Rooting impactful forest carbon benefit sharing in local definitions and understandings

Lessons learned from Vietnam

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Acronyms

BSP	Benefit-sharing plan
CPC	Commune People's Committee
CSO	Civil society organization
ER	Emissions reduction
ERP	Emissions Reduction Programme
ERPA	Emissions Reduction Purchase Agreement
ERPD	Emissions Reduction Programme Document
FCPF	Forest Carbon Partnership Facility
PFPDF	Provincial Forest Protection and Development Fund
PPC	Provincial People's Committee
RBCF	Results-based climate finance
REDD+	Reducing Emissions from Deforestation and Forest Degradation
VNFF	Vietnam Forest Protection and Development Fund

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Summary

Forest carbon markets are increasingly promoted as a potential solution to reduce emissions and help countries meet their commitments under the Paris Agreement. However, concerns persist among key stakeholders – particularly local communities – about the extent to which they will benefit from these initiatives. Central to the debate is the question of benefit sharing: who should benefit and how should those benefits be distributed? In countries like Vietnam, this remains a pressing issue for policymakers, practitioners and local communities alike.

Various governments and carbon standard-setting bodies have developed guidelines for an 'effective' benefit-sharing mechanism. However, these frameworks are often top-down, heavily influenced by Western norms and disconnected from the lived realities and perceptions of local stakeholders. Using Vietnam as a case study, this paper explores how local actors conceptualize and define impactful benefit-sharing mechanisms. Our findings highlight a significant disconnect between international frameworks and local communities' daily experiences and values. The paper argues for a re-grounding of benefit-sharing concepts that are responsive to multi-scalar perspectives and rooted in local understandings of fairness and impact. Only through such an approach can benefit-sharing mechanisms be considered truly just and effective.

1 Introduction

Vietnam is one of the pioneering countries in piloting both the National Scheme on Reducing Emissions from Deforestation and Forest Degradation (REDD+) and the National Payment for Forest Environmental Services (PFES) programme. These initiatives have laid a strong foundation for the development of the forest carbon market in the country. With a high level of forest cover, Vietnam is committed to forest conservation and is actively seeking sustainable financing models, such as through the forest carbon market, to support these efforts (Pham et al. 2022).

Since the launch of PFES in 2008, the question of benefit-sharing mechanisms has been central to policy debates (Pham et al. 2013, 2014). A key objective for PFES, REDD+ and other forest carbon-related policies and projects has been making sure the programmes benefit local livelihoods and engage local stakeholders as participants. However, despite this recognition, designing benefit-sharing mechanisms that are appropriate, effective, efficient and equitable remains a major challenge – not only for Vietnam but also for donors and project developers working in this space (Pham et al. 2022).

The Government of Vietnam is considering the development of a national forestry carbon standard. This would draw from its experiences with PFES and REDD+, and use international voluntary carbon standards as a reference. However, many international requirements may not adequately reflect national realities or local contexts. There is growing concern that these top-down approaches are not grounded in the lived experiences, needs and perceptions of local stakeholders. As a result, many actors are advocating for a more nationally tailored and locally grounded approach to benefit sharing.

Despite these calls, there remains limited understanding of how local communities define an 'effective' benefit-sharing mechanism, and what fairness or impact means from their perspective. Using the World Bank's Forest Carbon Partnership Facility (FCPF) programme – the longest-running and most advanced forest carbon initiative in Vietnam – as a case study, this paper explores how different stakeholders, especially at the local level, understand and define impactful benefit sharing. It seeks to extract practical lessons that can inform the design of more inclusive and contextually relevant forest carbon initiatives in the future.

The Emissions Reduction Payment Agreement (ERPA) is the most advanced forest carbon project in Vietnam and, as such, offers valuable lessons for the design and implementation of future initiatives. In 2020, the Government of Vietnam and FCPF signed the Vietnam-North Central Region Emissions Reductions Purchase Agreement (ERPA). The North Central Region, which includes the provinces of Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri and Thua Thien Hue, was selected due to its special importance in terms of biodiversity and the socioeconomic situation. The North Central Region is home to 13 ethnic minority groups – about 10.5 million people, who make up 12% of the total population in the country. Most communities in the region live below the poverty line and depend highly on forests (World Bank 2023a,b). The region has a natural area of about 5.1 million ha (accounting for 16% of the country's land area), of which 80%

is mountainous, including five internationally recognized conservation corridors. The forested area of the North Central Region reached 3,142,278 ha in 2024 (Decision 816/QĐ-BNN-KL, 2024).

This study aims to provide government decision makers, local stakeholders (e.g., land users, private sector, non-governmental organizations), and donors with a practical resource for designing and implementing *impactful benefit sharing*[1] in results-based climate finance (RBCF) by presenting practical insights and an example of implementation of impactful benefit sharing (Luttrell et al. 2013; Pham et al. 2014).

The document is divided into three sections:

- Section 1: Overview of forestry context, ERP and benefit-sharing approach.
- Section 2: Results from the policy review and in-depth interviews with government agencies and local communities on how they define impactful benefit sharing and the opportunities and challenges for stakeholders across levels to implement the benefit-sharing approach.
- Section 3: Key lessons learned and recommendations to make benefit sharing more impactful.

