forest Development Strategy and shows great potential to contribute to the strategy's objectives, as Table 1 demonstrates. According to UN-REDD (2010), annual REDD+ revenue has the potential to reach USD 80-100 million, three to four times the current Official Development Assistance (ODA) available for the forestry sector. Prior to 2014, the challenge of REDD+ finance in Vietnam was not how to ensure sufficient commitment to REDD+ funding, but how to actually access and disburse it. The disbursement rate for both international and national REDD+ funding was low (30% for international REDD+ funding and 13% for government funding) (Silva-Chávez et al. 2015; Le et al. 2015). By 2014, of 44 REDD+ projects in Vietnam, 24 projects were finished (with total committed funds of USD 18.65 million) and 20 projects were ongoing (with total funds of USD 65.66 million). After

2014, mobilizing funding for REDD+ became the challenge due to the underdevelopment of the carbon market, a lack of international commitment to implementing REDD+ in Vietnam, and Vietnam becoming a middle-income country which resulted in a significant reduction of ODA funding.

According to MARD (2017), mobilizing REDD+ finance after 2018 will continue to be challenging. This due to the increasing international requirements that recipient countries must fulfil, staff shortages, a lack of REDD+ expertise, and the limited involvement private sector enterprises and other economic organizations have in REDD+ activities. Likewise, the carbon credit market in Vietnam has not yet been formed and the global market is volatile, while other sources of finance (carbon tax, green credit, green bond and green investment funds) are yet to be established. Most provinces do not participate in REDD+ implementation, because there is no budget to support this (MARD 2018). Lee and Pistorius (2015) and Nguyen (2017) also asserted that available REDD+ funding is not sufficient to catalyze REDD+ implementation and sustain political will to support REDD+. The government's assessment that REDD+ has limited potential to become a major financial source for forestry is reflected in their postponement of establishing the national REDD+ Fund, as well as Decision 823/QDBNN-TCCB, which merged Vietnam's REDD+ Office into

**Table 1. Potential REDD+ funding compared to national program budgets**

	Amount	Source of information
<b>Budget requirements</b>		
Projected budget for implementation of the Vietnam Forest Development Strategy 2006-2020	VND <sup>a</sup> 106,759 billion	MARD 2017
Total estimated cost of national REDD+ program (2017-2020)	VND 10,942 billion (VND 2,772 billion in 2018; VND 2,995 billion in 2019; and the remaining for 2020).	UN-REDD 2018 and MARD 2018
<b>Potential contribution of REDD+ finance</b>		
<b>2009-2014</b>		
Potential funding if REDD+ is effectively and fully implemented in Vietnam	USD 80-100 million annually	UN-REDD Program 2010
REDD+ funding committed (2009-2014)	USD 84.31 million	Silva-Chávez et al. 2015; Le et al. 2015
REDD+ funding disbursed (2009-2014)	USD 37.77 million	Silva-Chávez et al. 2015; Le et al. 2015
<b>2015-2020</b>		
FCPF funding committed to an emission reduction project reducing deforestation and forest degradation in the North Central Coast	USD 51.5 million	FCPF - REDD+ Vietnam 2017
<i>With the decision at the 18th Green Climate Change Fund (GCF) Board meeting in 2017 to introduce a USD 500 million REDD+ Results Based Payment pilot, GCF now offers financial support for all three phases of REDD+. Vietnam, if can fulfill GCF funding requirements, can also be eligible to apply for this funding. VnFOREST and FAO are developing project and submitting project on "Achieving emission reductions in the Central Highlands of Vietnam to support National REDD+ Action program" to GCF with total estimated budget \$ 52 million USD (amongst of them, GCF is expected to fund USD 30 million).</i>		

a VND: Vietnamese Dong

the State Steering Committee Office for Forest Protection and Development Plan for 2011-2020. This is also consistent with other studies such as Pistorius (2015), Brockhaus et al. (2016) and Nguyen (2017), which show that REDD+ finance has not been sufficient to drive transformational change in Vietnam.

