REPORT ON
FORESTRY SECTOR INVESTMENT AND ASSISTANCE NEEDS
AND PARTNERSHIP SUPPORT PROGRAM

(Final report)

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TABLE OF CONTENTS

SUMMARY REPORT
I. INTRODUCTION
II. OVERVIEW OF INVESTMENT ENVIRONMENT IN FORESTRY SECTOR.
   1. Investment policy and economic development
      1.1. Adjustment of investment structure
      1.2. Construction and implementation of many national programmes with the objectives oriented to agriculture and rural development.
      1.3. Promoting investment for production development and raising export value of agricultural, forestry and fishery products.
   2. Legal framework impacts on forestry sector
      2.1. Legal framework is related to administrative management of the Government in forestry
      2.2. Legal framework relating to basic investment and construction in forestry sector
      2.3. Institutions and organizations
      2.4. Economic infrastructures
      2.5. Human resources
2.6. Official Development Assistance (ODA) and Foreign Direct Investment (FDI) resources
2.7. Credit policy for agriculture, forestry and rural development
2.8. Investment to afforestation and forest rehabilitation

III. INVESTMENT SUPPORT – INVESTMENT MECHANISM FOR 5 MHRP
1. Concept of investment, investment support and mechanism for investment support in 5 MHRP
2. Mechanism of investment and investment support for 5 MHRP
3. Investment procedures for the 5MHRP

IV. IDENTIFICATION OF INVESTMENT GAPS AND SUPPORT TO THE 5MHRP
1. Defining Requirements of Investment Capital for 5 MHRP
   1.1. Definition of total direct investment for 5 MHRP
   1.2. Identification on investment support capital from State's budget for forest activities that directly related to the 5MHRP.
   1.3. Identification of capital needs invested in production forest plantation of the 5MHRP
   1.4. Estimation of total investment need for the 5MHRP
2. Assessment of capacity from various financial sources invested in the 5MHRP
   2.1. Capacity of State's budget investment source
   2.2. Capacity of development and investment credit fund for production forest plantation
   2.3. Contribution capacity from farmers' households
   2.4. Capacity of ODA and FDI capital sources for the 5MHRP
3. Identification of gaps from different capital sources
   3.1. Identification of gaps based on option 1
   3.2. Identification of gaps based on option 2
   3.3. Conclusion on resources gaps

   1.1. Social and economic changes
   1.2. Main advantages for maintaining results of the 5MHRP after 2010
   1.3. Difficulties and challenges
2. Necessary preconditions for implementing forest development strategy and maintaining achievements from the 5MHRP after 2010
3. Identification of strategic objectives for sustainable forest development at Vietnam after 2010
4. Strategic orientations for forest development to be focused in the period after 2010
5. Maintaining major achievements of the 5MHRP
   5.1. Maintaining results of special-use forests
   5.2. Maintaining achievements at protection forests
   5.3. Maintaining achievements from production forests
6. Policy and mechanism solutions to maintain achievements of the 5MHRP
   6.1. Forest management institution
6.2. Improvement of financial and development investment mechanism
6.3. Improvement of macro regulating measures of the State

VI. STRUCTURE OF THE PARTNERSHIP
1. Overview on Partnership's structure
2. Information of some main donors
3. Assessment on support structure to forestry sector
4. Identification of the Partnership's support mechanism to the 5MHRP
   4.1. Criterion and principles to identify partnership's support mechanism to the 5MHRP
5. Propose the 5MHRP support Partnership organisational structure
   5.1. Investment mechanism under project
   5.2. Investment mechanism under program

VII. RECOMMENDATIONS
1. Increase state budget investment in the 5MHRP
2. State increases credit sources for development investment and improves the lending mode and credit policy to improve efficiency of this capital source
3. Improve investment environment to attract investors
4. Certain measures and policies to supplement the missing sources
5. Improvement of macro-economic policy for forestry sector
6. Flexible applicable Partnership mechanism under project and program approach
7. Develop investment support activities for the 5MHRP such as
8. Establishment of national fund for forestation

VIII REFERENCES
Annex 1: List of Consultant Experts and Reports of Taskforce III
Annex 2A: Summary report of Sub-group I
Annex 2B: Summary Report of Sub-Group II
Annex 2C: Summary Report of Sub-Group III
Annex 3: Legal documents related to investment and investment support mechanism of the 5MHRP
Annex 4: Forest plantation projects funded by foreign countries and international organisations

ABBREVIATIONS
ADB: Asian Development Bank
FMU: Forest management unit
MPI: Ministry of Planning and Investment.
MOSTE: Ministry of Science - Technology and Environment
MARD: Ministry of Agriculture and Rural development
BOT: Building-operation-transportation
BTO: Building-transportation-operation
BT: Building-transportation
FDD: Forest development department
FPD: Forest protection department
This study report has been conducted according to the task assigned to the Task Force III under the framework of partnership plan of 5 MHRP. Results from the study in this report show that:

- 5 MHRP is a big project, implemented in many difficult areas. Therefore, in order to facilitate the project to achieve its objectives efficiently, it requires big investment resources in combination with human, financial and technical resources, in the context of renovated forestry policy. According to the estimation made at the 5MHRP design stage, the total investment capital needed for the 5MHRP is about 37,620 billion VND of which state budget contributes around 8,645 billion VND. Our calculation on the total investment needs for the 5MHRP - according to different scenarios - has indicated that the 5MHRP requires an enormous investment capital.

