

Payment Policy Protects Vietnamese Watersheds

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A Forest Protection Department ranger guides Winrock staff to an ethnic minority community on the Dong Nai river. Households headed by ethnic minorities and women who protect local forests will see their annual forest protection incomes rise 300 percent, to about US \$625.

“The forest is like gold”
- Ho Chi Minh

Vietnam has joined the ranks of the world’s most sophisticated countries on environmental protection issues. Soon, Vietnamese villagers living in sensitive watershed areas who protect local forests will be paid for their efforts by the hydropower, water and ecotourism companies that benefit.

On April 10, 2008, the [Government of Vietnam](#) approved a two-year pilot policy on Payments for Environmental Services (PES). The policy mobilizes payments from private and government entities to compensate 10,000 poor watershed residents for growing less destructive crops, reporting illegal forest clearing, and other activities that preserve the health of the Da Nhim watershed, which is part of the Dong Nai river basin. The Dong Nai river basin watershed provides 80 per-

cent of Ho Chi Minh City’s water supply and, through hydropower, is expected to supply 20 percent of the country’s electricity by 2020.

“If the forest in this area is lost, the water supply in the dry season may not be sufficient for the operation of the hydropower plants, causing a great threat to the economy and the society,” said Vice Minister Hua Duc Nhi of the [Ministry of Agriculture and Rural Development](#), which drafted the PES policy.

Two Winrock projects provided technical and financial support to the Ministry and the Prime Minister’s office in drafting the pilot legislation: the [Asia Regional Biodiversity Conservation Program](#) (ARBCP), funded by [USAID](#), and the [John D. Rockefeller 3rd \(JDR 3rd\) Scholars Program’s PES research team](#).

“Unlike taxes, fines and other regulatory mechanisms used by states to change behavior, Vietnam’s PES policy relies on the real incentives private and state-owned businesses have to increase profits or reduce operating and plant costs,” says Jim Peters, Chief of Party for the ARBCP.

Under the pilot policy, businesses in the water and electric utilities and tourism sectors are working with provincial authorities to establish science-based economic values, set prices and monitor the benefits both buyers and sellers receive.

Winrock’s ARBCP team worked with the Department of Agriculture and Ru-

ral Development in Lam Dong Province, the Electric Authority of Vietnam and Chiang Mai University in Thailand, to conduct a watershed valuation study. The study estimates that during the two-year pilot, payments for watershed protection from the hydropower company alone will generate up to US \$2.5 million for 10,000 residents of the Da Nhim watershed. The resulting improvements in the watershed, including reductions in siltation and deforestation, are expected to yield a return of US \$7.5 million in reduced operating costs for the company, which it can pass on to its customers. Based on this study, Ministry officials assigned the electric authority of Vietnam an environmental service charge of VND 20 (US \$0.0013) per kWh.

To assess the willingness of urban residents to pay for environmental services, Dr. Dang Thanh Ha of Nong Lam University, principal researcher for the JDR 3rd Scholars team on PES, surveyed 600 residents of Ho Chi Minh City. The survey found that 93 percent of residents would be willing to pay a small extra fee for water if the money would fund poor upland people to undertake watershed conservation activities. Based on this survey, Ministry officials assigned the Ho Chi Minh City municipal water company an environmental service charge of VND 40 (about US \$0.0025) per cubic meter of water.

Winrock will help measure the results over the next two years as the pilot policy is implemented. "This is a situation where everyone can benefit. The toughest challenge facing the government will be ensuring that the benefits from the buyers reach



Villagers in the Dong Nai river basin discuss with Dr. Ha (right) how they would change their livelihood strategies if they could be paid to undertake conservation activities.

the sellers and vice versa," says Peters. "We'll use science to strengthen this new market by measuring seasonal water volume, erosion, forest cover and increases in income."

[Innovative PES schemes](#) have been used successfully to preserve natural resources in a handful of countries, such as Mexico, Costa Rica and the United States. According to Peters, "This is the first time a national PES scheme will enable public and private sector investment in national forest management strategies in a state-planned economy."

According to Vice Minister Nhi, "The implementation of this plan is necessary if we are to realize what Uncle Ho [Chi Minh] meant when he said, 'The forest is like gold.'"

Winrock International is a nonprofit organization that works with people in the United States and around the world to empower the disadvantaged, increase economic opportunity, and sustain natural resources.