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# Overcoming barriers to sustainable forest management in natural production forests

## Policy Brief

### Central Argument

The new Law on Forestry requires that any future exploitation of forest products in natural production forests be performed according to an approved sustainable forest management (SFM) plan. This prerequisite should incentivize forest companies, communities, households and other owners of natural production forests in Vietnam to adopt SFM practices (because otherwise they are not allowed to harvest), but it will likely not suffice for many forest owners to overcome the barriers to SFM. This should be of great concern to policy makers, because the alternative to SFM is not necessarily the effective protection and regeneration of production forests by their owners but could rather lead to their abandonment to illegal logging and agricultural encroachment<sup>1</sup>. This risk arguably applies to all forests, including the “rich” forests.

The central argument of this policy brief is that despite various policies to promote SFM and certification since the late 1990s, SFM practices were generally not adopted by owners of natural production forests because the *incentives* to do so (e.g. market-demand, state subsidies, favorable policy environment, etc.) were not high enough relative to the *barriers* that needed to be overcome (e.g. additional costs, required

technical skills, etc.). Consequently, if SFM in natural production forests is to be achieved in the future, policy makers must consider the incentives and barriers from the perspective of forest owners and managers responsible for making the decision on the adoption (or non-adoption) of SFM practices. Key conclusions from this analysis include that if forest owners are to make the investments in SFM today, then (i) they must be provided with certainty regarding the duration and scope of the logging ban post-2020, and (ii) the large existing financing mechanisms (i.e. PFES) must be reoriented from promoting “forest protection” to promoting SFM.

This policy brief (1) provides background information on the recent achievements and policies for SFM in Vietnam; (2) analyzes the barriers and (lack of) incentives for the adoption of SFM; and finally (3) concludes with some key considerations that could serve as contributions to a policy dialogue on the creation of enabling conditions for the adoption of SFM in natural production forests. This brief is complementary to the Policy brief: “*Protection and regeneration of natural production forests in Vietnam*,” January 2019, which addresses the protection and regeneration of natural production forests more generally.

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<sup>1</sup> See Policy Brief: “Protection and regeneration of natural production forests in Vietnam” (2019)

## Background

### Sustainable Forest Management

According to new Law on Forestry (2017) sustainable forest management means “a method of forest management that meets protection and development needs without depleting the forest values; such method also enhances forest values, improves livelihood, protects the environment, and helps sustain national defense and security.” Thus, the definition of SFM is broader than simply sustainable timber harvesting but includes any activity that addresses forest degradation and deforestation while increasing direct benefits to people and the environment<sup>2</sup>.

### Achievements in SFM

It is not possible to say how much of Vietnam’s natural production forests are managed sustainably (including, for example by traditional management regimes). However, there are few or no natural production forests that have formal SFM plans, except for the certified forests and areas covered by development projects. Of the roughly 3.9 million ha of natural production forests, only about 100,000 ha have ever been certified<sup>3</sup> (equivalent to ca. 2%). Moreover, this area is managed by only 5 of the more than 70 forest companies operating in natural forests (see Table 1). In sum, despite the policies and plans to promote SFM issued in the last two decades (see below), extremely few owners of natural production forests have actually adopted SFM.

**Table 1:** Certified companies operating in natural production forests

Company (Province)	Year certified	Certified area <sup>4</sup>
Vinafor	2013	17,549
Dak To (Kon Tum)	2014	15,755
Truong Son/ Long Dai (Quang Binh)	2014	31,308
Dai Thanh (Dak Nong)	2015	17,302
Huong Son (Ha Tinh)	2016	19,708

*Note: Vinafor largely operates in plantations; its certified area of natural production forest was reduced to 1,303 ha in September 2018. The certification of Dak To was terminated in May 2018, presumably because it did not commission an annual audit in the context of the logging ban.*

The barriers to SFM and certification were significantly reduced for two of the first companies operating in natural production to be certified in 2014 through the support of the German Development Cooperation. In the following years, the exemption from the logging ban for companies with international SFM certification (a condition created in the brief period between 2015 – 2016) apparently created an incentive high enough

to overcome the prevailing barriers for the adoption of SFM and certification for an additional two forest companies in 2015 and 2016. With the expiration/renewal of certificates in 2018, the total area of certified natural forests was reduced by about 32,000 ha (Dak To and Vinafor).

