

PRO-POOR PAYMENTS FOR ENVIRONMENTAL SERVICES: CHALLENGES FOR THE GOVERNMENT AND ADMINISTRATIVE AGENCIES IN VIETNAM

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SUMMARY

Governments and administrative agencies are likely to play critical roles in determining the success or failure of payments for environmental services (PES) that are directed at the poor. Using Vietnam as a case study, this article explores the roles, progress and likely impact of the government and the administration in the design and implementation of pro-poor PES. The article focuses on the extent to which it is possible to address the high transaction costs involved and the issue of insecure land tenure, as two major constraints to pro-poor PES. The discussion is based on a literature review, open-ended interviews, and a stakeholder workshop. Although pro-poor PES are welcomed by the government, their implementation is difficult because of overlapping structures and functions, critical gaps in PES policies and a limited understanding of them by decision makers, the private sector and communities. Multi-sectoral approaches and further studies to support policy development and capacity building at the local level are necessary to develop pro-poor PES. Copyright © 2008 John Wiley & Sons, Ltd.

KEY WORDS — payments for environmental services; pro-poor; Vietnam; government; administrative agencies

INTRODUCTION

A payment for environmental services (PES) is defined by Wunder (2005) as ‘a voluntary arrangement where a well-defined environmental service (ES) is . . . “bought” by a (minimum of one) service buyer who compensates a (minimum of one) service provider—and does so if, and only if, the service provider continuously secures the provision of that service (conditionality)’. The ES that are usually covered by PES include watershed protection, carbon sequestration, landscape beauty and biodiversity conservation. Although not originally designed to address poverty reduction, PES is expected to have a positive impact on poverty as many ES providers in the tropics are poor. The pro-poor focus is important given the global quest for poverty reduction, as enshrined in the Millennium Development Goals (UNDP, 2008). There has been much discussion about pro-poor PES, though its implementation is still in its infancy (Pagiola *et al.*, 2005; Swallow *et al.*, 2005; Wunder, 2008). Pro-poor PESs are defined here as ‘all interventions that empower and support the poor to participate in and benefit from PES’.

Pro-poor PES need to be considered within a broader institutional context that will shape their design and implementation. Bracer *et al.* (2007) emphasise that the potential of pro-poor PES can be enhanced by supportive institutions.¹ However, they claim that there is a lack of case examples showing how institutions have helped the poor in entering and implementing PES. Swallow *et al.* (2007) assert that PES is early in the process of institutional

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¹North (1990) defines ‘institutions’ as the rules of the game—policies, legislation and norms.

development, but significant developments can be expected in the next decade. They suggest that these new types of exchange and market arrangements will require the involvement of new organisations that link actors along the market chains and provide specialised services.

Poverty should be seen as multi-dimensional (Perdant, 2004; Dudley *et al.*, 2007). Here, pro-poor PES are examined from the perspective of the sustainable livelihoods approach, which gives emphasis to various capital assets: human, social/political, physical, natural and financial. To enhance these assets in Vietnam, public administration and policy should be improved (UNDP, 2008) in terms of the following broad dimensions: organisations (the administrative machinery), institutions (laws, regulations) and human resources (the qualifications, knowledge and skills of public servants) (Dao, 1997). There is a lack of examples analysing the linkages between these dimensions and pro-poor PES in developing countries.

This article examines these linkages, using Vietnam as a case study. Vietnam has made strides in getting the PES concept accepted. It is now developing national policies, and has pilot schemes in place (Warner, 2008; Wertz-Kanounnikoff and Rankine, 2008). The article discusses opportunities, challenges and constraints for the government in designing and implementing pro-poor PES. The underlying questions are:

- Can government organisations be an efficient and effective basis for building pro-poor PES?
- What kinds of institutions are needed for pro-poor PES?
- Can public servants work effectively with pro-poor PES?