1 Here impactful benefit sharing is defined as: *The fair, transparent and accountable distribution of the full range of benefits and costs associated with an RBCF initiative, which strengthens the conditions for measurable and lasting emissions reductions and related development objectives.*

2 Methods

Between October 2023 and February 2024, the research team conducted policy reviews and in-depth interviews with 35 representatives from government agencies and 60 households who are engaged in implementing ERPA.

The policy review and in-depth interviews had several goals. First, they aimed to understand how stakeholders define benefit-sharing mechanisms as impactful. Second, they sought to understand opportunities and challenges for Vietnam and stakeholders to implement ERP benefit sharing.

The data were collected early in the benefit-sharing process, when government agencies were still setting up the payment mechanism. As a result, the findings and recommendations generated from this report provide useful lessons learned for future emissions reductions (ER) projects. To that end, they present potential challenges that a country might face when launching ER projects and benefit-sharing mechanisms. Additional research is needed to draw further lessons learned on how countries can address these challenges and the long-term impacts of this mechanism that this report could not document (Hoang et al. 2013; Pham et al. 2019).

3 Context

3.1 Forest Management System in Vietnam

In 2017, natural forests made up three-quarters of forest area (71%), while plantations made up the rest. Over time, the natural forest area has declined, while plantations have increased. During 2012–2020, Vietnam increased forest cover from 40.1% to 41.5%, making it a rare example of a developing tropical country that has expanded forest cover nationally.

However, fragmentation and degradation in natural forests have continued to diminish the quality of forests. Between 1999 and 2005, the 'rich forest' category declined by 10.2%. During the same time span, the quantity of 'medium quality' forest dropped by 13.4% (Pham et al. 2020).

In Vietnam, various parties assign and manage forests, including forest management boards, economic organizations, households and communities.

Currently, the state manages around 59% of the forest area. State agencies are protection forest management boards, special-use forest management boards, the armed forces and Commune People's Committees (CPCs) (MARD 2024). For their part, households, individuals and communities manage 28.3% of forests (MARD 2024). The 2024 Land Law No. 31/2024/QH15 states that the government represents landowners. The same law also states the government must approve any conversion of special use, plantation and production forests. The law also refers to Forest Land Allocation certificates–documents that grant individuals or communities rights to manage forest land–for a period of 50 years (Article 176 – Land Law 2024).

The area of forest managed by the state is dropping in line with government policy. Over 12 years (2005–2017), the government shifted control of more than 1.2 million ha of forest from state-owned enterprises to communities and households. In so doing, the government hoped to leverage popular support in forest protection and development (Pham et al. 2019). Indeed, during the period, community-based management of forests doubled. Stakeholders interviewed expressed hope to increase this figure over time.

By the end of 2023, CPCs were managing 3.3 million ha of unallocated forest – about 22% of total forest area in Vietnam (MARD 2024). Central government agencies interviewed believed that forest would be better protected if these forest areas could be allocated to local communities. They point out that most CPCs lack the human and financial resources to sustainably manage and develop these forests.

3.2 Vietnam's National Scheme on Payment for Forest Environmental Services

Between 2008 and 2017, total forest area of Vietnam increased from 13.1 million ha to 14.4 million ha. This was due mostly to increases in forest plantation areas implemented by both government and international programmes (Pham et al. 2013). Another factor was the National Scheme on Payment for Forest Environmental Services (PFES). The government launched PFES in 2008, further refining it by the Law on Forestry 2017, Decree 156 in 2018, Decree 27 (Decree 27/2024/ND-CP, 2018) and Decree 91 in 2024 (Decree 91/2024/ND-CP, 2024). More than 40 provinces now implement the programme. As the first market-based instrument to protect forests in the country, PFES was a significant innovation. It now represents a quarter of all investment in the forestry sector (Pham et al. 2020).

PFES has four goals: increasing forest cover, enhancing forest quality, improving local livelihoods and reducing the financial burden of the state. Furthermore, four environmental services are eligible for PFES:

- protecting watersheds, which includes protecting soil; reducing erosion and sedimentation of reservoirs, rivers and streams; and regulating and maintaining water sources for production and living activities of the society
- protecting the natural landscape and conserving biodiversity of forest ecosystems for tourism
- retaining of and sequestering forest carbon; and reducing greenhouse gas (GHG) emissions through prevention of forest degradation and loss, and forest sustainable development
- supporting aquaculture by providing grounds for spawning, food sources and natural seeds, and water from forests

Under this national scheme, environmental service users or 'buyers' (mostly the public) pay a third party (Vietnam Forest Protection and Development Fund – VNFF[2]). VNFF acts on behalf of these buyers to sign and monitor contracts with the environmental services providers, who are forest owners in Vietnam. VNFF manages, monitors and distributes payments to the different Provincial Forest Protection and Development Funds (PFPDFs), which are established by Provincial People's Committees (PPCs).

3.3 National Program on Reducing Emissions from Deforestation and Forest Degradation (REDD+)

The direct drivers of deforestation and forest degradation include converting land for agriculture, developing infrastructure, logging (illegal and legal) and forest fires. The underlying causes are related to population growth and migration, the state's weak forest management capacity and limited funding available for forest protection.