**Table 2:** “Owners” of natural production forests (MARD 2017)

Forest owner	Natural forest area (ha)
Households	1,409,911
Communities	* 1,048,765
Commune People’s Committees	* 1,932,916
Forest Companies (state-owned)	1,173,228
Foreign direct investment enterprises	33,731
Armed Forces	65,659

\* includes Protection Forests – share is unknown

### Policies and measures for SFM

The policy-makers at national level in Vietnam have been committed to SFM at least since the adoption of the Law on Forest Protection and Development in 2004. This commitment is reflected in a series of legal documents (see Table 3) and was reaffirmed in the new Law on Forestry adopted by the National Assembly in 2017. However, the specific targets for certification in natural production forests has steadily decreased in the national plans and strategies. In the latest Prime Minister Decision #1288 on SFM and Certification (October 2018) the certification of additional natural production forests is no longer an objective (the objective is only to maintain the area of certified natural production forests). The key legal documents are further described below:

*Law on Forestry (2017):* The new Law unequivocally strengthens Vietnam’s commitment to SFM. Indeed, one of the “principles of forest management” as per the Law is that “forest owners shall conduct sustainable forest management” (Article 24). The Law requires forest owners – including households, individuals and communities – who organize exploitation of forest products in natural production forests to prepare and implement a “sustainable forest management plan approved by competent state authority” (cf. Articles 27 and 58). (Note: Protection and Special Use Forests must also be managed according to sustainable forest management plans).

*The National Forestry Development Strategy 2006 – 2020 (NFDS):* The large-scale adoption of sustainable forest management in production forests is an explicit objective of the NFDS. The goal in the NFDS was phrased in terms of area certified: 30% of natural production and plantation forests certified by 2020.

<sup>2</sup> <http://www.fao.org/forestry/sfm/en/>

<sup>3</sup> All of the areas are certified by the Forest Stewardship Council (FSC); alternative standards are not yet being applied in Vietnam

<sup>4</sup> Includes mixed forests (natural & plantations). Source: <https://info.fsc.org>. Status on 06.01.2019.

*The Prime Minister Decision 2242<sup>5</sup> (December 2014):* This Decision effectively makes SFM obligatory in natural production forests managed by companies by instating a logging-ban in natural forests with the exception of forests certified by international schemes (Note: exempt are also households for subsistence use). However, this Decision is only valid until 2020 and was later superseded by a nation-wide logging ban irrespective of certification status.

*The Prime Minister Decree 118<sup>6</sup> (December 2014):* This Decree outlines the re-organization of forest companies into either “[timber] production and trade” or “public service provision” based on the quality of their forests. It also requires that natural forests intended for timber exploitation must have SFM plans and international SFM certificate. It is relevant to note that these companies according to the Decree are to be converted from one-member limited companies (i.e. wholly state owned) into multi-member limited liability companies. Perhaps this will afford them greater autonomy from the Provinces to pursue investments in SFM.

*The National SFM Action Plan 2016 - 2020<sup>7</sup>:* One of objectives of the Plan approved by MARD is for at least an additional 500,000 ha of forests to be certified by 2020, comprised of 150,000 ha natural forests and 350,000 ha of plantations (i.e. equivalent to ca. 7% of all production forests). The Plan focuses on capacity development measures, but arguably doesn’t consider the incentives and barriers to SFM from the perspective of forests owners or managers who are making the decision on the adoption of SFM.

*The Vietnam SFM and Certification Scheme for 2016-2020<sup>8</sup>:* This MARD Decision creates the basis for the development of a national certification scheme, which is expected to be recognized by PEFC. The Vietnam Academy of Forest Sciences (VAFS) was mandated to develop the scheme; the role is being taken over by the Department of Forest Production and Management. The Decision also proposes capacity development measures for SFM.

*Target Program for Sustainable Forest Development 2016-2020<sup>9</sup>:* In this Prime Minister Decision, the emphasis has apparently shifted from SFM in natural production forests to their restoration and regeneration. Only the certification of plantations

remains a true policy priority (with a goal of 100,000 ha per year).

*The Sustainable Forests Management and Certification Program 2018 – 2030<sup>10</sup>:* The objective of this Prime Minister Decision is the implementation of SFM in over 7 million ha of Protection, Special Use and Production forests. However, for natural production forests only the “maintenance” of existing certifications is listed as a specific target. The main measures include developing legal documents, developing SFM models, training and capacity building and establishing the national certification schemes.

*The SFM Standard Development Group (SDG):* In addition to these policies the multi-party SFM Standard Development Group chaired by VNForest and supported by development partners (notably SNV and GIZ) has set-out to develop a national SFM standard based on the FSC international generic indicators (IGIs). It is expected that the SDG standard will be endorsed by FSC in 2019. This standard will provide more clarity to forest owners on the SFM requirements for FSC certification in Vietnam.