- In the last years of 90s, investment resources have been increased by the Government to manage, protect and develop forest resources. But, at present, the difference (deficit) between demand and investment capacity is very big. The calculation from this report has shown that:

  - **Possibility of state budget’s investment deficit in protection and special-use forest establishment is not very high.** It may be viable if the State budget applies the same proportion poured into the program 327 to the 5MHRP (about 1.87% of the total state budget’s development investment fund).
  - **Possibility of deficit from the development investment credit fund in production forest establishment is about 6,233 billion VND at minimum level and around 16,801 billion VND at maximum level (upon loan requirements of farmers).** This deficit possibility does not include the loan requirements for industrial tree plantation as credit possibility for plantation of such trees may be integrated into other projects such as: Rubber, coffee etc.

While current investment mechanism and forestry policies have not yet developed its effects to attract highly existing domestic resources in the country and support from international community for implementation of 5 MHRP.

- Vietnam has received a relatively large resources of Official Development Assistance (ODA) and it tends to be increased. ODA resources has increased more financial resources to invest to forestry sector and contributed effectively to forestry development cause in Vietnam. However, combination between partners involved in ODA resources of Vietnam during the period of implementation of 5 MHRP needs to be re-organized and strengthened. The report proposed the need for changing of investment structure of partners by projects at present into investment mechanism by programmes (for support projects), combined with investment by project (with regard to forest plantation projects, and other projects in which efficiency can be explicitly quantified).
- In order to strengthen resources, investment capital should be increased. But, at the same time, it needs to change investment mechanism and support investment in order to mobilize potential resources and develop highly investment resources.
- Finally, the report presents forecasts and proposals for strategy and mechanism needed for sustainable
management of forest resources and meeting the requirements of national industrialization period.

I. INTRODUCTION

Task Force III is one of the three Task Forces of the partnership of 5 MHRP which has been assigned to carry out the research theme:

INVESTMENT IN FORESTRY SECTOR – REQUIREMENT AND SUPPORT MECHANISM OF PARTNERSHIPS

Purpose of the research of the Task Force III is:

- to analyze issues on investment and necessary investment support and mechanism of support of different partners,
- to define gaps so as to propose options needed to be implemented aimed at strengthening investment resources, reducing gaps,
- to propose an organizational structure of relevant partnership in order to increase the efficiency of external investment resources.

Scope of study of the Task Force III consists of the following issues:

- Investment environment and different measures for improvement of investment environment.
- Defining contents and investment requirements and support needed for 5 MHRP.
- Defining existing resources and investment deficits and support to 5 MHRP, requirements need to be added to investment resources and support to 5 MHRP.
- Defining costs and benefits of different programmes of partnership in forestry sector so as to select plan for partnership between the Government and donors in forestry sector in Vietnam.
- Preconditions for effective investment to forestry activities in all levels in the process of implementing 5 MHRP.
- Defining necessary mechanism for maintaining results of 5 MHRP within 10 years after termination of 5 MHRP (from 2010-2020).

Preparation of report

Task Force III consists of many consultants assigned to work in 3 groups specialized in research on 3 issues as flows:

- Investment environment.
- Investment mechanism, investment support and measures for maintaining results of 5 MHRP.
- Mechanism of the partnership and measures for raising efficiency of the partnership. This Report has been incorporated from 3 specialized reports of the above groups and referring to other reports by consultants.

List of consultants and specialized research reports for references is outlined in the Annex 1.

II. OVERVIEW OF INVESTMENT ENVIRONMENT IN FORESTRY SECTOR

1. Investment policy and economic development

Since economic renovation, investment policy and economic development in Vietnam are oriented toward implementation of main objectives which have been defined in general as follows:

- Economic growth is closely connected to gradual improvement of spiritual and material life of the people.
- Implementing progresses and social equality.
- Pushing up industrialization and modernization to turn the country into an industrialized country by the year 2020.
Develop highly domestic resources linked to making use of external resources, actively integrating into international economy for quick, effective and sustainable development.

In the process of renovation of Vietnam, starting from renovation of agricultural management and attach great importance to promotion of agricultural production, development of rural areas and encouraging potentials of the farmers. Since 1986, Politbureau has adopted Resolution No.10 on "Renovation of Agricultural Economic Management", proposing policy for comprehensive changes of agricultural management system and rural areas. Since then, the Party and Government of Vietnam have issued many policies on investment and national economic development, with emphasis on agriculture and rural area. Most recently, Politbureau has also adopted Resolution No.6 NQTW on 10/11/1998 regarding agricultural and rural development. In this Resolution, objectives, viewpoints and large policies have been clearly defined for agriculture and rural area in the period of industrialization.