## Main funding sources for REDD+ activities in vietnam

Although MARD (2017) have identified potential REDD+ funding sources across the public and private sectors in Vietnam, since 2009 REDD+ has primarily been funded by the international public sector.

### Before 2017

Until 2017, REDD+ in Vietnam was funded through both public and private investment, although private investment was limited. In 2016, the primary sources of REDD+ funding were: bilateral government funding, mainly from Germany, USA, Japan and Norway (totaling USD 38.07 million); multilateral institutions, such as UN-REDD, the Forest Carbon Partnership Facility (FCPF) and Global Environment Facility (GEF) and International Fund for Agricultural Development (IFAD) (totaling USD 39.25 million); the private sector (USD 0.46 million) (MARD 2016).

According to MARD (2017), the national government is contributing USD 5.6 million of domestic public funding for implementation of the National REDD+ Program; this is intended to cover Vietnam REDD+ Office (VRO) operations, the formulation of relevant policies and strategies, scientific research and the piloting of methodologies for a national forest monitoring system. This, however, is an estimated figure which may not capture all state budget allocations to REDD+ activity implementation. As REDD+ requires cross-sector coordination, it is not classified as a separate budget line in the state budget and can be funded through various programs (including the Climate Change Adaptation and Mitigation program, the Green Growth program, the NDC program, the National Climate Change Strategy, and the Forest Protection and Development program). As such, it is challenging to provide a comprehensive figure on state funding for REDD+. Likewise, there is no cross-sector agreement on what state budget lines can be classified as REDD+ related, resulting in difficulties for policy makers when it comes to distinguishing REDD+ related income and expenditure.

Private sector engagement and private financing for REDD+ is also limited in Vietnam, despite initial contributions of USD 0.46 million between 2009-2014 for REDD+ implementation. Private finance for REDD+ in Vietnam is mainly sourced from international businesses; there is very limited engagement from domestic businesses. Pham et al. (2012) argued that unclear tenure regime, the lack of legal framework on

carbon rights, and a lack of incentives for domestic companies to engage in REDD+, have discouraged many Vietnamese enterprises from investing in REDD+. Early analysis on international companies financing REDD+ in Vietnam, such as Sumitomo Forestry, ASKUL and Yanmar, also highlight a weak business case for financing REDD+ in Vietnam (Le et al. 2016).

### 2017-2020

According to UN-REDD (2018), the total budget required to implement the National REDD+ Program between 2017 and 2020 is VND 10,942 billion. This funding is expected to come from state budget contributions, credit, ODA, Payment for Forest Environment Services (PFES) revenue and other sources. This vision to obtain both public and private investment for the National REDD+ Program is well-reflected in the design structure of Vietnam's REDD+ Fund, intended to raise results-based voluntary contributions, grants, donations and investment from domestic and foreign organizations and individuals (Figure 1).

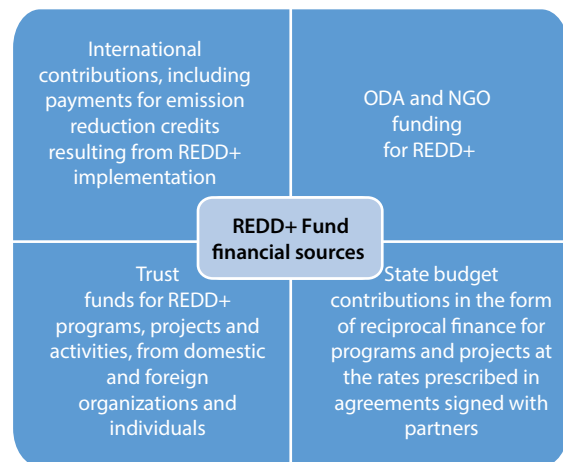


Figure 1. Vietnam REDD+ Fund funding sources (MARD 2018)

### After 2020

Potential sources for financing REDD+ after 2020 include global funds such as GEF, the Green Climate Fund, the Forest Investment Program and the BioCarbon Fund, as well as PFES revenues from expanding PFES services and the number of PFES service users. Although the government has identified various funding sources, accessing this funding requires the Government of Vietnam to fulfill funder requirements as well as government agency capacity to manage these funds.

