

Activity 2.3.1: Develop a results-based payments for ecosystem services (PES) mechanism for collaborative forest management

Summary of added values that RECAF will bring in the existing structure of Payment for Forest Ecosystem Services (PFES)

PFES in the landscape of policy instruments for forest conservation

Although the core aim of PFES is to protect forests, PFES could be paired with complementary conservation and socioeconomic programs to optimize its outcomes. Before going into recommendations for PFES design and implementation, we find it is necessary to zoom out of PFES specific issues and take a look at the bigger picture of the set of instruments used in governing the forested landscapes in 5 provinces. Quick review (Table 1 below) does not aim to provide a full list of instruments used for forest and ecosystem services management, but rather a snapshot of landscape of forest governance instruments used in the 5 provinces to see what can be further applied to complement PFES implementation, and what could be better harmonized with PFES implementation. According to *Table*, all listed regulatory instruments have been applied to forests and natural resources in the 5 provinces, although may not in full operation (for example, the spatial planning of biodiversity corridors was developed but funding for implementation has been very limited). For economic instruments, payment for ecosystem services has been implemented for water regulation, water supply and landscape beauty services. However, the PFES itself resembles a fee/charge for resource uses rather than a true PFES scheme. Biodiversity offsetting is also partly implemented like in the case of offset forest planting for hydropower and mining projects that convert forest to other uses (although level of biodiversity in the newly planted forest is mostly not comparable to the converted forest). The REDD+ payment policy has not been widely implemented due to lack of funding, although the PRAP was developed in some provinces. The information and voluntary instruments have been hardly implemented, except for the case of SFM or some certification schemes in coffee sector (e.g. 4C, UTZ).

Table 1: Policy instruments for forest conservation and sustainable use

Regulatory (command-and-control) approach	Economic instruments	Informational and other voluntary instruments
<input checked="" type="checkbox"/> Restrictions or prohibitions on use CITES implementation "Closing of the natural forest"/logging ban: stopping the utilization of timbers from the natural forest for a certain period of time	<input type="checkbox"/> Price-based instruments: Taxes (e.g. on groundwater extraction, pesticide and fertiliser use); <input checked="" type="checkbox"/> Charges/fees (e.g. for natural resource use, access to national parks, and hunting or fishing licence fees); Visiting ticket for national parks Various natural resources taxes/fees <input type="checkbox"/> Subsidies to promote biodiversity	<input checked="" type="checkbox"/> Eco-labelling and certification (e.g. organic agriculture labelling schemes and labels for sustainably harvested fish or timber) SFM, certification of coffee production

ANNEX 25 – Activity 2.3.1

<input checked="" type="checkbox"/> Access restrictions or prohibitions (e.g. protected areas and legislated buffer zones along waterways) National parks and natural reserves Conservation areas	<input type="checkbox"/> Reform of environmentally harmful subsidies Missing	<input type="checkbox"/> Green public procurement (e.g. of sustainably harvested timber) Missing
<input checked="" type="checkbox"/> Permits and quotas (e.g. for logging and fishing) Logging permits and quotas	<input checked="" type="checkbox"/> Payment for ecosystem services <i>Implementation of national PFES policy. However, the payment is more like a charge/fee for water use</i> <i>Provincial REDD+ Action Plan</i>	<input type="checkbox"/> Voluntary approaches (i.e. negotiated agreements between businesses and government for nature protection), e.g. voluntary offset schemes Missing
<input checked="" type="checkbox"/> Quality, quantity and design standards (e.g. commercial fishing net mesh-size specifications) Forest management norms	<input checked="" type="checkbox"/> Biodiversity offsets/ bio-banking Offset forest plantation for hydropower and mining projects	<input type="checkbox"/> Corporate environmental accounting Missing
<input checked="" type="checkbox"/> Spatial planning (e.g. biodiversity corridors) Provincial planning, land use planning, biodiversity planning, and forestry planning	<input type="checkbox"/> Tradable permits (e.g. individual transferable quotas for fisheries) Missing	
<input checked="" type="checkbox"/> Planning tools and requirements (e.g. environmental impact assessments and strategic environmental assessments) Law on Environmental Protection, Land Law, Forestry Law	<input checked="" type="checkbox"/> Non-compliance fines	