Vietnam adopted REDD+ in 2009, and its National REDD+ Action Plan (NRAP) was approved three years later. After joining the the World Bank's Forest Carbon Partnership Facility (FCPF) in 2008, the programme's REDD+ Readiness grants provided technical and financial assistance to build Vietnam's capacity to access REDD+ financing in several ways. First, it strengthened national policies and systems, as well as provincial capacity for adopting national REDD+ strategies. It also supported development of reference emission levels and design of measurement, reporting and verification (MRV) systems. Finally, it helped set up REDD+ national management arrangements, improving environmental and social safeguards, and engaging stakeholders (World Bank 2021). Readiness grants also supported development of the Vietnam ERP in the North Central Region and helped the Government of Vietnam advance the ERPA to a stage ready for negotiation and finalization (World Bank 2023a,b).

3.4 Emissions reduction programme goals

Vietnam's North Central Region ERP aims to support forest protection and development and address the drivers of deforestation and degradation, thereby reducing emissions due to deforestation and degradation and enhancing carbon stock. The ERPA payments are intended to:

1. Support forestry activities to strengthen the enabling conditions to reduce GHG emissions:
    - reviewing, developing, supplementing and completing guidance on mechanisms and policies on reducing GHG emissions in forestry

2 The Vietnam Forest Protection and Development Fund (VNFF) was established on 28 November 2008 under the management of the Ministry of Agriculture and Rural Development (MARD). VNFF mobilizes social resources to protect and sustainably develop Vietnam's forests, and support capacity-building and awareness-raising activities.

- reviewing, monitoring and evaluating changes in forest carbon reserves; checking the conversion of natural forest use to other purposes; organizing and deploying solutions on sustainable forest management
- strengthening law enforcement on forest protection and development
- enhancing capacity for organizations and individuals directly participating in forest management and protection activities

2. Support activities that directly contribute to reducing GHG emissions:
   - protecting natural forests
   - implementing silvicultural initiatives according to regulations
3. Support livelihood development activities:
   - supporting agricultural and forestry extension activities for supply, plant varieties and animal breeds; site management and economic development of planted forests; procuring processing equipment for agricultural and forestry products; study tours that show how to develop livelihoods from protection and development of forests
   - supporting construction of public works of the residential community such as clean water systems, lighting, communications, village roads, cultural houses and other works, unanimously proposed by the communities participating in forest management
   - supporting information dissemination, technical training, building of village conventions, regulations and commitments to law enforcement
4. Support management activities and operational costs:
   - managing and coordinating revenue sources
   - inspecting, monitoring and evaluating activities
   - measuring, reporting and appraising ER results
   - offering communication and information dissemination
   - promoting activities to resolve inquiries, complaints and feedback

The ERPA was signed with FCPF for a volume of 10.3 million tonnes of CO_2 emissions from the six North Central Region provinces, equivalent to USD 51.5 million. In fact, the programme generated 16.2 million verified carbon credits in the first three reporting periods during 2018–2019. The World Bank has since issued a call option notice to buy 1 million carbon credits beyond the contracted amount.

VNFF, with operational arrangements handled through its PFPDFs, was selected to distribute the benefits for the ERP for several reasons. First, VNFF and the PFPDFs demonstrated effectiveness implementing the PFES programme. Second, Vietnamese stakeholders have been trained in PFES and VNFF and have confidence in those systems to channel ER benefits. Finally, establishing a new payment mechanism is often costly and time-consuming. Therefore, choosing an existing one like PFES was expected to significantly reduce operational costs for the ERP.

4 Benefit-sharing approach

4.1 Benefit-sharing objectives

The design of the benefit-sharing plan (BSP) for the ERP began in 2019. Decree 107 "*Pilot GHG ER Result Transfer and Financial Management of ERPA*", which was issued in 2022, formed the basis for significant updates to the BSP and led to its finalization in 2023 (MARD 2023).

The BSP aims to

a. organize the distribution of benefits from the ERP, complying with the fundamental principles of fairness, efficiency and effectiveness;
b. help implement the ERP to reduce deforestation and forest degradation, reinforce sustainable management of forest resources, and conserve and enhance forest carbon stock;
c. help improve livelihoods for forest-dependent communities;
d. encourage stakeholders, especially forest-dependent communities in the North Central Region, to help manage forest resources through activities that support objectives;
e. support the pilot integration of resources for emissions reduction objectives.

4.2 Who benefits and why

According to the BSP, ER payments are expected to benefit households, individuals and communities that are forest owners, forest owner organizations and institutions assigned by the state for management of forests, and CPCs assigned by the state for management of forests.

The BSP states that "*The Provincial Forest Protection and Development Fund (PFPDFs) managers coordinate with relevant agencies, mainly the Department of Agriculture and Rural Development (DARD), in consolidating the forest area and beneficiaries and submitting it to the Provincial People's Committee (PPC) for approval"* (World Bank 2023a,b). Based on the natural forest area assigned to manage, the PFPDF will pay forest owners who are households, individuals and communities. Such forest owners can use the full amount of ER payments to manage, protect and develop forests and improve living standards.

When the data were collected for this report (October 2023–February 2024), all six provinces studied were still reviewing forest areas and forest owners eligible for receiving ERPA revenue. The final eligible forest area was only available in March 2024.