MAJOR CONSTRAINTS

PES can benefit the poor, directly and indirectly. Direct benefits are cash payments or rewards which help poor PES providers increase their financial capital. Indirect benefits are non-monetary, such as greater political voice in contract negotiation processes, reduced social conflict and enhanced skills (Pagiola *et al.*, 2005; Wunder, 2007; Leimona and Lee, 2008). Proponents of pro-poor PES have to confront two major constraints: insecure land tenure and high transaction costs (Wunder, 2005; Swallow *et al.*, 2007).

Insecure land tenure

PES is easier to implement when land is securely held by the ES providers. Thus, ES buyers like to deal with privately owned land rather than land held communally or without a legal title. For PES to be successful in communal lands, there must be an effective, locally recognised organisation to negotiate and implement contractual arrangements (Wunder *et al.*, 2005; Pagiola *et al.*, 2005). Community-based natural resource management is successful where local residents organise themselves into corporate organisations that receive user rights and other proprietary rights over resources (Campbell and Shackleton, 2001). Long-term leases of land from local governments can also help clarify tenure.

Bracer *et al.* (2007) find that there is often overlapping jurisdiction over land, leading to conflict between communities and the government. In Vietnam, all land belongs to the state, thus leaving ES providers, including the poor, with few options for rights to trade in ES (Wunder *et al.*, 2005). To overcome this challenge, the government undertakes land-use zoning, transfers administrative responsibilities to local communities and recognises the resource tenure and use-rights of local people so that they can enter into ES agreements (Bracer *et al.*, 2007).

High transaction costs

Transaction costs for establishing and maintaining a PES scheme include: search and information costs, contracting costs and monitoring costs. Information on how ES are delivered under different land management regimes is often lacking, with an understanding of environmental flows in the context of multiple service providers being especially challenging. Negotiation and contracting costs are particularly high when ES buyers have to deal with multiple ES providers, often involving multiple steps and meetings with stakeholders. ES monitoring is crucial given that payments are conditional on actual service delivery, but it is usually difficult in fragmented landscapes with large

numbers of smallholders. High transaction costs limit the poor in participating in PES contracts, since buyers will prefer to deal with single providers representing large bundles of resources rather than many poor people each delivering a small service (Pagiola *et al.*, 2005; Wunder, 2006; Lee and Mahanty, 2007; Ravnborg *et al.*, 2007). This is a major problem in Vietnam due to the large number of poor households, each dealing with a small land area (Bui *et al.*, 2004; Wunder *et al.*, 2005; Huang and Upadhyaya, 2007). Ravnborg *et al.* (2007) and Wunder (2008) argue that appropriate institutional options for supporting the participation of community-level organisations, including their legal recognition, can enhance the participation of the poor. Group certification and collective action are proposed as solutions for transaction cost problems. Such mechanisms may allow farmers to coordinate their action in providing ES over large areas, thus reducing the cost of monitoring which is usually a major cost in PES (Swallow *et al.*, 2007).

RESEARCH METHODOLOGY

The research supporting this discussion of PES with reference to land tenure, transaction costs and other significant issues comprised three steps. First, lessons learnt from public administration and pro-poor PES were reviewed to develop an understanding of the linkages between pro-poor PES and public administration. Second, open-ended interviews were conducted with seven central officials from five key ministries which are involved with PES and poverty reduction, namely the Ministry of Agriculture and Rural Development (MARD; two interviewees), the Ministry of Natural Resources and Environment (MONRE; two interviewees), the Ministry of Planning and Investment (MPI; one interviewee), the Ministry of Finance (MoFI; one interviewee) and the Ministry of Labour, Invalids and Social Affairs (one interviewee). The aim was to understand their perceptions on opportunities and constraints for pro-poor PES. The selected interviewees were those who directly prepare, develop and approve PES and poverty reduction policies in Vietnam. Third, findings from the first and second steps were discussed at a national workshop held in Hanoi. The workshop acted as a means of triangulating the findings with those of others involved in the PES sector (Denzin, 1978; Patton, 1999). There were 24 participants from the central government, local governments, research institutes, farmer associations and local NGOs.