Note: Fully applied; Not yet applied; Partly applied or stalled; Green shade text: specific policy instruments currently in used; Purple shade text: missing (no instruments applied)

Source: Adapted from OECD, 2019

It can be seen from *Table* that the regulatory instruments have been used at a much higher level than economic and voluntary/informational instruments in forest governance, especially in southern provinces where most forest lands are under management of State-owned entities. It is understandable given the economic-political and historical context in Vietnam where top-down, command-and-control governance type rooted in. Even PFES is not as neoliberal as the name would suggest. Rather it embraces coherent regulatory elements from previous forestry programs and policies. Consequently,

ANNEX 25 – Activity 2.3.1

PFES itself is a policy mix rather than a single economic instrument. Moreover, it is combined with regulatory, and to some lesser extent, voluntary instruments to make a policy mixture that “works”, at least in the Government’s perspectives. In a recent assessment of PFES impacts in Vietnam, it was found that the success of PFES builds on the incentive but largely based on effective law enforcement, and the PFES program reinforces existing forest management institutions (Duong & De Groot, 2020). Nevertheless, it is important to note that different policies are not always overlapping and synergizing, but often conflicting and fragmented (Barton et al., 2017, Kissinger et al., 2020). With very low level of “mainstreaming” into current policy structure as discussed above, it is important that PFES, with the central role in forestry financing in the provinces, is well positioned and developed to make the whole policy mixture more balanced, where economics and informational instruments can contribute to their full potential.

Add values for PFES under RECAF project

PFES scheme is considered one of the key achievements of the forestry sector in the last 10 years, yet it is far from perfect. However, it should be noted that many of the weaknesses are inherited from the national forestry governance system and not specific for PFES only. The PFES policy implementation at national and provincial level has received a significant number of practical, feasible advises to address its weaknesses (Pham et al., 2013; Nguyen & Vuong, 2016; Pham et al., 2018; VNFF, 2019; Winrock International, 2020). In addition, we acknowledge that some regulatory and non- neoliberal parts of PFES (in many cases perceived as weaknesses and shortcomings) are intentionally embedded in design and operation (Suhardiman et al., 2013; Wunder, 2015; McElwee et al., 2019), and may not be fixed in conventional senses (McElwee et al., 2019). Therefore, instead of providing suggestions on how to deal with specific issues of PFES, it is recommended RECAF to take an approach that would help to create an enabling environment for PFES implementation in the 5 provinces to “evolve” itself into a more market-based, voluntary and informational process, and can be more easily linked to more “international” schemes such as REDD+. The recommendations focus on: (1) Piloting innovative PES schemes where transactions are negotiated between stakeholders (for enhancing voluntary participation, transparency including MRV system, fairness of the benefit distribution system, and information flows between actors); (2) Consolidating PFPDF’s central role in PFES not only as a “regulator” but also a “facilitator” and a “information hub” to support stakeholders from within and outside forestry sector in developing payment schemes to secure ecosystem services supply; and (3) policy dialogues and knowledge sharing for enhancing PFES effectiveness. These general recommendations are elaborated in the following paragraphs in the form of a proposed Activity (Activity 2.4.1) under RECAF project.

In addition, Viet Nam’s PFES system has already been established to receive funds from hydropower facilities and channel them to land users upstream. This mechanism has not yet been broadened to include carbon as an ecosystem value. Furthermore, the criteria for recipients to receive funds have not been based on stewardship. By reforming the existing PFES system to address these aspects, RECAF seeks to direct more existing PFES funds based on performance, activate new sources of funds (TBD), and ensure beneficiaries receive those funds based on land stewardship performance. Since the project has not been implemented yet, which would require working closely with MARD and the Ministry of Finance and Investment, it is too soon to define details. We do not anticipate GCF finance to be used as a match for other finance. Rather, PFES already constitutes 22% of overall forestry sector investment, and between 2011 and 2017, total revenues generated from the PFES system amounted to VND 8,220 billion. Adding carbon as a source of funds and orienting those funds based on stewardship performance will have a large impact.

