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VIET NAM BIODIVERSITY FINANCE INITIATIVE: Biodiversity Finance Policy and Institutional Review

Policy Brief

*UNDP Viet Nam & Biodiversity Conservation Agency
Hanoi, November 2018*

KEY RECOMMENDATIONS

1. Improvement of institutional arrangement for biodiversity conservation by revising government policies related to the Laws on Biodiversity, Forest, Fishery, Environment, and others.
2. Introduction of a targeted state budget code line for biodiversity entities by the Ministry of Finance.
3. Better integration of biodiversity conservation into sector strategies and greater encouragement of participation by the private sector, NGOs, and social organizations. Strengthening the local system working on biodiversity.
4. Better arrangement of the state budget for biodiversity, and consideration of other potential financial mechanisms such as surcharges on tourism, taxes and fees, or trust funds.



INTRODUCTION TO THE PIR

The **Biodiversity Finance Initiative** (BIOFIN) is a UNDP-managed global partnership that supports 30 countries, including Viet Nam (VN), to enhance their financial management for biodiversity (BD) conservation in line with the National Biodiversity Strategy and Action Plan.

The **Policy and Institutional Review** (PIR) is the first technical report of any country's BIOFIN project, followed by two other technical reports, including the BD Expenditure Review and the BD Financial Needs Assessment. A PIR is a widely used approach to assess the strengths and weaknesses of policies and institutions within a given sector.

The aim of the BIOFIN PIR in VN is to **analyze the country's fiscal, economic, legal, policy, and institutional framework as the baseline for initiating, improving, and scaling effective BD finance solutions, as well as to identify barriers to their improvement or expansion.** In developing specific recommendations for the mainstreaming of BD solutions that address legal and financial policy, institutional responsibilities, and finance mechanisms, the PIR establishes a baseline context and orientation for the entire BIOFIN process.

The BIOFIN PIR in VN was conducted by independent consultants from May 2017 to February 2018.

Acronyms

BD	Biodiversity
BIOFIN	Biodiversity Finance Initiative
DNS	Debt-For-Nature Swaps
ES	Environmental Services
NA	National Assembly
NP	National Park
PA	Protected Area
PFES	Payment for Forest Environmental Services
PIR	Policy and Institutional Review
PPC	Provincial People's Committee
REDD	Reducing Emissions from Deforestation and Forest Degradation
VN	Viet Nam
VN NBS	Viet Nam National Biodiversity Strategy

Disclaimer: This policy brief was prepared based on the Biodiversity Policy and Institutional Review compiled by independent consultants for the BIOFIN project in Viet Nam. The opinions expressed herein are those of the report's authors, and do not necessarily reflect the views of the United Nations Development Programme or the Biodiversity Conservation Agency.

CONTEXT OF BIODIVERSITY FINANCE IN VIET NAM

Biodiversity trends in Viet Nam

In recent decades, the status of BD in VN has been **worsening against high annual economic growth**, which has had a strong impact on dependent sectors like agriculture, fishery, and forestry, in which most people with low incomes earn their living. Recent studies on BD valuation show that **investment in BD conservation is significantly less than its contribution to economic development** in provinces and the country in general. The government has committed to mobilizing finance for BD conservation; this financing is not focused, however, and the efficiency of BD financing solutions is also still a problem.

Causes of BD loss in Viet Nam

The BD trends refer to 3 main habitats: *forests, inland water bodies and wetlands, and coastal and marine areas.*

The root causes of BD degradation and loss include:

- economic development without considerations for BD and related environmental services (ES);
- population growth;
- ineffective and insufficient institutional and legal framework, including lack of coordination, governance, and enforcement; and
- lack of knowledge, understanding, and appreciation for BD and the beneficial ES it provides among development sectors and communities.

Main proximate causes for the loss of BD – flora and fauna species as well as ecosystems and habitat – include:

- deforestation, fragmentation and land use change from the expansion of commercial agriculture, urbanization and infrastructure development, extensive forest logging, aquaculture pond farming, etc.;
- ecosystem degradation from overexploitation, subsistence non-timber forest product collection, poaching and the wildlife trade, and overfishing; and
- pollution.