**Table 3:** Key legal documents for SFM and certification

Legal Document	Key targets and measures
PM Decision 186/2006/QĐ-TTg on forest management	The Prime Minister determines the logging quota
PM Decision 18/2007/ QĐ-TTg National Forestry Development Strategy 2006 - 2020	Target: 30% of production forests certified by 2020
Circular 87/2009/TT-BNNPTNT on the harvesting design in natural forests	Guideline for exploitation intensity
Decree 61/2010/NĐ-CP on policies to encourage enterprises to invest in agriculture and rural areas	Support for agriculture and forestry, but not specific to SFM
PM Decision 66/2011/ QĐ-TTg on forest development in 2007 – 2015	forest companies receive financial support for SFM and certification (100,000 VND/ha/year)
PM Decision 57/2012/QĐ-TTg Forest Protection and Development Plan 2011 – 2020	Target: restore 350k ha of poor natural forests; regenerate 0.8M ha of natural forests

*Table continues on the next page.*

<sup>5</sup> Prime Minister Decision 2242/2014/ QĐ-TTg of December 2014 Approving the scheme for strengthening the management of exploitation of timber of natural forests for the period 2014-2020

<sup>6</sup> Prime Minister Decree No. 118/2014/NĐ-CP of December 2014, on restructuring, development and improvement of agriculture and forestry companies

<sup>7</sup> MARD Decision 2810/2015/QĐ-BNN-TCLN approving an action plan to implement SFM for the period 2016-2020

<sup>8</sup> MARD Decision 83/2016/QĐ-BNN-TCLN Approving the Scheme of implementation of SFM and forest certification in the period 2016-2020

<sup>9</sup> Prime Minister Decision 886/2017/QĐ-TTg Approving the Target Program for Sustainable Forest Development 2016-2020

<sup>10</sup> Prime Minister Decision 1288/2018/QĐ-TTg Approval for sustainable forest management and certification

Legal Document	Key targets and measures
PM Decision 2242/2014/QĐ-TTg approving the scheme for strengthening the management of natural forest 2014 -2020	Logging ban with exemption for households and certified companies. Interim compensation payments of 200,000 VND/ha/year for forest companies.
Decree 118/2014/ ND-CP On Agriculture and Forestry Companies classification, innovation, development and improvement	Forest companies that do not meet minimum forest quality to be reassigned from timber “production” to “service provision”
Circular 38/2014/TT-BNNPTNT forest management planning, harvesting, reduced impact logging, forest inventory	Technical guidelines, generally in line with FSC principles
MARD Decision 2810/2015/QĐ-BNN-TCLN Forest Management Action Plan 2016 – 2020	Objective: An additional 150,000 of certified natural production forests by 2020
MARD Decision 83/2016/QĐ-BNN-TCLN for the implementation of sustainable forest management and forest certification 2016-2020	Trainings and capacity building. Development of a national certification standard
PM Decision 419/2017/QĐ -TTg National REDD Action Plan	PAM 4.2.1 (e). Support forest owners to access to advisory services in developing and implementing SFM plan; Development of VN forest certification systems.
PM Decision 886/2017/QĐ-TTg Target Program for Sustainable Forest Development 2016-2020	Target: Restore 15% of poor natural forest; Regenerate natural forest 360k ha/yr
PM Decision 1288/2018/QĐ-TTg on the Approval sustainable forests management and certification, 2018 – 2030	Target: certification of 1 M ha of protection forests and plantations by 2030. (No target for certification of natural production forests)

## Barriers and incentives for SFM

Despite the various legal documents, strategies and plans espoused by policy makers at national level to encourage sustainable management of natural production forests in recent years, Vietnam has fallen short of its objectives. Arguably these legal documents did not sufficiently address the barriers and incentives which forest owners and managers consider when they ultimately make a decision to adopt (or not to adopt) SFM practices and certification.

## Barriers

Undoubtedly forest owners and managers faced high barriers discouraging them to adopt SFM. Some of the key barriers to SFM are listed below:

*Low forest quality and high production costs:* The natural production forests were already largely over-exploited and degraded by the late 1990s following past decades of over-exploitation. As such, most of the forests provide relatively limited economic benefits to forest owners. This is compounded by high production costs: any remaining quality natural forests are generally located in areas that are difficult to access, including steep slopes. SFM requirements – including the prevention of environmental damages, worker health and safety, and resolution of conflicts over tenure (not to mention the auditing fees for SFM certification) – would bring additional costs to forest companies. As a result, forest owners have rarely applied SFM in natural production forests. The fact that households and communities have often been allocated poor or inaccessible forests with limited to no economic potential<sup>11</sup> further discouraged them from implementing SFM.