STRUCTURE AND OPERATION OF GOVERNMENT ORGANISATIONS

Governments can have a role at central, intermediate and local levels and a failure at any level can be problematic for the implementation of policies, including PES policies (Mahmood, 2005). This is applicable to Vietnam. The roles of the government range from setting the policies, to implementing PES schemes and to acting as the ES buyer. For successful PES, effective and efficient organisations are needed.

Expansive and overlapping structures and functions

At the macro level, there are currently four ministries which are working with PES policy development and implementation. The MARD develops PES policies for forestry ES. The MONRE addresses PES dimensions concerning biodiversity conservation. The MPI coordinates and allocates the budget, as well as prepares sectoral plans, for the nation in general and PES in particular. The MoFI establishes financial norms related to PES payments. Within MARD, the Department of Forestry, the Department of Forest Protection and the Legal Department are working on and influencing PES policies. In MONRE, the Department of Environment and the Vietnamese Environment Protection Agency are working on PES. In MPI, the Department of Finance, the Legal Department and the Department of Agriculture Economics are involved in the development of PES policies.

On the one hand, the involvement of numerous agencies has promoted much internal debate and a dynamic exchange of views on pro-poor PES, with ideas on pro-poor PES having been widely disseminated. On the other hand, administrative processes are cumbersome: see Figure 1. Both MARD and MONRE interviewees confirmed that PES mandates in a plethora of authorities are likely to delay the implementation of PES schemes. Numerous consultations are necessary across different agencies, adding to transaction costs. Also, it is unclear which agencies have responsibility for various functions. For example, four biodiversity monitoring systems belong to different

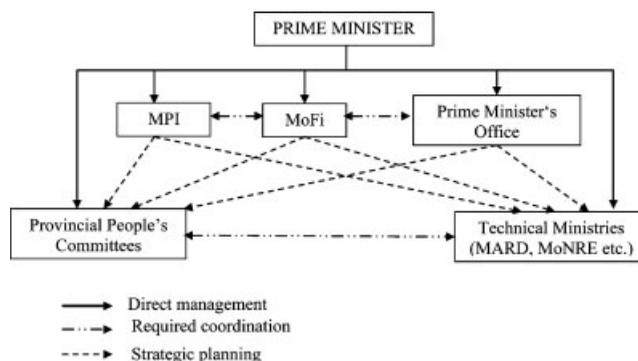


Figure 1. Current government planning for environmental activities in Vietnam. *Source:* Adapted from Institute for Economic Research, Ho Chi Minh City (2008).

departments in MARD and MONRE. Each of these agencies uses its own approaches, indicators and standards, with no shared systems or agreements. It is unclear how PES monitoring will be implemented.

The main government body working with poverty reduction issues in Vietnam—the Ministry of Labor, Invalids and Social Affairs (MOLISA)—is absent in the environmental and PES policy-making and implementation process. It is questionable whether poverty reduction can be mainstreamed into PES systems if this Ministry is absent. Interviewees from the other ministries, however, believe that there is no need to include MOLISA to make PES pro-poor. They argue that MARD and MONRE are technically capable of handling pro-poor PES with support from MPI. Moreover, most stakeholders recognise the environmental role of PES, but not the poverty reduction side, and thus argue for no role for MOLISA. Interviewee from MOLISA also showed no interest in PES. As one of them put it: ‘This is not our territory. We have many other poverty reduction priorities to work with and environmental protection is certainly not our focus work’.

All interviewees claimed that there are too many programmes under a multitude of different ministries and agencies, leading to overlapping objectives and project components, as well as cost ineffectiveness, including increased transactions costs. Because projects fall under different ministries with different powers, it is difficult for local authorities to coordinate them.

Top-down planning and control

The complexity of the horizontal and vertical connections in the administrative system poses another obstacle for PES. MONRE and MARD only have technical functions, while MoFI and MPI set the strategic directions through budget allocations. The technical ministries claim that top-down planning is inappropriate as it usually means that programmes are selected on how much funding is available rather than on technical priorities. The system reduces the independence and commitment of implementing agencies in planning for their own work. Moreover, because the priorities of MPI change from year to year, it is difficult for agencies as possible ES buyers to get long-term commitments to finance PES.