Innovative PES mechanism that supports and complements PFES and REDD+ implementation (Sub-activity 2.3.1.1 in the Full proposal)

Objective: this sub-activity aims to pilot innovative, inclusive and voluntary PES schemes with a vision to enhance capacity and responsibilities of local communities in conjunction with external financial rewards to achieve desired economic and environmental goals, in a step-wise manner.

ANNEX 25 – Activity 2.3.1

Key arguments: the PFES policy employs the language of COS (Compensation for Opportunity-Skipped) (van Noordwijk et al., 2010). However, the low payment rate that failed to address opportunity costs of unfriendly forest uses, especially forest land conversion for agriculture (Lan et al., 2013; Pham et al., 2013; Nguyen and Vuong, 2016; Pham et al., 2021a) is undermining PFES legitimacy and effectiveness. Even if payment rate increases, the current use of “payment language” would not help to stop forest exploitation for local needs such as timber and NTFPs, simply because people are paid for “not doing harm” (do not cut forest and convert to other land uses) rather than “doing good things” (preserve and enhance the actual ecosystem services). The regulatory nature of PFES also inhibits participation (especially those who do not have legal tenure rights) and information exchange between stakeholders. It is suggested that the RECAF will pilot a bottom-up, flexible approach that brings stakeholders together to design, develop and implement incentive schemes for environmental services. In order to address the bottleneck surrounding tenure rights and benefit distribution of PFES, an alternative approach to PFES was suggested based on the principles of Co-Investment in landscape Stewardship (CIS) (van Noordwijk et al., 2010). These are: (i) entrust the local resource management; (ii) full trust of management plans & local monitoring with high social capital; and (iii) flexible contracts, broad sanctions. CIS seems to better fit smaller-scale transactions and minimizes the need of strict PES pre-conditions to enhance participation and distribution of benefits (arguments of fairness). Additionally, by involving various stakeholders through its openness, CIS offers opportunities to include different perspectives in managing the forest-agriculture mosaic landscapes for both economic and environmental objectives that have been often neglected by policymakers and PES-buyers who consider ES-benefits from forests only. As such, the “fairness” aspect of PES will be improved.

Operational design:

- *Fund management:* A sub-fund under FPDF – the Innovative PES fund (IPF) to be established under PFPDFs of all 5 provinces. The IPF is specified for PES schemes that operate independently from current PFES. Initially, the RECAF Project can provide seed-fund for IPF. In the later phase, private sector and other funding sources can be tapped when the willingness to pay of private sector increases. Thus, the IPF will be operationalised and disbursing sub-grants during the project. Please refer to Paras 200-205 in the Annex 21 - PIM).
- *Funding principle:* IPF will pilot providing competitive, conditional, performance-oriented payment to communities, household groups and forest/land holders who submit qualified proposals demonstrating their plan to deliver/secure one or multiple ecosystem services in a certain period of time. Level of payment is negotiable depending on proposal quality and subjected to RECAF project’s assessment. In the negotiation process, PFPDFs play the roles of intermediary and fund management for the pilots. As such, technical assistance and capacity enhancement will be provided to PFPDFs by RECAF project (linked to the Sub-activity 2.3.1.2).
- *Potential service providers:* while all land holders who demonstrate plan to deliver ecosystem services are legible to the IPF, it is envisaged that the following stakeholders are highly potential: (1) Forest holders with SFM plan that can be further elaborated on how they will collaborate with local communities to deliver targeted ecosystem services; (2) CFM and co-management structures considering their experience with collective actions and law-abiding forest uses; (3) Agriculture/Forestry cooperatives active in sustainable forest management, green and sustainable agricultural production and agroforestry ; and (4) groups of active and committed farmers who are willing to co-invest their labor and time, or even money for developing sensible PES scheme.
- *Potential ecosystem services:* while any ES can be considered, carbon sequestration and retention service and landscape beauty service are considered highly potential. The PFES policy has focused primarily on water supply and regulation, soil conservation and landscape conservation for tourism purposes. The payment for carbon sequestration and retention services scheme has been far less developed. Apart from being hindered by unclear tenure rights, the national legal framework for carbon service payment including carbon rights and ownership has been uncertain. Additionally, ‘performance-based’ carbon service payment is a challenge given the lack of adequate monitoring and verification. Payment for carbon sequestration and retention is however matched with the scope and objectives of the RECAF project. By “paying for carbon sequestration and retention service”, the project can expand payment for different types of land use outside forest but can provide positive impacts on the ecological services such as