The payments will be made according to the ERPA (World Bank and MARD 2020) signed between World Bank and the Government of Vietnam. Benefits are to be distributed according to the BSP, which is a requirement of the ERPA. They will also be guided and regulated by Decree No. 107/2022/ND-CP (Government of Vietnam 2022a). The decree stipulates how payments for GHG ERs are used and the transfer and financial management of ERPA funds. It also provides guidance on the different entities involved. These include state organizations, individual households and communities involved in the ERs in the six ER provinces. The decree sets the cost norms and the VNFF disburses funds to the beneficiaries. It also identifies activities that ERPA funds can support in four areas. First, funds can be used to strengthen the necessary conditions (developing policy, guidelines, regulations, etc.) to reduce emissions at the central and local levels. Second, they can support activities directly contributing to the GHG ER. Third, they can fund activities to support development of livelihoods. Fourth, they can support management activities and operational costs.

Costs considered include those related to run the programmes, as well as for improving enabling conditions; actual emission reductions; management; and monitoring and evaluation.

Decree No. 107/2022/ND-CP regulates five beneficiary groups. These beneficiaries have the right to provide PFES services and can benefit from (in accordance with Clause 4, Article 73, Forestry Law):

i. forest owners assigned in Article 8 of the Forestry Law to manage natural forests
ii. CPCs and other organizations assigned to manage natural forest by law
iii. communities and CPCs that have signed a participatory forest management agreement with a forest owner organization
iv. the VNFF and the PFPDFs in the NCR (Northern Coastal Region)
v. others involved in reducing forest-related GHG emissions and absorption activities in the six provinces

The Government of Vietnam adopts multiple rationales to provide incentives for as many actors as possible to participate in the ERP (Table 1).

Table 1. Benefit-sharing rationales adopted by the Government of Vietnam

Rationale	Underlying theory	Explanation	Actors rewarded and how
Emissions reductions	Merit-based	Actors reducing emissions should benefit.	Payment is based on ER outcomes and forest areas protected by each province (Decree 107).
Facilitation	Merit-based	Effective facilitators of REDD+ implementation should benefit.	Government agencies and intermediaries who support the implementation and operation of the ERP, including: • VNFF and PFPDFs, which run the payment scheme • provincial, district and commune People's Committees which coordinate, and monitor the payment and forest areas • private sector actors that help develop markets such as carbon project proponents.
Cost compensation	Merit-based	Actors incurring costs should be compensated.	The ERP aims to compensate actors who must change practices to protect forests and suffer a loss in income, including local communities and state agencies.
Pro-poor	Needs-based	The poorest should receive benefits.	The ERP supports the poor and local communities in different ways: • Those with legal title can sign a contract with the fund and receive payment. • Those without legal title cannot sign a contract with the fund but can still benefit from funds allocated for village development. According to Decree 107, each village will be provided VND 50,000,000/community/year for local livelihood development.
Legal rights	Libertarian	Actors with legal rights should receive benefits.	All forest owners within ERP areas will be paid for the forest they manage.

Source: Adapted from Luttrell et al. (2013).

4.3 Implementation

According to Decree 107, the World Bank transfers ER payments to the VNFF. After deducting management and operational fees, VNFF transfers the remaining payment to six PFPDFs. After deducting its own management fee, the PFPDFs distributes payments to forest owners and other actors engaged in ERP activities, as described in Figure 1.

The ERP uses VNFF to distribute benefits to its beneficiaries and uses the same payment modalities as the PFES system (such as rules of the game and personnel already engaged in the system). However, the ERP departs from the existing PFES system in several ways:

- Differential financial accounting system. VNFF sets up a separate account dedicated to the ERP to receive World Bank payments.
- Adjust and adapt payment to sufficiently cover operational costs for the ERP. Although the ERP still applies the PFES payment principles, the percentage kept by both central and provincial funds to cover their operation and management costs is higher than that of the traditional PFES scheme. Both central and provincial government interviewees shared that the ERP requires a more sophisticated MRV system and social safeguards requirements compared with the PFES scheme. Hence, an additional payment is needed for VNFF.
- Different cost norms per hectare between the ERP, PFES and other state forest protection programmes.
- Unlike PFES, ERP expenses for implementation cannot overlap with state budget expenditures as regulated by Point C, Clause 2, Article 3 of Decree 107.