A proposed option for countering the effects of top-down planning and control, as well as addressing the issue of insecure land tenure, is to transfer administrative responsibilities for PES to local communities. Jutting *et al.* (2005) emphasise the role of decentralisation in embedding PES within local organisations. Fritzen (2006), however, finds that there have only been marginal improvements in local empowerment in Vietnam, and suggests that effective local institutions have not yet emerged. The government encourages local governments to do their own planning, including establishing PES to sustain their finances.

Workshop participants argued that local officials are not interested in this initiative because they are afraid to lose government subsidies and regular funding. Also, while financial decentralisation is important, a mechanism for sharing local income does not exist. How much the national parks and communities can retain in their budget is

unclear. It depends partly on how well the provincial or national park leaders lobby and negotiate with the central government. For PES to be pro-poor, at least a portion of the money resulting from PES contracts needs to be distributed among communities.

Under the current institutions, the government is the only entity able to set rates, fees and charges, and all income is treated as budgetary revenue belonging to the government at the central, provincial or local level (Warner, 2008). It is unclear whether communities, individuals or companies can retain PES contract payments (O'Callaghan, 2008).

Lack of coordination

Pro-poor PES requires multi-sectoral involvement and strong collaboration among stakeholders. However, Vietnam faces weak inter-agency communication (Schiavo-Campo and Sundaram, 2000; McCarty, 2001). Currently, there are weak linkages and collaboration, with no formal meetings among ministries. Ministries should share experiences and provide comments to other ministries on plans to develop new laws and decrees related to PES, but the relevant consultations are often overlooked or take place too late to be useful. For instance, when MONRE organised consultative workshops to integrate PES into the laws on biodiversity, MARD decision makers were often absent or only represented by junior staff.

To make PES pro-poor, MOLISA should participate in the process, but this ministry has never been invited to any consultation workshops. Interviewees claimed that the relationships among ministries mainly depend on relationships between people working in the ministries. According to one interviewee: 'If you know someone in another ministry and have a close relationship with that person, then ministries can work well together. If not, when you send documents to read and ask for comments, this work will never be a priority'. Interviewees also argued that the current approach that ministries use to collaborate is not effective. Documents are exchanged but ministries complain that they have too much to read. As one interviewee remarked: 'What we need is interaction, explanations and persuasion from the proponents'.

INSTITUTIONAL ISSUES AND CONCERNS

PES has recently received increased attention from the Vietnamese government. Pro-poor PES have a good possibility of uptake given the strong commitment of the government to the global Agenda 21 and the inclusion of PES (albeit in a limited way) in diverse environmental legislation and strategies (e.g. Forest Protection Development Law, Law on Environmental Protection and Vietnam National Forestry Strategies). The current institutions, however, still limit PES implementation.

Lack of specific regulations for PES

PES policies are at a very initial stage in Vietnam. The government only sees PES through a tax and fee lens, and only manages PES by collecting fees and environmental charges. Current regulations, however, do not contain PES. Decree No. 57/2002/NĐ-CP and Decree No. 24/2006/NĐ-CP, as key documents in the Ordinance on Charges and Fees, only specify collectable environmental fees for waste water, solid waste, mining waste and emissions. The interviewees found no basis for incorporating PES into these decrees.

To identify financial sources for forest development, the government has issued Decision No.380/QĐ-TTg to pilot a PES scheme in Son La and Lam Dong province during 2008–2009. At the end of 2009, lessons will be drawn and, if the outcomes are positive, the government will include PES as an additional collectable environmental fee in Decree 24, or will develop a new PES decree.