ANNEX 25 – Activity 2.3.1

agroforestry, and complement PFES/REDD+ by covering mixed plantation models. Agroforestry in its various forms is widely practiced by farmers in Central Highlands such as traditional mixed home gardens and areas for timber, foods, feeds, medicinal herbs, and firewood for household use. It is needed to encourage agroforestry (or intercropping) practices in some of the agricultural sectors that have historically been the most damaging to the country's forests—coffee, cashew, peppers, shrimp farming beyond household scale. Apart from carbon, mixed plantation, intercropping and other types of agroforestry practices often supports biodiversity, improves microclimate conditions, reduces soil erosion and surface runoff, and reduces the risk of pests and diseases on economic crops; however, it has not been considered in the current PFES policy. For ecotourism, PFES revenue collected from tourism companies is rather low compared to the actual tourism activities in the selected provinces. This is partly an operational problem as most tourist companies operating in province A are not based in province A (thus enforcement of payment is limited), and that companies may use “financial technical measures” to lower their total revenue in reports (thus the contribution up to 1% of total revenue become quite a minor amount). However, we suspect that the low level of compliance was mainly attributable to the way PFES policy regulate payment for the (landscape beauty) service. The landscape beauty, by its nature defined as a “club goods” (goods/services that are excludable, i.e. buyers have excludable rights to what they pay for, but non-rivalrous /non-congestion, i.e. the use/consumption of one individual does not affect the availability of the goods and the use of others) and should be charged as such (visiting ticket/entrance fee). The PFES policy, however, is charging landscape beauty service by intensity of use (i.e. percentage of total revenue) that is more applicable to private goods (e.g. water supply) than club goods. As a result, revenue collection this service is less than desirable. We therefore suggest RECAF to support the selected province in searching for and piloting a new payment mechanism that better reflects the nature of landscape beauty service and optimize this payment model. This can be informed by a pilot of new payment model from homestay business households in Pac Ngoi and Bo Lu villages (Nam Mau commune, Ba Be district, Bac Kan province) conducted in 2013- 2014 under an IFAD-funded project. In this model, payment of fee was calculated according to the number of guests staying (based on the guest register of the police station) rather than revenue of business. This way of fee calculation was highly welcomed and well implemented by the participating parties (Do et al, 2018).

- *Potential land uses:* apart from highly forested areas, Central Highland provinces have large areas of “bare land with scattered trees” and ‘illegal’ crop cultivation converted from forest lands. In Lam Dong alone, the area of illegally converted forestland was about 50,000 hectares¹. This area in Ninh Thuan province is about 16,000 ha. It is advised that the pilots take place on such land uses, providing conditional forest land allocation/concession to community and individual households where forests have been already converted to agriculture: community and households may receive long-term forest land allocation with a clear land delineation if they commit to maintain tree covers above 30%. This can be linked with existing CFM and/or forest co-management models, where applicable. These activities are supported legally by Forestry Law 2017 (Article 57 on cultivation on forest land without forest) and by some provincial programs aiming at restoring forests from illegally converted land (e.g. Decision 608/QĐ-UBND dated 03/4/2018 of Lam Dong PPC on approval of outline of proposal on forest restoration on illegally converted forestland by agroforestry in the period of 2018-2020). Additional resources can also be mobilized from “scattered tree” plantation policy implementation in the provinces. In all cases, non-PFES areas or areas with very low PFES payment rate should be prioritized. This will contribute to address the current issues of non-coverage and uneven rate payment of PFES.
- *Types of incentives (rewards and payments):* may include but not limited to (i) upfront payment to partially cover the mixed plantation/agroforestry establishment cost (non-conditional); (ii) performance payment in PES implementation (conditional); (iii) Capacity development including technical training, awareness raising, information exchange channels and events; (iv) in-kind incentives such as free seedlings/training on tree nursery and seedling production (non-conditional); and (v) conditional land tenure (where applicable) that subject to service delivery