## How REDD+ funding has been used

The contribution and potential of REDD+ to finance the forestry sector and support implementation of Vietnam's

Forestry Development Strategy not only depends on how much REDD+ can generate, but also how this funding is actually used. According to UN-REDD+ and MARD (2018), the primary limitation of Vietnam's REDD+ legal framework is a lack of clearly defined REDD+ priorities; it remains unclear what REDD+ activities need to be prioritized and where these should be carried out.

In the absence of a REDD+ payment distribution system, REDD+ funding was primarily used to support REDD+ readiness activities like capacity building, with little investment into actual forest protection and development. Capacity building activities included networking and increasing engagement between stakeholders; institutional strengthening; research and analysis of laws and policies; and improving Measurement, Reporting and Verification systems (MRV) to develop the Forest Reference Emission Levels/Forest Reference Levels (FRELs/FRLs). Activities related to institutional strengthening, improved land use and forest management were prioritized (accounting for approximately 56% of total committed finance) (Silva-Chávez et al. 2015; Le et al. 2015). Stakeholder engagement activities, MRV, Reference Emission Levels, law research and policy analysis received 7-13% of committed funds. The remaining funds were destined for other activities, including design of forestry carbon projects and research into land use rights. Likewise, while REDD+ finance was significant for Vietnam, multilateral implementing agencies and international NGOs absorbed most of this funding (USD 39.4 million and USD 24.1 million respectively), followed by the Government of Vietnam (USD 15.3 million). Vietnamese NGOs and academia benefitted the least from received REDD+ funding.

The 2017 proposal for REDD+ Fund establishment set out clearly how REDD+ funding should be used in Vietnam (Box 1). Mapping out how much is required for each activity and who can cover what costs is now essential for government to identify the funding gaps for REDD+.

Utilization of REDD+ funding for readiness activities also reveals several limitations.

- i. Previous analysis conducted by Nguyen and Dang (2013) and Pistorius (2015) shows that REDD+ funding was given to different organizations independently developing the specific elements needed for REDD+. However, these different activities are not well-coordinated by the Vietnam REDD+ Office and activities are not always based on national priorities.
- ii. REDD+ funding has so far only been spent on capacity building at a national level, with little investment into capacity building at provincial and local level until recently, as the preparation of PRAPs in selected provinces has gained momentum (Pistorius 2015).
- iii. Lack of coordination among donor and government agencies and across domestic policies has led to a fragmentation of REDD+ related activities (Pistorius 2015, MARD 2018).

In a country where domestic PFES policy is stable and can provide significant funding for the protection of over 5 million hectares of forest, it is strategic for policy makers to decide how to use REDD+ funding to obtain the greatest returns so that there is no overlap with existing activities, therefore reducing the additionality of REDD+.

## Limited and inconsistent data on REDD+ finance in Vietnam

There is limited data on REDD+ finance in Vietnam to date. There are also discrepancies within the REDD+ financial data and statistics, which poses a great challenge when attempting to build a comprehensive and accurate dataset. Data has been collected at different scales (REDD+ activity, project and national program), at different times, from different data sources, and depending on the phase and type of finance,

### Box 1. REDD+ Fund investment activities in Vietnam

1. Operation and management of the National REDD+ Action Plan (NRAP).
2. Support to edit, make additions to, supply and develop policies, and capacity development, to create a favorable legal environment for REDD+ activities and national programs that contribute to reducing emissions.
3. Assisting reputable research institutes and institutions to conduct research on reduction and absorption of greenhouse gas emissions by limiting deforestation and forest degradation.
4. Improving forest carbon stocks, and the sustainable management of forest resources.
5. Support to edit, make additions to, restructure and implement the NRAP and Provincial REDD+ Action Plan (PRAP).
6. Implementing the Emission Reduction Program (ER-P) benefit sharing plan, to be approved by a third party accepted by the Government of Vietnam.