Nevertheless, the interviewees identified a number of problems. First, there is skepticism that pilots of such a small scale can be used as the basis of national level policies that seek large-scale impact. Second, under Decision 380, the Prime Minister only issues general guidance for provincial administrations to collect fees from hydropower companies, water companies and tourism businesses. The details on who will collect this money, how they will collect it and how the income will be distributed are not addressed. This leaves the decisions with the provincial authorities. While many of the details of PES schemes should be dictated by the local context, the risk is

that poor performing local authorities will mean that the pilots are not successful, leading to no PES decree being issued in the future. Third, although water and hydropower companies are targeted as ES buyers, the government is reluctant to apply the regulations to these groups. The companies contribute major amounts of funds to the government budget through tax, and increased charges and fees would create problems. Moreover, increased prices of water and electricity might lead to increased prices of many products which will affect the national economy.

Low involvement of the poor and levels of payment for poverty alleviation

Forest protection management boards, businesses, communities, households and individuals are all ES providers that can receive payments according to Decision 380. Households and communities living in areas that provide ES are often poor; accordingly, interviewees believed that PES will have a positive impact on poverty.

Interviewees identified two major challenges which might affect the impact on the poor. One is that the list of forest owners is prepared and proposed by the District People's Committee, appraised by the Department of Agricultural and Rural Development, and approved by the Provincial People's Committee. One category of forest owners are local people, with the list of households and communities in this category being proposed by the District Forest Protection Unit and approved by the District People's Committee. Transaction costs for getting appropriate lists are high, and there are questions about the transparency of the process. Whether the real poor will be included is still a question.

The other challenge is that, according to Decision 380, a forest owner will receive a payment based on the following calculation:

$$\begin{array}{l} \text{Total amount of} \\ \text{payment (VND)} \\ \text{paid to forest} \\ \text{owner} \end{array} = \begin{array}{l} \text{Average fee per} \\ \text{hectare of forest} \\ \text{(VND/ha)} \end{array} \times \begin{array}{l} \text{Forest area} \\ \text{that is managed} \\ \text{for services (ha)} \end{array} \times \text{Coefficient K}$$

where

- (a) The average fee per hectare of forest (VND/ha) is the total received from ES users, less the management costs of provincial authorities; divided by the total area of forest in the catchments as approved by the responsible agency for the PES agreement.
- (b) The forest area that is managed for services includes allocated forest areas, rented areas and contracted areas.
- (c) Coefficient K depends on the forest categories managed (protection forests, special use forests, production forests), the forest status (rich, medium, poor, restoration forest) and the forest history (natural forest, plantation)—as based on the justification of the Provincial People's Committee.

All interviewees and workshop participants asserted that per hectare payment levels and the areas of forest that people manage are too small to significantly mitigate poverty. They also stressed that many of the poor do not have land-use rights; that it is largely only the rich who have such rights. As a result, payments under Decision 380 are likely to benefit only the rich, with some trickle down to the poor who provide labour for the richer households.

Pervasive command and control approach

Most of the highly valued ES in Vietnam are located in remote areas where it is difficult to find buyers and ensure ES monitoring. Moreover, a command and control approach is predominant. The government, therefore, will remain as a key actor in PES: issuing laws and regulations, acting as an ES buyer and ensuring compliance through monitoring. Although local governments are responsible for implementing PES on the ground, they lack full powers, and many relevant functions remain with the central government. The top-down, command and control approach gives limited room for the emergence of market-based PES transactions. For example, it is expected that hydropower companies will have to pay for the water they use, but these companies have as yet not been involved in discussions about PES.

Interviewees and workshop participants claimed that a strict market-based approach is difficult to work in Vietnam, so the government seeks to address PES *via* set fees which are easier to manage and control. This necessitates quantification and formulae to calculate the appropriate payment levels. By contrast, PES requires flexibility in design, and many social and cultural values associated with environmental flows cannot easily be quantified in terms of cash. Market mechanisms for setting the prices, essentially involving negotiations between buyers and sellers, have not featured prominently in PES so far.