*Illegal logging:* Natural forests, including production forests, are not effectively protected against illegal logging. Any SFM plan would be challenged by the unknown amount of illegal logging in the forests, whether for household needs or the international market. Moreover, if a forest owners’ resources are not secure then they are unlikely to invest in SFM. The reasons for the lack of effective protection of natural forests against illegal logging are complex, and include corruption, land use conflicts, and population pressures. The main mechanisms for forest protection – including forest rangers and protection contracts with communities – have arguably not been effective enough for the protection of natural forests from illegal logging.

*Lack of technical and managerial capacities:* The technical and managerial capacities to sustainably manage forests are very limited amongst forest owners, including forest companies – partly because the focus has traditionally been on reforestation and exploitation based on the quota systems. Households and communities also generally lack the expertise to develop and implement management plans. There are just a handful of individuals in Vietnam with practical experience on implementing SFM, including Reduced Impact Logging (RIL). Similarly, there are few people in Vietnam with the expertise to accompany the entire SFM certification process.

<sup>11</sup> Pham Xuan Phuong, Doan Diem, Lê Khắc Côi, Le Hong Hanh, Tran Quang Bao, Nguyen Quoc Dzun, 2013. Review of the 10

year implementation of the Forest Protection and Development Law 2004. Vietnam Forest Sector Support Partnership (FSSP)

*Specific barriers for households and communities:* Households and village communities have been allocated > 2.4 million ha of natural forests, much of this is production forests (a small share is Protection Forests). However, often the distance to their allocated forests is too far for villagers to ensure adequate protection and management, and the forests that was allocated to them is of poor quality. Moreover, sustainable management of community forests depends on solid leadership and social cohesion at community level. Last but not least, households and communities also lack the financial resources needed to develop and implement SFM plans.

## Dis-incentives

On the other hand, the incentives to adopt SFM practices also play a role in the decisions made by forest owners and managers. The following incentives – or rather dis-incentives – have characterized the decision-making environment.

*No market demand for SFM in natural forests:* The market for the timber from the natural production forests is located for the most part within Vietnam or within the region. This market is generally not concerned about the sustainability of the timber source. Indeed, there is no premium or greater market access for timber produced sustainably or certified. In other words, the market provides little incentives for the adoption of SFM practices for natural timber in Vietnam.

*Current policy and institutional uncertainties:* The uncertainty on whether the logging ban will be maintained after 2020 discourages forest companies from making the required investments in SFM and eventual certification. Moreover, the uncertainty regarding whether the requirement for international SFM certification will apply (as per the Prime Minister Decree 118 and Decision 2422) or not also reduces the motivation for companies to seek certification. Similarly, the incompleteness of the reorganization of state-owned forest companies according to Decree 118 leaves these companies in limbo.

*Lack of authority of forest company managers:* Currently forest companies are required to operate in accordance with regulations for enterprises, but at the same time the companies have only a limited degree of freedom on decisions regarding harvesting, replanting, reinvestment of timber revenues, etc. Indeed, forest companies must seek authorization from provincial authorities for many operational decisions, and the logging volume is even set annually by the Prime Minister. In sum, forest company

managers have hardly had the authority to develop and implement SFM plans.

*Short time-horizons of forest company plans and managers:* The current practice of operating forest companies within 5-year planning-cycles (rather than 20-35 year harvesting cycles), and the appointment of managers for 5 year intervals, arguably do not contribute to incentivize the adoption of sustainable management approaches<sup>12</sup>. Perhaps the ownership and management structures of forest companies do not promote sustainable business practices; this would explain the continued use of the quota system.

*High Taxes and loan costs:* Additional disincentives to invest in sustainable management of natural forests include the high costs of loans and taxes. The taxation systems require forest owners to pay a natural resource tax of 10 - 35% for harvested natural timber products (depending on the province). Furthermore, high interest rates on loans (of up to 11%), and the lack of loan products that match the long payback periods characteristic for forest management (> 20 years), further hinder long term investments in forestry.