Sector biodiversity threats and dependencies

Overall, there are 7 sectors with high dependence on BD: *agriculture, forestry, fishing, aquaculture, hydropower, water supply, and tourism and recreation*, each of which depends on BD differently. Another 5 sectors – *manufacturing, infrastructure, construction, trade, and mining* – show strong and lasting threats to BD resources.

Manufacturing, infrastructure, construction, and trading have a high contribution to the GDP and create the most jobs in society. It is projected that this trend will continue into 2020. **Sectors that threaten biodiversity play an increasing role in job creation, export, and tax payment in the economy, but they also are causing increasing BD loss: losses that affect BD-dependent sectors in which the majority of the population with a low income earn their living.**

The opportunity for strengthening BD conservation in sectoral development relates to the fact that sectors must strictly follow government environmental protection regulations and respect social health. This may increase their investment in relatively costlier environmentally-friendly technologies, but it is expected to **improve long-term productivity and lead to sustainable economic and social growth.**



Table 1 Summary of sectoral biodiversity-related objectives

SECTOR	BIODIVERSITY-RELATED OBJECTIVES
NATIONAL DEVELOPMENT POLICY	<ul style="list-style-type: none"> ▪ Integrate economic development with environmental protection and BD conservation, and increase forest coverage to 42% of land area by 2020. ▪ Outline the payment for environment service based on the “Environment Polluters/Natural Resource Users Pay” principle. ▪ Develop “natural capital,” encouraging participatory investment in environment services and in PAs to recover degraded ecological systems.
ENVIRONMENTAL PROTECTION	<ul style="list-style-type: none"> ▪ BD conservation is part of environmental protection policy and there is one government budget line for environmental protection purposes. ▪ Increase forest cover from 40% to 45% of land area, increase natural PAs from 2.5 million hectares to 3 million hectares, not increase number of 47 precious and rare species threatened with extinction.
AGRICULTURE	<ul style="list-style-type: none"> ▪ Control pesticide use in agricultural production. ▪ Promote sustainable development of agricultural production in conjunction with ecological environmental protection. ▪ Promote organic agriculture to improve agricultural product quality, reduce chemical application in agriculture and increase protect environment effectiveness.
FORESTRY	<ul style="list-style-type: none"> ▪ Sustain forest coverage up to 42% of national land area by 2020. ▪ Use financial sources provided by the government to improve management capacity of staff and equipment/soft programs for natural and biodiversity monitoring of all PAs in the country. ▪ Rescue and conserve primates in Viet Nam. ▪ Improve forest quality and its environment services, which contribute to social economic development and BD conservation.
FISHERY	<ul style="list-style-type: none"> ▪ Promote sustainable marine resource exploitation in relation to BD conservation and international commitments on fishery, promoting community participation in marine resource management, and developing marine conservation areas and marine PAs. ▪ Reduce rapid exhaustion of marine resources and marine pollution, improve productivity of marine natural ecological system for BD conservation. ▪ Promote sustainable natural resource management and BD conservation with livelihood improvement.
TOURISM	<ul style="list-style-type: none"> ▪ Protect natural landscapes and the environment in tourism development. ▪ Support eco-tourism development.
INDUSTRY	<ul style="list-style-type: none"> ▪ Develop industry based on green growth, sustainable development, and environmental protection.
HEALTH CARE	<ul style="list-style-type: none"> ▪ Promote conservation and sustainable use of genetic resources. ▪ Promote development of herbal medicines.
PROTECTED AREA SYSTEM	<ul style="list-style-type: none"> ▪ Have the area of terrestrial PAs account for 9% of the total territorial area. ▪ Control populations of endangered, rare, and precious species, ensuring that no new case of species extinction is reported, and significantly improve the status of endangered, rare, and threatened species. ▪ Effectively implement international commitments on nature and BD conservation via implementation of projects and activities in this field. ▪ Increase special use forest area from 2.2 million hectares in 2014 to 2.4 million hectares in 2020 with 34 national parks, 58 nature reserves, 14 species conservation areas, 61 nature landscape protected areas, and 9 science research forests. ▪ Establish 16 marine PAs covering at least 0.24 per cent of Viet Nam’s marine area. ▪ Protect 40 species of fish, shrimp, and shellfish in 61 inland water PAs, comprising 16 national inland water PAs and 45 provincial inland water PAs.