Insecure land tenure

The constitution, laws and legal instruments recognise the state's right to own all land. Communities and households only have land use rights. Therefore, decisions over any piece of land—who owns, who manages and who can issue permission to use—are not the prerogative of households. Warner (2008) argues that local people need to have the legal right and capacity to participate in PES contracts and to own, manage and receive benefits from the use of natural resources. According to the Civil Code (2005), individuals and organisations are given the legal right to enter into contracts, but communities are only entitled to enter into contracts if they fulfil four criteria, namely being legally established, having an organisational structure, having independent assets and being able to participate in legal relationships independently in their own name (Warner, 2008). Poor communities with limited capacity find it difficult to meet all four criteria to enter PES contracts.

PUBLIC SERVICE CAPACITY

Given the centrality of government in PES schemes, it is pertinent to reflect on the capacity of the public service to meet the challenges and opportunities involved. The service's capacity is affected by various factors, as identified in the literature and by interviewees and workshop participants.

Lack of common PES understanding

Hoang *et al.* (2008) claim that there is no common platform for understanding PES in Vietnam. For instance, the three departments in MARD working directly with PES do not have the same perspective on PES. A MARD interviewee said that: 'It is extremely difficult for us to work together. Each department interprets PES in its own way and the leaders are not interested in PES because they do not understand PES very well'.

MoFI and MPI interviewees indicated an interest in pro-poor PES, but they admitted that it would be too risky for them to support PES because of their limited understanding. They noted that most publications on PES are in English and that the language barriers are high. Also, most of the interviewees considered ES as relating only to forestry ES, thus overlooking marine ES and biodiversity conservation.

The pro-poor component of PES is not well understood by decision makers. While poverty-environment linkages were acknowledged, interviewees did not see how they could be combined in PES. One interviewee doubted that pro-poor PES could be implemented, arguing that 'poverty reduction and environmental protection is a nice slogan but cannot be put into practice'.

Limited understanding about pro-poor PES means that the key PES constraints of high transaction costs and insecure land tenure are unlikely to get sufficient attention. All interviewees perceived land tenure as a major problem and recognised that having a multitude of government agencies involved did not make it easy to deal with land tenure problems. Even more interesting was the view that land tenure was spelt out in the constitution and thus was impossible to change. No interviewees recognised transaction costs as a major problem. They believed that the transaction costs were unavoidable and could be dealt with by a government budget so that no stakeholders would have to bear the cost. In addition, they pointed to Decision 380 under which only 10% of collected money will be spent on managing and operating PES. They thus implied that transaction costs were quite small.

Decision-makers' understanding of PES results from a situation of centralised government with numerous command and control elements. This means that PES is not readily seen as a business transaction involving buyers and sellers.

Workshop participants argued that challenges for PES come not only from limited understanding by government officials, but also from poor understanding and low social responsibility by the general public and the private sector. Public awareness on environmental issues and the management of common resources is limited. Many businesses ignore their responsibilities to society and their negative impacts on the environment. For example, the largest state-owned hydropower company uses considerable water to generate its 300 billion VND *per annum* in revenue, but spends very little (only 3–4 billion VND) on environmental protection to secure the water catchments.

ES have traditionally come free and there is limited understanding of how their future delivery is conditional on certain forms of land management. Interviewees asserted that ministries and decisions on PES were heavily driven by international donors, and not so much by the supply and demand for ES. This has led to relatively passive PES interventions, rather than their being driven by market considerations. Moreover, natural resources are seen as national assets which ought not to be subject to market forces.

Lack of technical methods and skills

Workshop participants and interviewees claimed that PES decision-makers, implementers and researchers in Vietnam have limited understanding and experience regarding methods to identify, quantify, value and monitor ES. There is limited research on the opportunity costs of households, which will dictate the levels of payments in PES. There has been very little thought given to how PES payments should be shared among the central government, local governments and local communities. In Decision 380, the coefficient K in the ES payment formula (set out above) requires local specifications, but no methods or studies have been developed or undertaken to establish the norms for its level. Identifying and monitoring ES flows are not simple. Considerable thought and analyses will be needed if PES is to be firmly grounded on payments for actual services delivered.