¹ Decision 608/QĐ-UBND dated 03/4/2018 of Lam Dong PPC on approval of outline of proposal on forest restoration on illegally converted forestland by agroforestry in the period of 2018-2020

ANNEX 25 – Activity 2.3.1

performance (e.g. number of trees or tree cover rate). It is important to note that any effective payment distribution and benefit-sharing mechanism will largely depend on specific social, political and economic context. These mechanisms should therefore be assessed and adapted to local context as results of a participatory approach where all stakeholders are properly consulted. In addition to legal tenure rights, the pilot scheme should as much as possible take into account customary rights and traditions of local communities

- *Beneficiaries* are loosely defined as all stakeholders living in the target landscape and those who benefit from environmental service flows generated from sustainable land use practices (i.e. forest protection, mixed plantation and agroforestry). All beneficiaries are considered contributors- investors based on voluntary participation, more specifically: Local farmers contribute to landscape stewardship through their own efforts (labor, participation, in-kind contribution and even partial cash investment on agroforestry/plantation models); Public investment can be made through the provincial/district level government using the PFPDF or any other funding sources, and through the RECAF Project; Private sector: current PFES and non-PFES companies (if any) contribute a certain portion of their income on top of their current PFES contribution (if any).
- *Business case:* In the pilot phase, a business case for this kind of PES scheme may be weak due to several reasons: (1) unsecured land rights of local farmers; (2) lack of a well-defined monitoring system that monitors ES flows; (3) a certain level of uncertainty of markets for mixed plantation/agroforestry products. These reasons merit initial public funding to create an enabling environment for the PES scheme to develop, and a business case to attract private sector investment, while issues around land tenure and monitoring system will be partially addressed. Nevertheless, it may be more reasonable for buyers to engage in a “landscape initiative” as they understand that protecting existing forest alone cannot assure ES supply (e.g. reduced erosion and sedimentation facing hydropower plants and water supply companies because the erosion is caused by land uses, such as agriculture and roads that are of socioeconomic benefit to communities in non-forested areas). We believe that public-private partnerships can also result in self-sustaining schemes through direct transaction between stakeholders mutually benefiting from it. In investigating C-PFES, Ecodit (2018) found an increased willingness to pay from future payers if they see the tangible and measurable outcomes of the investment of revenues and, where possible, in close proximity to where their facilities are located.

Expected deliverables:

- IPF design: by year 1 of the project, IPF framework and operational guidelines will be developed and approved by VNFF. This will include a plan for IPF funding beyond the project, ideally integration within REDD+ framework.
- IPF establishment: *By year 2 of the project*, 4 IPF will be established by RECAF project in 4 provinces (1 in each province);
- IPF proposal development: *By year 2 of the project*, at least 12 IPF proposals (3 for each province) will be successfully developed with technical supports from RECAF project;
- IPF payment schemes: *By year 3 of the project*, at least 6 IPF proposals will be approved, and payment schemes set up and operated;
- Ecosystem services delivery: *By year 5 of the project*, at least 1,000,000 tonnes of CO₂eq will be sequestered by around 40,000 ha of agroforestry/intensified home garden covered by IPF in the 4 provinces; at least 4 innovative landscape beauty payment schemes will be established with at least VND 20 billion revenue/year
- Livelihood contribution: *By year 5 of the project*, at least 20,000 households in 4 provinces engaged in and benefited from IPF payment schemes
- Long-term financing for IPFs secured: by year 5 of the project, long-term financing mechanisms for the IPF has been secured.