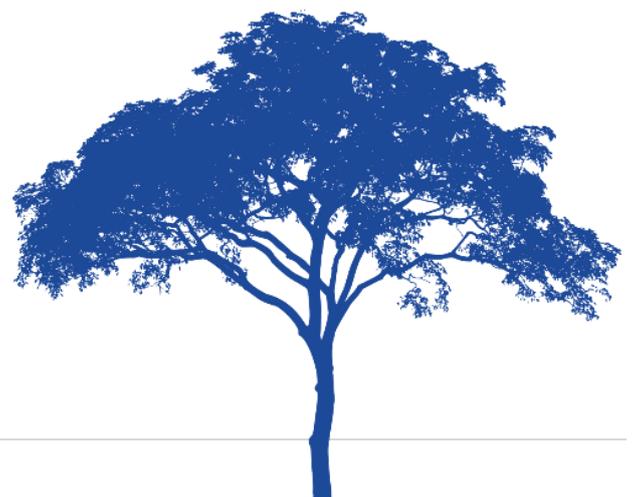
POLICY ANALYSIS

In recent years, the legal framework to improve biodiversity conservation has been strengthened, mainly through the National Constitution (2013), the Law on Biodiversity (2008), the Law on Environment Protection (2005), the Law on Forestry (2004, revised in 2017), the Law on Fishery (2003, revised in 2017), all supported by a variety of government policies and regulations providing guidance to the implementation of legislation on BD conservation. For example:

- The land, marine, and wetland regions with high biodiversity value in VN have been designated for protected area (PA) establishment by the government. To realize the Law on BD and create a comprehensive nation-wide PA system that focuses on BD conservation, **the National Master Plan on Biodiversity Conservation to 2020 and Vision to 2030** was approved by the government in 2014 (Decree 45/QD-TTg, dated 08 January 2014). The plan targets not only the completion of the planning of the system of sector-PAs, but also the upgrading of the system of BD conservation facilities and the establishment of BD corridors.
- **Viet Nam's National Biodiversity Strategy**, the most important policy to accelerate BD conservation in VN, was approved as a comprehensive national policy in 2013. It focuses on the participation of all relevant government organizations, social organizations, and the private sector, and is the starting point for the PIR review under the BIOFIN approach.
- To improve nature protection in the country, the government has proposed that the Ministry of Natural Resources and Environment integrate sector PAs into the VN NBS. The **Strategy for Management of Systems of Special-Use Forests, Marine Reserves and Inland Water Protected Areas through 2020, with a Vision Towards 2030** was developed based on the VN NBS, and includes more detailed objectives for terrestrial and marine ecosystems.

Most development sectors have their own sector-specific National Development Strategies to 2020 or 2030, formally approved by the government, integrating BD conservation into their tasks (see **Table 1**). Strategies typically include a formal statement on the allocation of a budget to ensure their implementation; however, they do not specify a monetized value of the financial resources needed that could inform budget planning. Among the most important of these BD-related policies are the following:

- In the **Assessment of Social-Economic Development in 2011-2015 and Development Orientation for 2016-2020** (2016), the Communist Party of Viet Nam mentioned the critical diminution of area and reduction in quality of many natural ecological systems, and called for promoting a green economy, integrating economic development with environmental protection and BD conservation, and increasing forest coverage to 42% of the land area by 2020.
- The **National Strategy on Green Growth for 2011-2020 and Vision 2050** (Decree 1393/QD-TTg, dated 25 September 2012) promotes environment-friendly investment projects, proposes to issue economic and financial policies on developing “natural capital,” and encourages the participatory investment in environmental services in PAs to recover degraded ecosystems.