All interviewees pointed to the weak skills and capacity of government staff, particularly at local levels. These issues are compounded by a lack of funding and limited numbers of staff to deal with PES. Skill issues relate not only to PES concepts, but also to time and budget management. Decision 380 requires provinces to have management and financial plans to test different PES mechanisms, but their capacity to do this is severely constrained. All interviewees claimed that there is a serious lack of skills in policy analysis and negotiation in Vietnam. Most of the support received for PES relies on international expertise, with a resultant lack of ownership within government.

DISCUSSION

PES and its linkages with poverty alleviation should be a major interest of governments. There are a number of pilot schemes in Vietnam (Hoang *et al.*, 2008) and an impressive PES agenda. But there are various constraints to pro-poor PES, including the nature of the current government structure, the institutional arrangements and the human resources in government.

Workshop participants perceived pro-poor PES as a connection between poverty reduction and environmental protection. Although pro-poor PES feature in many discussions, workshop participants were sceptical that pro-poor PES would ever reach the poor. Many felt that poverty alleviation needed to be addressed directly rather than through an environmental mechanism. A fundamental issue was whether PES would be sufficient to alleviate the poverty of participating ES providers. There was also the problem that likely ES providers would be rural dwellers who have access to land, whereas the poorest of the poor are landless and have no basis to enter into PES agreements.

For PES to be pro-poor, the approach should be closely interlinked with national poverty reduction targets and goals. In this regard, it is problematic that MOLISA expresses no interest in PES and has not been actively incorporated by other ministries into PES planning. Getting MOLISA involved could merge its social security funds with environmental funds to raise the payment levels for ES to the benefit of the environment and poverty alleviation alike. The use of funds from MOLISA could include a condition whereby a portion of funds would have to be earmarked by ES providers to employ landless individuals.

MPI sees pro-poor PES as a strategy contributing to national security. Many areas inhabited by potential poor ES providers are remote, with high national security importance. Without livelihood options, such areas will be depopulated. Thus, PES could stabilise populations and may be a way for the government to channel funds to such areas. By bundling social security funds, national security funds and environmental funds together, there could be a greater chance of having payment levels that could make a difference to poverty. But, in the process, it would be essential to ensure that ES buyers are not subsidised by funds from other sources.

A major problem for PES relates to the nature of the Vietnamese economy and public administration. The economy is still dominated by the state, and government tends to be centrally controlled and top-down (Dao, 1997; Fritzen, 2006). Such a system is in stark contrast to the requirements of PES. PES needs to be introduced into the environmental field as a means of establishing market-based ways of achieving environmental outcomes (Wunder *et al.*, 2005). Thus, the challenges in Vietnam concern the pervasiveness of government in PES policy-making, ES buying and ES monitoring.

Decision 380 mentions the possibility of direct negotiations between ES buyers and sellers, but interviewees asserted that direct payments on the basis of such negotiations would not be feasible in the next decade. The major ES buyers in the short term will be state corporations and government itself. The current PES schemes are government-led.² The possibility of having user-led PES schemes³ should be investigated. The emergence of a Clean Development Mechanism project supported by Honda Vietnam (Vu, 2008) might promote user-led PES schemes in the future.

The MPI interviewee argued that future PES in Vietnam should be more focussed on direct transactions, with the government only controlling PES in the initial stages. As discussed by Swallow *et al.* (2007), an institutional improvement for pro-poor PES often takes time and requires facilitators. International experience emphasises the role of intermediaries, particularly where PES is a new concept for many buyers and sellers (Pagiola *et al.* 2005; Wunder, 2007). There is, however, a lack of analysis of the specific conditions under which intermediary participation may be positive or negative in Vietnam. Workshop participants appreciated that studies on the role of intermediaries are essential, and pointed to farmer associations, women's unions and heads of communes as potential intermediaries. Research needs to be conducted on the role of these actors and of various public-private partnership models.