Source: MARD 2018

using different definitions and terminology when accounting for REDD+ activities and expenditure.

A frequently-cited Forest Trends report, conducted in 2012 and then repeated in 2014 (Silva-Chávez et al. 2015), provides the only data on REDD+ finance. However, these published figures have several limitations:

- i. Missing data on actual private sector investment and underestimated state budget investment.
- ii. Forest Trends research calculates REDD+ investment through various donor-funded projects and activities. However, REDD+ is often only a part of these projects. Thus, in reality only a proportion of the cited figures is actually destined for REDD+ activities.
- iii. Clear definitions of climate finance and REDD+ finance have not yet been established by the Government of Vietnam, therefore tracking and monitoring the related financial flows is difficult. There is no standardized definition describing what REDD+ finance or investment constitutes. This leads to questions such as, should investment into activities that contribute to REDD+, but that are not necessarily directly linked to REDD+ count (Henderson and Coello 2013)?
- iv. Like Forest Trends, VRO is developing a REDD+ finance database for Vietnam, by asking different organisations financing REDD+ projects to voluntarily report on their REDD+ funding sources and disbursement activities. However, this is problematic due to the politics of revealing numbers, as can be seen in Angelsen (2017) and Brockhaus et al. (2017) in **Who counts what as REDD+ finance?** and **Who's really open about REDD+ finance?** At the same time, there is no formal mechanism tracking or verifying sources of REDD+ funding from new projects or the private sector.
- v. Current studies only report gross flows of REDD+ finance rather than net figures, due to a lack of publicly available information on the exact terms of whatever funding is available. When climate or REDD+ finance is delivered as a loan, for example, insufficient data on the terms of the loan impedes accurate tracking of the total amounts transferred (Watson and Caravani 2012). This poses the risk that the amounts of REDD+ finance actually received by Vietnam are not calculated and presented with adequate precision.
- vi. Currency, comparisons are also a challenge when reporting REDD+ finance in Vietnam. Fluctuations in exchange rates present a complication for tracking climate and REDD+ finance, as the value of a pledge may have changed by the time it is actually deposited to a fund.
- vii. There may be a risk that REDD+ financial contributions have been counted multiple times. This double accounting risk is particularly high when funding deposited in a multilateral fund comes from a bilateral fund. Similarly, another risk could be counting the same climate finance and REDD+ expenditure more than once. In some instances, multiple climate finance

initiatives can support the same project. To address the above challenges, a national REDD+ finance monitoring and tracking system is needed so that information can be identified, sourced, validated and presented in a comparable way. This will require stable, long-term financial support.

## Conclusion

There is great potential for REDD+ to contribute to and support the implementation of the forestry sector's development strategy in Vietnam. However, whether or not this potential is realized depends on the results of REDD+ implementation. Likewise, reduced financial resources and funder commitment to REDD+, challenges in meeting funders' requirements, and the significant finance required to implement the national REDD+ program, all imply that, in reality, REDD+'s contribution as major source of finance for the forestry sector is limited. Although the government has identified various public and private sector funding sources to cover the different phases of REDD+, the international public sector remains the primary funder, with limited contributions being made from the private sector and state budget. To date, the spending of REDD+ finance has also been uncoordinated and fragmented, hindered by a lack of clarity on what REDD+ priorities in Vietnam are. Effective and efficient implementation of REDD+ activities has been impeded by limited and inaccurate data on REDD+ finance, unclear definitions of what REDD+ and climate finance are, the absence of a national REDD+ financial tracking system and limited technical capacity to monitor REDD+ finance amongst government bodies and CSOs. Better coordination across sectors and amongst donors and government agencies; capacity building around the tracking and management of REDD+ finance; and government meeting funders' requirements (e.g. policy improvement, effective implementation of REDD+ policies and measures) in order to access performance-based finance, will increase the potential of REDD+ to finance the forestry sector in Vietnam.

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