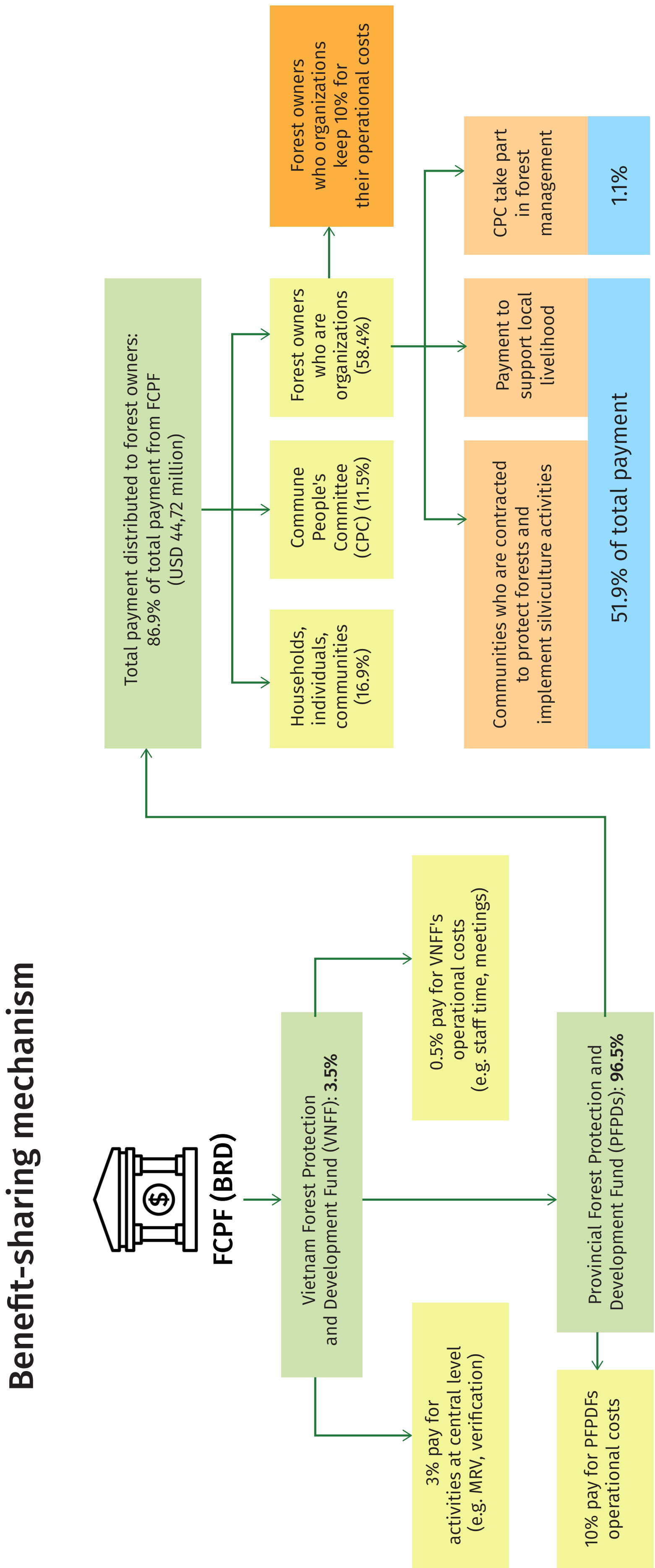

Figure 1. Financial flows of the ERP in Vietnam
Source: based on ER documents.

5 Voices from the field: Understanding impactful benefit sharing and lessons for future practice

Vietnam's implementation of benefit sharing of the ERP is relatively new. However, those experiences have provided unique insights into impactful benefit sharing in RBCF. This section presents how local stakeholders and communities define an impactful benefit-sharing mechanism. It explores their perceptions of the opportunities and challenges involved, as well as their aspirations for how such a mechanism should be designed and implemented to meet their needs and expectations.

5.1 Defining an impactful benefit-sharing mechanism: Perspectives from local stakeholders and communities

Reaching more local partners with a mix of rationales. According to government agencies interviewed, the *level of impact of a benefit-sharing mechanism depends on its ability to reach as many local partners as possible.* Government interviewees acknowledged that the ERP helped the Government of Vietnam to reach a wider set of stakeholders compared with ongoing government programmes. For example, it provided direct financial payments for additional groups that have not received government payments before. Most existing government programmes channel benefits mainly to forest owners and those already under the PFES scheme. The ERP provides benefits to non-forest owners, as well as for areas that are outside of the PFES scheme. For example, many local communities that do not have formal title[3] over forest land cannot directly sign contracts with the ERP and receive direct payment. The ERP supports these communities in two ways. First, it provides community livelihood development grants. Second, it encourages forest owners to involve local communities in forest protection such as patrolling and fire management. In this way, local communities will receive payments from forest owners in exchange for those services. However, the ambition of reaching out to as many beneficiaries as possible also means the cake is cut into many pieces. Therefore, the payment to each beneficiary is low (see section 3.2 for further information).

Providing a mix of incentives. Most interviewees argued that impactful benefit-sharing mechanisms should provide incentives for different groups to collectively deliver systematic changes. The ERP acknowledges and designs different payment/financial incentives targeted towards different groups of actors at both central and provincial levels. This has enabled more active engagement in the ERP. In addition to cash payments, in-kind payments such as supporting local communities with infrastructure development (roads, community halls), or with training and exchanges to obtain new skills and knowledge, have provided stronger incentives for local people to take part. There is also a direct payment scheme for forest owners who reduce emissions. As noted above, communities that do not have forest land-use certificates but are active in forest protection can receive funding (VND 50,000,000) for local livelihood activities or employment opportunities via forest protection contracts.

Covering costs. In the past, national reforestation programmes only allocated funding to forest owners to plant and protect forests without providing sufficient financial resources for government agencies to manage this process. The costs of paperwork, contracting, and monitoring and evaluation of forests were not fully

3 Formal title refers to the forest land-use right certificate issued by the Government of Vietnam for forest use. Forest land-use right certificates only allow people to own property and assets in the land, but certificate holders do not own the land itself.

considered. Costs related to operating the fund, as well as managing and monitoring contracts and emissions, are included in the ERP. For example, government agencies have resources to develop and strengthen enabling conditions for the ERP, such as sufficient capacity and setting up the MRV system. Government agencies also see acknowledging and covering costs to set up the scheme as necessary for the fair distribution of risks and responsibilities among the parties.