Viet Nam's National Biodiversity Strategy

The viewpoints of the VN NBS describe the overall insights of government commitment on BD conservation and linkages with the country's socio-economic development, specifically:

- Biodiversity is a **fundamental element** of the green economy; BD conservation is one of the key measures to adapt to and mitigate the impacts of climate change.
- Conservation and sustainable use of BD contributes to **poverty reduction** and improved living conditions of the citizenry.
- BD conservation shall be **the responsibility of the whole society**, of state authorities, agencies, and every organization and individual.
- Socialization and international **cooperation is enhanced** to promote conservation and sustainable development of BD.
- BD conservation **must be integrated** into national, sector, and provincial development strategies, plans, and policies.

INSTITUTIONAL ANALYSIS FOR IMPLEMENTATION OF VIET NAM'S NATIONAL BIODIVERSITY STRATEGY

Implementation of BD conservation, and of the VN NBS in particular, involves many different organizations, including government entities, the business community, and civil society at the central and local levels.

Governmental institutions

The four main agencies on biodiversity are the **Ministry of Natural Resources and the Environment**, the **Ministry of Agriculture and Rural Development**, the **Ministry of Science and Technology**, and the **Ministry of Public Security**, along with a number of others such as the Ministry of Health, the Viet Nam Coast Guard, and national universities.

The business community

The business community is a profit-making sector, and as such their participation in BD conservation is limited. To implement the VN NBS, the government requests that **“the business community shall be responsible for strictly complying with laws and regulations on BD conservation**, participating and actively making proposals, and implementing programs and projects on biodiversity conservation.”

Community-based organizations

There are different community-based organizations that participate in BD conservation as a part of their duties and objectives. As part of the process to implement the VN NBS, the government has called upon community-based organizations to **become actively involved in monitoring conservation activities and the sustainable use**

of BD in support of nature protection and livelihoods improvement.

Provincial People's Committees

The Provincial People's Committees (PPC), as local authorities, **play a leading role in managing and allocating the budget for BD** in their respective provinces, as well as in coordinating and realizing different priority programs relating to biodiversity conservation.

Protected Areas

PAs, including national parks (NP), have been assigned to participate in preparing and conducting different BD conservation tasks. There are 6 NPs that are managed by the Ministry of Agriculture and Rural Development at the central level, while all other NPs and PAs are managed by PPCs. **All NPs and PAs receive a government budget that includes recurrent expenditures, development investment, and ODA projects.** PPCs may directly manage NPs and PAs, or they may assign other local agencies to do so. This decentralization in administrative management of NPs and PAs leads to a decentralization in public budget allocations. NPs and PAs receive a public budget directly from their supervising institutions, which also have a role in decision making on the application of innovative finance instruments in NPs and PAs.

HIGHLIGHTS OF EXISTING POLICY MECHANISMS FOR BIODIVERSITY FINANCE

In recent decades, many different BD financing solutions have been applied in Viet Nam. This demonstrates the efforts of the government to deal with BD conservation as part of the national development process. The efficiency of BD financing solutions is still a problem, however, as some solutions were not able to be replicated beyond the pilot phase or have been poorly developed. Furthermore, finance mechanisms are managed by different institutions, and effective implementation is hampered by the lack of a leading agency. As a result, the financing of BD conservation has **low efficiency**.

The government has committed to mobilizing finance for BD conservation from different financial sources. The PIR shows that **neither investment for BD nor environmental protection are a priority in government budget planning**. While there is a budget line for financing biodiversity activities, there is no budget line for PAs in the government expenditure code system, nor is there any BD conservation investment project incorporated into the government investment program for 2016-2020.

Sectoral institutions are requested by the government to integrate biodiversity into their sector development strategies. However, coordination between stakeholders for implementation of the VN NBS is weak, and **progress is slow** due to the lack of (a) comprehensive Action Plan(s).

In VN, a variety of BD financing mechanisms are used in the government, corporate, and social organization sectors. Following an analysis of the about 150 solutions presented in the BIOFIN catalogue, it is estimated that approximately **53** have been tested or realized in VN. While many conservation finance solutions are presented in the full PIR report, a selection of the most important mechanisms are reviewed below.