Consolidating functions and capacity of provincial forest protection and development funds and PES stakeholders (Sub-activity 2.3.1.2 in the Full proposal)

ANNEX 25 – Activity 2.3.1

Objective: this sub-activity aims to provide technical and financial support to (1) enhance capacity of PFPDFs and PES stakeholders at both national and provincial level to engage in innovative PES negotiation and implementation, and (2) consolidate functions and capacity of FPDFs as the PES fund management in the provinces

Key arguments: Currently government agencies directly involved in the PFES payment process as the "trustee" to regulate the payment process when the stakeholders' capacity to monitor and operate the market is still relatively weak. This is the role that FPDFs (central and provincial levels) and a number of other public service agencies such as the forest ranger are playing in PFES. Shifting the role of public service bodies from direct management to indirect assistance also helps to ensure true market rules, avoiding overlaps in duties as the current roles of forest rangers and FPDF in PFES (Pan Nature 2015). To push forward the transition of PFES towards a more independent, market-based mechanism, it is advisable that RECAF project to support PFPDFs to transform themselves to a "facilitator" of the PES market. In addition, other stakeholders of PES should also be capacitated for PES negotiation and implementation. Specific recommendations are:

Operational design

Conduct and maintain regular policy dialogues with the PPCs and other stakeholders to confirm legal status of the PFPDF as the state business unit with mechanisms on self-control and self-financing applicable as the particular public service unit. Particular attention should be paid to Ninh Thuan province where all PFPDF staff are seconded from DARD.

Capacitate PFPDFs to act as true PES intermediaries (assisting private actors, State-owned forest holders and communities to buy and sell ecosystem services) through several mechanisms: (i) RECAF to support PFPDF staffing (e.g. pay salary to a specialized staff) in charge for pilot models and IPF, (ii) continuous support to enhance capacity of PFPDF (training, on-the-job orientation, exchange visits, etc.) as PES intermediary, (iii) developing mechanism for PFPDFs to receive management/intermediary fee for their services delivery; and (iv) supporting the establishment/operation of Forest Services and M&E units under PFPDFs.

Advocate and negotiate for inclusion of a "carbon sequestration services" management function under PFPDF, independent from the current PFES revenue management. The function should allow PFPDFs to contact to, negotiate with, and collect revenue from private sectors who have interests in purchasing carbon sequestration/retention service. This will help to minimize administration and transaction costs of the piloting models.

Advocate and negotiate for inclusion of mass organizations and CSOs, particularly those representing/working with local communities in PFPDF management unit. This would help to improve transparency and accountability of the PFPDFs, and improve the role of local communities in decision making process.

Advocate for PFES policy guidelines that shift the focus from organizational structure and operation of PFPDFs to more specific guidance on monitoring and evaluation, and that the PFES MRV must somehow be linked to actual performance of FES providers as well as payments of FES users rather than serving the administration of government agencies only, so that stakeholders would be motivated to engage.

Provide training and other awareness raising activities to PES stakeholders (including but not limited to private sectors, communities, forest holder groups, CSOs) so that they can engage in proposal development (to IPF) and negotiation in PES scheme design and implementation.

Develop PFES and PES information hubs than inform the publics about the role of forest and ecosystem services in maintaining and supporting the economy in particular and human wealth being in general.

Expected deliverables

By year 1 of the project: a long-term PES capacity building training and awareness raising program of RECAF will be developed and approved

By year 2 of the project: PFPDF in the four provinces become public service agencies with certain financial autonomous statuses

By year 2 of the project: Guidelines for inclusive, performance-based PFES MRV are developed and started to be implemented in the 4 provinces

ANNEX 25 – Activity 2.3.1

By year 5 of the project: At least 2,000 stakeholders participated in PFES and innovative PES training courses, site visits, exchange visits, and other awareness raising activities

By year 5 of the project: At least 10 PFES/PES information hub will be established at both national and provincial levels, reaching out to at least 100,000 stakeholders annually

Knowledge sharing and Policy advocacy and support on enhancing effectiveness of PFES policy design and implementation

Objective: this sub-activity aims for knowledge and experience accumulation and sharing, thus contribute to informing PFES and other relevant policies development and implementation at both provincial and national level