The shift from the government's traditional command-and-control regulatory approach to a more market-oriented solution can only work if it is based on scientific evidence and people's preferences and choices (Leisinger, 1998). The public's choices, however, are limited because of limited PES understanding. Perhaps most problematic for those involved is how a market-based mechanism can be grafted onto the current reality in Vietnam. For example, it seems that while forestry ES are well recognised for their potential in PES, marine ES are not considered at all. ES provision from other ecosystems such as wetlands, peatlands and agricultural areas need to be explored (Wertz-Kanounnikoff and Rankine, 2008).

Workshop participants noted that there is a lack of case studies demonstrating PES application. PES policies and other PES-required institutions are still in their infancy in Vietnam. There is a single decree in place to cater for PES and that only applies to a pilot scheme. Other PES pilots in Vietnam funded by international organisations (Hoang *et al.*, 2008) are good PES examples and their lessons should be consolidated and analysed to inform future PES policies.

In most pro-poor PES schemes around the world, the high transaction costs relate to the numerous poor smallholders that need to be involved (Pagiola *et al.* 2005; Wunder, 2005). In Vietnam, there is an additional layer of complexity which adds to the transaction costs. Thus, there are numerous agencies to be dealt with, and they have overlapping mandates and a poor record of collaboration. Effective collaboration among government ministries will be key to the success of PES. The government needs to bring the various actors together. Much work is needed

²In government-led schemes, the government acts as an intermediary between ES buyers and sellers by buying ES on behalf of the ES users (Wertz-Kanounnikoff and Rankine, 2008).

³In user-led schemes, ES providers and users arrange contracts, with or without the presence of a third-party (Wertz-Kanounnikoff and Rankine, 2008).

to clarify PES concepts and to get a shared understanding on PES. The discounting of transaction costs as simply a problem to be solved by a budgetary allocation from government indicates the degree to which PES is still not seen as a market-based instrument. In a private sector setting, transaction costs are important and need to be reduced as they are costs which cut into profits. For communities, group certifications and collective action are possible solutions for reducing high transaction costs. Although interviewees and workshop participants were reluctant to accept such solutions because of their limited knowledge and experiences in these areas, they believed that farmer associations should be able to facilitate the process, as they have considerable community respect and trust. This possibility should be explored in future studies. Meanwhile, the legal status of communities should be enhanced by legislation designed to support them in their entering into contracts.

Land tenure insecurity is recognised as a major issue, making it difficult for households and communities to get involved in PES. The view that land tenure is spelt out in the constitution and thus is impossible to change again reflects a command-and-control leaning. If individuals are to willingly enter into PES contracts as ES providers, and if ES buyers are going to enter into contracts with some security that their investments will result in the provision of ES, then clarity of tenure is crucial. This does not necessarily mean land ownership by ES providers, but such providers have to have the legal recognition that their work on a certain piece of land can be rewarded. But, how contracts with ES providers can be organised and how tenure can be clarified are unclear (Warner, 2008). Studies are needed on land-use conditions and the format, duration and monitoring criteria of contracts (Hoang *et al.*, 2008).

Workshop participants questioned the definition of PES provided at the outset of this discussion. Core PES schemes with all of the specified criteria are difficult to implement in Vietnam, particularly in relation to the 'voluntary' and 'conditionality' criteria. PES-like schemes where only some criteria are met are probably suitable at this stage, with core PES only being possible at some time later. Tailoring PES for Vietnam conditions is certainly in the government's interest, but this requires further research.

CONCLUSIONS

The present government and administrative system poses some significant challenges for pro-poor PES in Vietnam. The major challenges that need to be addressed include: the overlapping functions of government agencies, adding to transaction costs, the critical gaps in pro-poor PES legislation and policies and the limited understanding by public officials of pro-poor PES, including the lack of a market orientation towards PES. Contributions from multiple sectors will be required to address these challenges, including from the ministry responsible for poverty alleviation. Further studies are needed on how monitoring can be done cost effectively, how payments can be shared among multiple participants in PES contracts, and how contracting can be done given the land tenure insecurity issue. The limited understanding of PES as a market-based mechanism will need to be overcome and supported by relevant capacity enhancement.

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