Building legitimacy through legal recognition and with success over time. All government officials interviewed highlighted that using the existing national PFES to distribute the ERP payment has contributed to the programme's success. A government officer noted the following:

"It is difficult for any benefit-sharing mechanism to be well implemented in Vietnam if it is not legally endorsed by the government. The legally endorsed system such as PFES ensures political commitments and buy in from all stakeholders. Moreover, as PFES has been implemented since 2008, both government agencies and local communities are both familiar with payment mechanisms and have sufficient capacity to handle the payment. This also minimizes the setup and transaction costs. If you set up a new project with new payment mechanisms, people will often question its feasibility and stability, and it takes a lot of time to persuade them to join the scheme. Because of PFES, stakeholders have more confidence in joining the ERP".

Prioritizing payments in certain areas for effectiveness and efficiency. The ERP prioritizes payment for natural forests, which are under threat and receive limited funding from the government for protection and planting. Government agencies are managing most natural forests, including state forest enterprises, protected areas, national parks and state forest management boards. Only a small number of communities and villages have either received a forest land-use certificate or signed a forest protection contract with state agencies. Furthermore, only 39% of national parks and 21% of protected areas receive PFES payments since they are limited to watershed catchment and tourism (Pham et al. 2018). Other areas are not considered environmental service providers because they do not have hydropower plants, water supply companies or tourism operators nearby. The ERP targets these areas to create financial incentives for those who do not receive PFES payments. Several government officials interviewed highlighted that "*If you only have limited funding, you need to determine how best this money can be spent to achieve the best possible impact [on efficiency, equity, and emissions reduction outcomes]. By targeting underfunded areas (natural forests), ERPA has found where best to leverage its impact.*"

Supporting NDC targets even if the payments are low. The central government agencies interviewed shared that the level of payment offered by the World Bank is low (the global market price of carbon is currently higher than that offered by the World Bank). However, the government is still happy to accept a lower payment because the World Bank allows Vietnam to keep approximately 95% of carbon credits for its reporting on Nationally Determined Contributions (NDCs). The *key benefit in this case is not payment but the ability to support Vietnam in meeting its NDC targets while obtaining additional payments and income sources for Vietnamese stakeholders.* The use of approximately 95% of the ERs paid for under the ERPA towards Vietnam's NDC has resulted in strong domestic support for the programme.

Determining the most efficient flow of benefits. The government interviewees also highlighted that benefit sharing needs to be grounded in the country's political context. For instance, one of the preferred options for channelling benefits proposed by the World Bank was to establish a dedicated fund for civil society organizations (CSOs). This would allow CSOs to submit funding proposals to implement ERP activities. However, government officers see this option as unrealistic for two reasons. First, the ERP aims to reward forest owners and those directly involved in forest protection. As a result, benefits should go to forest owners, not CSOs. Second, if the scheme opens for proposal submissions, it will take at least three years to complete all paperwork to get clearance and approval from government agencies.

Adapting understanding of what is impactful over time. The government officials interviewed also shared that their *perception of what is an impactful benefit-sharing mechanism has also changed over time.* When Vietnam first joined FCPF in 2009, the government perceived impactful benefit sharing as a mechanism to pay enough to motivate people to engage in forest protection. In 2023, however, the government viewed impactful benefit sharing to be a fair distribution of benefits. Furthermore, although the financial payment might not be high, Vietnam can keep approximately 95% carbon credits to fulfil its NDC commitment. Vietnam is already reducing emissions over the volume contracted with the ERP. The government can use these excess credits as it sees fit, including contributing to NDCs or selling extra credits to the carbon market. The ERP may provide other benefits (e.g., better understanding of the value of carbon services and motivation to take part in sustainable forest management). However, stakeholders interviewed for this study did not attribute these benefits to the ERP. This is likely because the benefits that stakeholders receive from forest protection have already been introduced by PFES in the six provinces that were assessed.

5.2 Challenges

While central government agencies set up the national regulatory framework for ERP and its benefit-sharing mechanism, the provincial governments execute the policies and directly implement the ERP and benefit-sharing mechanisms. Challenges encountered at the implementation stage are highlighted through local stakeholders' perspectives below.

Inability to combine payments from programmes to increase the incentives. Decree 107 stipulates that ERPA payments cannot overlap with the government budget. This means that forest owners can only receive a single source of payment, either from the government budget or the ERP. Therefore, the programme payment must go to actors who have not received any payment from the government forest protection programme. However, the state agencies interviewed saw this as unfair and less impactful. A government officer interviewed said that "*We earlier thought that both sources should be combined to provide stronger incentives for us to do a better job. Neither the government payment nor the ERP is sufficient to provide a strong incentive, so choosing one over the other does not make sense to us. Moreover, we were asked to do a better job, but the payment is the same or even less, so why should we do a better job?*" Several government officers also shared that they could not convince forest owners to accept ERP payments in areas that already had a high level of state funding budgeted. Most provincial government officers interviewed also shared their concerns about the risk of exclusion from future state budget allocations if they opted for ERP revenue.