Key arguments: the uniformed PFES modality nation-wide has achieved certain successes, yet it needs to be continuously developed and adapted to changes in national and local circumstances. Many PES initiatives in the country such as Collaborative Management – PFES approach (JICA), Voluntary PES initiative (IFAD in Bac Kan province), PES for agroforestry in buffer zone of Ba Be National Park, Back Kan province (ICRAF), participatory PFES monitoring in Dak Lak and Thua Thien Hue provinces (based on CIFOR training), the PES initiatives to be piloted under RECAF project and many other initiatives needed to be learnt from, shared between stakeholders, and delivered as messages and evidence to provincial and national policy planning and decision making. In addition to that, there are number of criticisms to PFES that may not be addressed at provincial level but national level, those are: (1) PFES being not able to address drivers of deforestation and degradation (Current PFES and even PRAPs of the provinces lack a focus on addressing major agricultural driver commodities and related underlying drivers. In most other policy documents and instruments, correlations between the direct drivers and related underlying drivers are also unclear); (2) Current unequal payments per hectare of forest protected and across provinces and watersheds may cause social inequity, confusion, conflicts in the forest communities (the different payment rates are not a result of different forest protection efforts (and hence environmental service outcomes) as they should be, but depend mainly on the availability/capacity of FES users and number of FES providers), and (3) unclear process of households participation -- there is currently no consistent mechanism for ensuring poor/marginalized households and/or forest dependent households are prioritized to receive PFES contracts (it was reported in the literature that in some areas, CPC staff and/or rich households receive PFES payments as contracted). These are the entry points that the activity can leverage RECAF's policy impacts on PFES and relevant policies in making sure that PFES will evolve to be more flexible, transparent, inclusive, and fair. It should be noted that the activity should be best performed through collaboration between RECAF and VNFF and VNFOREST, given that both VNFOREST and VNFF take the key roles in PFES policy development

Operational design

- RECAF, through collaboration and technical assistance to VNFF and VNFOREST, to *undertake a thorough review of current policy instruments* to draw insights why and how the policies do not bring drivers into defining interventions, which actors to target, and which scales to reach. PFES, other PES pilots, or any land use practices are strongly influenced by national strategies and institutional reform, particularly on land management. As the relationship between direct and underlying drivers revealed, the project can act as a hub for policy level negotiation to push forward complementary policies and actions such as export taxes on agricultural commodities or linking project activities to deforestation-free commitments and value chains.
- RECAF, through collaboration and technical assistance to VNFF and VNFOREST, to *carry out a study on payment rate in the 4 provinces (or at national level)* and suggest methods to develop province-specific "mediated" payment rates for all watersheds (but not necessarily one payment rate for all). In addition, the payments offered need better targeted and/or combined with other livelihood support programs
- When and where applicable, RECAF, through collaboration and technical assistance to VNFF and VNFOREST, undertake consultation with forest holders, PFPDFs, and local households/communities members in the 4 provinces to *develop an uniform, transparent procedure on selecting contracted households for forest protection and delivering FES*. The

ANNEX 25 – Activity 2.3.1

participation issue is also partly addressed through PES pilot mechanism where legal land right is not a precondition but (can be) a reward for participation.

- RECAF to *continue to engage* in national-level processes and mechanisms such as the VNFF, Agroforestry Technical Working Group, the Climate Change Action Plan, the Green Growth Strategy, and REDD+, to share project outputs and influence major policy decisions in PFES, PES, agriculture, forestry and rural development sectors. One national workshop on innovative PES is targeted, to share findings and generate support for IPF approach.

Expected deliverables

- *By year 1 of the project:* a review of current policy instruments in forest protection and development will be completed and consulted with stakeholders
- *By year 2 of the project:* a review and policy recommendations on mediating intra-province PFES payment rates will be completed and consulted with stakeholders
- *By year 3 of the project:* an uniform, transparent procedure on selecting contracted households for forest protection and delivering FES will be developed and consulted with stakeholders
- *By year 5 of the project:* at least 3 national policy dialogues on PFES with participation of national and provincial stakeholders including policy makers, NGOs, research institutions, practitioners, communities and private sectors. The dialogues aim for stakeholders to exchange ideas and lessons learnt from PFES development and implementation across the country.
- *By year 5 of the project:* at least 3 national policy dialogues on PFES with participation of national and provincial stakeholders including policy makers, NGOs, research institutions, practitioners, communities and private sectors. The dialogues aim for stakeholders to exchange ideas and lessons learnt from PFES development and implementation across the country.
- *By year 5 of the project:* at least 3 policy briefs on PFES produced and disseminated widely in national and international PES communities