Government

Taxes, fees and charges are sources for replenishment of the government budget as determined by the Law on State Budget (NA, 83/2015/QH13). Among the most important solutions for BD are an environmental protection tax and a natural resources tax. There are also several fees and charges that the government collects for its budget revenues, many of which could offer a solution that would reduce impacts on BD conservation.

Allocations from the government budget are an important financing source for BD in VN (see **Box 1**). In practice, the process of annual budget planning is conducted through consultations between different ministries and Provincial People's Committees, with a leading role for the Ministry of Finance and the Ministry of Planning and Investment. The data on recurrent expenditures for environmental protection, including BD, have not been specified in any budget plan.

Meanwhile, there is a gap between approved investment projects and actual disbursement. There

are for example some public investments projects approved for NPs and PAs, but most of them, especially those belonging to provincial authorities, have not received the full amount of approved investments due to local budget deficits, or did not receive investment on time. Therefore, the efficiency and effectiveness of public investment projects for BD are not as high as expected.

Development programs (national target programs, national programs, and priority programs) have been designed to accompany development strategies adopted by different sectors and approved by the government. When approving development strategies and programs, the government always commits to mobilizing funds to implement these approved development strategies and priority programs. However, due to lack of an estimation of costs, financing arrangement for most programs is not secured, depending instead on government budget availability.

Debt-for-Nature Swaps (DNS)

Debt-for-Nature Swaps are an option for mobilizing ODA for BD conservation. VN has applied the DNS

mechanism for forest development projects. There is high potential for expanding DNS for BD conservation in VN because the public debt of VN is high and increasing, and VN also has prior experience in conducting DNS. However, detailed information on DNS is not available in most domestic documents, as national debt management is still a sensitive issue in the country.

Funds

In VN, several **funds** relating to biodiversity conservation have been tested and/or are operating, such as the Trust Fund for Forests, Viet Nam Forest Protection and Development Fund, Viet Nam Fund for Aquatic Resources Protection and Development, and Viet Nam Environment Protection Fund, as well as smaller community funds created by different entities to meet specific objectives.

As public service entities, trust funds have limited financial means to support BD conservation, since they must reserve charter fund values and lack financial resources in general. They focus more on lending to investment projects and spending part of the profits on BD.

Finance mechanisms incorporated by the corporate sector

The business community in VN has implemented different solutions to finance environmental protection including BD conservation, such as **greening space**, **donations** for environmental protection and nature conservation, **performance bonds**, and **lotteries** for development.

Payment for Forest

Environmental Services (PFES)

In 2010 the financial solution approach of **PFES** was introduced in VN with the purpose of raising financial resources from the business sector for forest protection and other development purposes. It is estimated that about 90% of collected PFES – VND 5,024 billion (US\$ 209.3 million) – has been transferred to final PFES receivers, including 500,000 farmers, to protect 5.87 million hectares of forest (equal to 44% of the total national forest area). To date, it is the one of the most successful innovative finance mechanisms for environmental protection and BD conservation in VN.

Reduced Emissions from Deforestation and Forest Degradation (REDD)

The structure of **REDD** management in VN has been set up to conduct activities up until 2020. The UN-REDD Program has assisted the government in establishing a national REDD+ Network, in which various stakeholders come together to coordinate REDD+ related issues. The main issues addressed by this program in VN are: (i) clarifying the rights on land use; (ii) forest plantation planning; and (iii) output-based fiscal assistance provision.

Clean Development Mechanism (CDM)

The **Policy on Financing for CDM** was approved by the government in 2007 (Decree 130/2007/QĐ-TTg, dated 2 August 2007) to promote investment towards energy saving and forestry. Active CDM projects in VN are estimated to save 137.4 million tons of CO₂ during their duration.