Payment delays. Although Decree No. 107/2022/ND-CP regulates the benefit-sharing mechanism, the delay in establishing instructions has delayed payments reaching communities. Legal robustness is arguably the greatest strength of the process; however, that meant a lengthy programme design process. Because forest carbon was a new ecological service, the decree to regulate ERP implementation took a long time to complete, especially given required consultations and consensus from relevant ministries and PPCs. In addition to the delays at the national level, the implementation of regulations from PPCs at the provincial level has also been slow. Local villagers who took part in the focus group discussions shared this perspective: "*Sometimes, timely payment is much more important and meaningful than the actual amount of payment. The payment can be small but if it is distributed to us when we need it the most (e.g. when we need to send our children to school or buy agricultural inputs, so we do not borrow money with high interest rate), we would really appreciate it.*"

Perception of insufficient payment amounts. Decree 107 states that the minimum payment rate for the forest protection contract must be the same as payments from the government programme. However, the total amount is not allowed to exceed twice the minimum level. Central government interviewees claimed this aims to ensure fairness among provinces and create no significant difference between the state-run programme and the ER programme. However, not all provincial policymakers and all households interviewed agreed. For provinces like Quang Tri, which has limited financial resources to fund forest protection, Decree 107 provides additional resources needed by the province. However, in Thua Thien Hue, where PFES payments[4] are already three to four times higher than those with the ERP, the maximum limit means the ERP payment is much lower than what communities already received from PFES. Moreover, the fact that the ERP is expected to last only two more years limits the financial incentive for those communities to take part in the programme.

Overly complicated paperwork and processes. Presumably for accountability, the ERP financial protocol requires significant paperwork to submit invoices. Both the provincial government and local people interviewed claimed this paperwork is overly complex for local communities and local people, many of whom cannot read or write or lack the financial capacity to meet all relevant requirements to access payment.

Insufficient payments to incentivize change. Decree 107 stipulates that each community joining the ERP will be supported with VND 50 million/community/year in the form of a livelihood development grant. Government officials and local people shared that this level of payment is too low to sufficiently support local livelihoods, and therefore the impact is not as high as expected. Furthermore, community members interviewed shared they are not allowed to spend these funds for similar livelihood activities already funded by other projects as this might lead to double payment for the same activities. Local community members interviewed suggested that ERP payment should complement or build on other projects. For example, if other programmes already give farmers some seed funding to raise pigs, the ERP can be used to help farmers expand their farming scale and support better market access to these products. However, according to local people in focus group discussions, USD 2,173 is too little to make any significant changes for a village with 50–200 households. This small amount only funds the purchase of one to two pigs or cows/year, and people need to take turns using the benefit. Some forest owners are not willing to take part in the ERP due to its low payment compared with current forest protection support programs.

Transparency, inclusive decision making and consistent information dissemination. The ERP has tried to consult provincial government agencies and villagers during the development of the benefit-sharing plan. However, stakeholders in different provinces highlighted several challenges for their participation. In three of six provinces, stakeholders interviewed shared that only PFPDFs were asked to provide written comments on the BSP. For their part, the membership-based organizations (e.g., women's union, farmers' association and youth unions) were not involved in this process. Most commune government officers also shared they were not fully aware of or informed about the programme. Government officers interviewed in two of the six provinces studied also shared that, although they were asked to comment on ERP design, they did not know what to say because they did not fully understand the technical requirements of the programme and its payment. One government official said: *"We need to have a good understanding of what it is all about and technical requirements and what needs to be done first before we can meaningfully comment on anything. Yes, we were invited to different meetings, but it does not mean after the meeting we have sufficient technical capacity to comment on the programme design. As the result, we just agreed on what was given to us to comment."*

Assessing whether payments are actually generating ERs. While the objective of the ERP benefit sharing is to reduce emissions,

4 Forestry Law 2017 stipulates that forest environmental service users are water supply companies. Hydropower plants and tourism companies will have to pay fixed rates of payment to suppliers (forest owners). These comprise individuals, households, communities or organizations that hold forested land titles to generate forest environmental services (watershed protection and landscape beauty). To calculate the per-hectare payment received by service suppliers, the sum – after deducting the management fee (10% of total gross revenue) and the 5% reserve fund contribution – is divided by the number of hectares in the forest area under contract to provide environmental services. PFES payments are calculated at a per-hectare rate: the total PFES fee paid by buyers of environmental services (after deducting management fees and the reserve fund contribution) is divided by the total area of forest protected (in hectares). With this calculation, watersheds with more watershed and water supply companies will receive more money; those with a higher percentage of forest area receive a smaller PFES payment per hectare; and those with a lower percentage of forest area receive a larger PFES payment per hectare (Pham et al. 2013).

only the provincial government benchmarks the impact of the benefit-sharing mechanism against environmental outcomes. Overall, data on forest area and forest quality in Vietnam are inconsistent and outdated, which makes it difficult to identify any connections between the payments and actual forest area protected and restored (Pham et al. 2020). In general, interviewees did not attribute their benefits to reduced GHG emissions; instead, they associate the benefits with making improvements to the environment, as under PFES.