*Lack of financial support for sustainable management:* There is arguably also a lack of financial support for SFM. Decision 66/2011/QD-TTG entitles certified forest companies to receive 100,000 VND/ha/year of financial support for certified forests, but this has often not been applied due to a lack of guidance on how to access the funds<sup>13</sup>. More importantly, the fact that PFES is not designed to promote SFM (or provide compensation for efforts) is arguably a major lost opportunity to advance the Government's goals.

*Land use conflicts:* Land use rights for forest companies were often issued decades ago in areas traditionally used by local communities. This has sometimes led to land use conflicts between forest companies and local communities over tenure and access rights. Some land use related conflicts are also caused by the more recent land allocation processes and the inconsistencies in the authority over the forest allocation process between PPCs and DPCs (for allocation to forest companies and households respectively)<sup>14</sup>. In the context of land use conflicts and ongoing land allocations to households, forest companies are further discouraged to invest in SFM.

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<sup>12</sup> Idem (Pham et. al, 2013)

<sup>13</sup> Idem (Pham et. al, 2013)

<sup>14</sup> Gebert, Rita 2012. Social Safeguards and REDD+ Readiness: Frameworks and Gaps in Quang Binh Province. For GIZ.

## Key considerations

This policy brief proposes some considerations for policy makers to alter the relative balance between barriers and incentives for forest companies, communities, households and other forest owners to adopt SFM. Indeed, despite the new SFM requirements under the Law on Forestry, if the barriers are too high or the incentives too low, forest owners may choose to abandon forests to illegal logging and agricultural encroachment rather than implement SFM:

**The creation of policy certainty:** SFM requires a lot of investments (e.g. design and approval of SFM plans, trainings for staff, erosion controls, etc.). Forest owners must be certain that these investments will pay off in the future. Communities and forest companies are right now wondering whether to make these investments given that they don't know the duration and scope of the logging ban post-2020. Clarity must be provided now to make the adoption of SFM possible for the future. This applies both to forest companies and village communities.

**The reorientation of existing financing mechanisms towards SFM:** The costs of SFM are high. To reduce the risks for companies and overcome liquidity gaps, concessional long-term loans with low interest rates and tax incentives may be required. More importantly, by re-orienting PFES from "forest protection" (as measured by the maintenance of forest cover) towards financing the regeneration and sustainable management of forests, companies, households and communities could be incentivized to implement SFM.

**Changes in organizational management of forest companies:** The job incentives of forest managers need to be aligned with the goal of long-term economic viability of the forests (i.e. to ensure continued revenues for the company). This would require certain managerial independence to reinvest profits and manage forests according to SFM plans (as opposed to quotas) combined with oversight by company board members. Decree 118 appears to go into this direction and already foresees the reorganization of wholly state-owned forest companies into multi-member Limited Liability Companies.

**The confirmation of forest ownership:** The lack of clearly defined boundaries, uncertainties regarding the legal status of village communities in terms of land ownership, and other limiting regulations on land and forest ownership that reduce the incentives of "forest owners" to make long-term investments should be addressed. Similarly, the over 1,9 million ha of natural forests under interim mandate of the CPCs would have to be allocated to long-term forest owners to consider achieving SFM of these areas.

**The strengthening of managerial and technical capacities for SFM:** Supporting measures to overcome barriers include strengthening capacities at the enterprise and community levels (e.g. in reduced impact logging, environmental protection, conflict resolution, etc.). This support can build on the results of the former MARD/GIZ "Forest Programme" and the proposed Competence Center in Quang Binh Province.

**Simplified approaches and extension services for communities and households to achieve SFM:** It is arguably not realistic to expect communities and households to design and implement SFM plans with the same complexity as companies. Considering the importance of these groups in terms of their share of natural production forests, care must be taken that SFM practices become accessible to them. Simplified SFM approaches will have to be researched, developed and standardized (e.g. simple templates for SFM plans, low-cost participatory forest inventories, standard growth and volume figures for common species, basic management models, standard practices, etc.). In addition to the financial resources mentioned previously, extension services targeting this group are also required in order to guide them in the development and implementation of SFM plans.

*Dominic Stanculescu. January 2019.*

**Disclaimer:** *The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of BMZ, MARD, VNFOREST or GIZ. Parts of this policy brief are adapted from inputs provided by the project to the National REDD Action Plan Options & Issues paper (August 2016) and the Emissions Reduction Project Document (September 2016)*

Programme on Conservation,  
Sustainable Use of Forest Biodiversity and  
Ecosystem Services in Viet Nam

T: +84 24 39 32 95 72 / F: +84 24 39 32 95 75  
E: office.biodiversity@giz.de / I: www.giz.de/viet-nam