Box 1 Government-committed spending on biodiversity

The government allocates **development investment funds** from the state budget for BD conservation and sustainable development, to be used for the following purposes:

- Basic BD surveying
- Natural ecosystem restoration
- Conservation of species on the list of endangered precious and rare species prioritized for protection Critically Endangered List
- Infrastructure for BD conservation
- Programs for management of invasive alien species
- Other BD-related investment

Source: *Law on Biodiversity (2008), Article 73.2*

The government allocates **recurrent financing** from the state budget for BD conservation and sustainable development, to be used for the following purposes:

- BD monitoring
- Reports on the status of BD, PAs; Appraisal Master Planning on BD conservation areas
- Preparation and appraisal of the List of Critically Endangered Species
- Management of PAs and BD conservation facilities
- Development and piloting of BD conservation models
- BD education
- Capacity building on BD conservation
- International cooperation on BD

CONCLUSIONS AND RECOMMENDATIONS

Financing for BD conservation is being addressed in different legislative documents and policies in VN, including the national constitution, the solutions proposed by the Communist Party of Viet Nam, the NA's laws, government decrees, and ministerial guidelines. This demonstrates the increasing awareness of society with regards to BD conservation, especially since 2013 when the new national constitution was approved.

However, financing for BD conservation is not focused. In government budget expenditure policies, spending for BD is hidden in other spending items and is not a priority item in the government's spending policy or the Law on State Budget, nor is it specified in budget allocation plans. The government budget is the most important financing source for BD in VN, but the government budget for BD is low, and does not match BD's and ES' contribution to the economy.

It is important that related partners, especially the private sector and communities, participate in this policymaking process to include financial innovations for BD. Innovative finance mechanisms to generate additional funding cannot, however, be applied without government approval and control.

The analysis and recommendations to improve finance policy and institutions for BD conservation in VN focus on three issues, addressed on the following page.

WITHOUT A COMPREHENSIVE, BALANCED
ORIENTATION ON SUSTAINABLE SOCIO-ECONOMIC
DEVELOPMENT, COMMITMENT TO FINANCING
BIODIVERSITY CAN HARDLY BE FULLY COMPLETED.



I. LEGAL AND FINANCING POLICY FOR BIODIVERSITY

- **Adopt a government policy confirming that provinces sustain budget support to all BD conservation facilities**, which shall maintain their right to generate and retain all their income.
- **Develop a BD policy data base** that consolidates and shares information and lessons learned from the BD strategies and action plans of all 63 provinces.

II. INSTITUTIONAL RESPONSIBILITIES

- **Consider delegating more BD conservation responsibilities to the private sector and social organizations, to the extent provided by the law, and work to strengthen the capacity of local staff.** Government organizations currently dominate BD conservation activities over the private sector and social organizations in term of their number and availability of resources, which may lead to bureaucracy and low efficiency in BD conservation.
- **Consider introducing a targeted state budget code line for BD entities.** Established BD conservation entities do not have individual codes in the state budget code system, meaning that government budget allocations for BD activities can go through different government organizations without focusing on specific BD conservation entities.
- **Conduct more BD valuation studies, and improve BD conservation awareness** at provincial, district, and commune levels, especially within government organizations and the business community. Central-level organizations (ministries, institutes, research centers) have a strong voice in BD conservation, in term of scientific studies, policy making, and budget allocation.
- **Address environmental protection, natural resources, and BD conservation in all development plans and strategies** of the NA, the government, ministries, and provinces. This has been stipulated by the government, but it has not been implemented in all agencies.
- **Adopt a National Action Plan on BD conservation led by a central BD conservation committee**, to address the current lack of focus on actions for BD conservation.

III. FINANCE MECHANISMS

- **Consider arranging expenditures of the revenue income relating to BD**, including a natural resources tax, an environmental protection tax, and others, towards increased financing for BD conservation.
- **Increase the engagement of the business community and NGOs in managing trust funds** such as VNFF and VEPF to improve their financial viability; similarly, **adopt a Decree for the Community Development Fund on BD conservation** and improve its operations.
- **Include data on budget and expenditures for BD in government publications at the central and local levels.**
- **Include government spending for environmental protection, including BD, in the annual monitoring program of the NA and local People's Councils** at provincial, district, and commune levels. This will help to confirm that BD conservation activities receive an appropriate government budget to operate in line with adopted government commitments.
- **Consider other financial mechanisms like surcharges on tourism, lotteries, and stamps** for BD as potential options for generating more financial resources for BD conservation.