Sustainability of the programme and its impacts. With two years left of ERP implementation (2024–2025), clarity is needed on the future of the ER pilot. Medium- and long-term financing sources, including from the sale of excess ERs, offer potential finance to enable longer-term planning, and ensure that ERs are sustained and payments to communities continue beyond 2025. Provinces and communities were aware of the potential for supplementary funding (such as the ERP payments for additional ERs exercised under the ERPA Call Options or third-party financing). There is already a call for an extension of the ERP pilot to 2026/2027: this would require an amendment to the decree, which would take time. Also, the ERP revenue is only paying for a few years (2023–2025). What will happen to the governance system and mechanism after the end of the ERPA? Can it be scaled up nationally or to other provinces for forestry or other carbon payments? Will it be replaced? Was the pilot enough to inform future programmes/schemes? Moreover, all this takes place in the context of regulatory uncertainty (i.e., the absence of regulations on NDC contributions by locality, the developing domestic carbon market, carbon price fluctuations and variations in standards). The ERP pilot had constraints, and while it will inform national decision making (including revisions to Decree 06), central and provincial governments have been cautious in BSP implementation (Decree 06/2022/ND-CP) (Government of Vietnam 2022b).

5.3 Key messages and recommendations

Despite many accomplishments in Vietnam, the case study shows the gap between principles and practice. Benefit-sharing plans developed by most FCPF countries, including Vietnam, refer to criteria such as effectiveness, efficiency, equity, transparency, accountability and inclusiveness. However, these are interpreted according to political context.

Future work could consider the following recommendations, informed by the Vietnam case:

- **Consider the diverse understandings of impactful benefit sharing** and why they differ among actors. While governments and stakeholders often aim to design and adopt a single, standardized definition of what constitutes an effective benefit-sharing mechanism, the reality is far more complex. Different groups hold varying interpretations of benefit sharing, shaped by their priorities, lived experiences and daily realities. Rather than imposing a top-down, one-size-fits-all definition, it is crucial to recognize these diverse understandings–why they exist, what they reflect, and how a final benefit-sharing mechanism can meaningfully acknowledge and respond to the needs of different groups.
- **Facilitate broad local participation in designing the payment options** by addressing multiple views on impactful benefit-sharing mechanisms. This can help increase the legitimacy of the payment design, enable buy-in of the ERP and help increase the effectiveness, efficiency and equity of PFES outcomes (e.g., clarifying how money is shared, and basing costs for activities on consultation rather than a fixed rate across six provinces).
- **Monitor the impacts of benefit sharing at different scales.** When assessing the impacts of benefit-sharing mechanisms, most studies and decision makers tend to focus primarily on the household level. However, as demonstrated in our paper, the perception and assessment of these impacts vary significantly across different scales – including central government, provincial authorities and households. To achieve a comprehensive understanding of benefit sharing, it is essential to conduct assessments at all these levels.

- **Facilitate an ongoing exchange** among international organizations, government agencies (central and provincial governments), local communities, civil society, academia and the private sector to build a common understanding. Perceptions on how to make benefit sharing impactful may change over time and at different states of REDD+ implementation.
- **Incorporate flexible payment mechanisms** so they can be revised as necessary. Communities are adaptive and their preferences and choices related to payment mechanisms are not fixed over time; the payment distribution itself needs to be designed adaptively to accommodate changes.
- **Combine multiple rationales and types of incentives** to expand the support base and participation in incentive programmes. It is important to identify additional benefits and rationales if payment amounts are too small to provide sufficient incentives on their own (such as infrastructure in communities, or, for government, the contribution to meeting the NDCs).
- **Balance considerations of fairness and legitimacy** in relation to practical conditions. This needs to be based on local/national circumstances (e.g., whether the same person or entity can benefit from more than one programme). Although combining payments to enhance the impact of the incentive may seem logical, it may not be the best option if it undermines programme legitimacy.
- **Think holistically about the role of benefit sharing.** Benefit sharing is often understood as referring to the distribution of financial benefits, but it encompasses broader forms of social accountability and responsibility. As the Vietnam case has shown, benefit sharing not only aims to reward for ERs: it is also used as a social programme to bring all actors into the forest protection programme.
- **Design benefit sharing by understanding how, where, when and by whom** each option works best, based on local people's input, not by just choosing one option over others.
- **Allow local government agencies to assess their own contexts** and design payment modalities that comply with the national legal framework.
- **Plan for higher transaction and implementation costs** (efficiency) of ensuring that all stakeholders participate in decision making (equity).
- **Evaluate different payment distribution methods** to provide a transparent comparison of the trade-offs. The payment distribution method selected in a particular locality should be built on the consensus of all stakeholders based on all available information.

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Forest carbon markets are increasingly promoted as a potential solution to reduce emissions and help countries meet their commitments under the Paris Agreement. However, concerns persist among key stakeholders – particularly Indigenous Peoples and local communities – about the extent to which they will benefit from these initiatives. Central to the debate is the question of benefit sharing: who should benefit and how should those benefits be distributed? In countries like Vietnam, this remains a pressing issue for policymakers, practitioners and local communities alike.

Various governments and carbon standard-setting bodies have developed guidelines of an 'effective' benefit-sharing mechanism. However, these frameworks are often top-down, heavily influenced by Western norms and disconnected from the lived realities and perceptions of local stakeholders. Using Vietnam as a case study, this paper explores how local actors conceptualize and define impactful benefit-sharing mechanisms. Our findings highlight a significant disconnect between international frameworks and local communities' daily experiences and values. The paper argues for a re-grounding of benefit-sharing concepts that are responsive to multi-scalar perspectives and rooted in local understandings of fairness and impact. Only through such an approach can benefit-sharing mechanisms be considered truly just and effective.

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