The Government of Vietnam has promulgated and implemented many policies on investment and socio-economic development, chiefly agriculture and rural economy. Renovation policies on investment and developments much relating to agriculture sector are:

**1.1 Adjustment of investment structure**

Under subsided system, characteristics of the investment policy in Vietnam area:

- There was almost only one investment resources from State budget resources.
- Most of investment capital was allocated to State-owned economic organizations.
- Mechanism for allocation of investment resources was based on the principle of centrally planed and subsidized system.
- Not real concern on investment efficiency.

In renovation period, investment structure has been adjusted with main contents as follows:

- Paying attention to invest to agriculture and rural areas, firstly to invest for construction and development of infrastructures, with emphasis on socio-economic development in remote mountainous areas and ethnic minority areas.
- Reducing quickly proportion of investment capital for State units in general and State owned agriculture and forestry units in particular.
- Mobilizing highly investment of the whole society in combination with investment from State budget.
- Encouraging farmers to invest to develop production
- Encouraging investors at home and abroad to participate to invest to agriculture and rural areas. Mobilize reasonably contribution from the people.
- Widening credit schemes, providing loans directly to production households, ensure principle of socio-economic efficiency,, Priority is given to farmer households in remote and newly economic zones to borrow money for production development.

**1.2 Construction and implementation of many national programmes with the objectives oriented to agriculture and rural development**

During 90s', Vietnam has formulated and implemented many important national programmes, with an impact to stipulate economic growth and social development, chiefly in rural and mountainous areas such as:

- Programme 327/556 regarding regreening open land and barren hills and management and protection of special-use and protection forests (implemented from 1993 – 1998).
- Programme of fixed cultivation and resettlement
- Programme 773: regreening open land along coastal and river areas (773) from 1994.
- Programme on construction of clusters of communes in upland and mountainous areas (from 1997).
- Programme 133: hunger eradication and poverty reduction
- Programme 135: socio-economic development in specially difficult communes in mountainous and remote areas.
- Programme on labour arrangement and job generating.
- Programme of action for drug control and so on
- 5 Million Ha Reforestation Programme (5 MHRP), implemented from 1999 to 2001)

From 1997, State budget allocated for these national programmes with objectives is about 2300 billion VN Dong and tended to be more increased.
1.3 Promoting investment for production development and raising export value of agricultural, forestry and fishery products

The Government has adopted many investment policies for pushing up and changing of economic structure, constructing specialized areas for intensifying long term industrial trees of high export value, developing rural industries, supporting livelihood of people in mountainous and ethnic minority areas, supporting small and medium scale enterprises, particularly enterprises have the role of production and trading of export agricultural and forestry products. Thanks to this, for the past decade, agriculture growth (including agriculture, forestry and fisheries) is always at the rate of 4.5%/year. Forestry-agriculture-fishery export value has been ever increased. In 1999, the value has increased 10 times as compared with 1987, accounting for 30% of the total export turnover of the whole country.

Positive impact of the development investment policy on the national economy and forestry sector

The change of the above-mentioned investment and development policy has a good impact on the whole national economy, creating better socio-economic environment for forestry development and strengthening of management, protection and development of forests such as:

- Total GDP has been increased doubly as against 1990. Until 2000, it is estimated that GDP of Vietnam will reach at about 399,442 Billion VN Dong (at current rate equivalent to about 28.5 billion USD). Scale of Vietnam economy ion many aspects has increased considerably as compared with 10 years ago.
- The economy from shortage of food and consumer goods to surplus and export of food. Agricultural structure has changed: industrious trees, fruits and vegetables from 19.5% (1987) to 21.8% (1997), concentrated commodity producing areas have been formed.
- Socio-economic infrastructures and production capacity of production of some important products have been increased than before. In which socio-economic infrastructures in rural and remote areas have been considerably improved.
- People’s livelihood has been considerably improved. Eradication programme has achieved good results. Average income per household is from 7.7 million VN Dong (1993) to 9.8 million VN Dong (1998). Proportion of poor and hungry households has reduced remarkably, assessed by international community as an important achievement.
- Many economic and legislative policies have been renovated in order to shift from centrally planned and subsided system to market system. External economic relation and international integration is being widened and overcome the impact of monetary and financial crisis in Asian region.
- Agricultural production in mountainous areas has been developed. Basing on which livelihood of the mountainous farmers less depends on shifting cultivation practices than before. Thanks to this, forests are protected and more people are mobilized to involve in forestry activities.
- Socio-economic infrastructures in mountainous areas have been improved, creating conditions for mountainous markets to develop better, giving good impact on consuming of agricultural and forestry products, widening commodity economy in mountainous areas.
- Vietnam has invested to the programme 327/556 for 6 successive years (from 1993-1999) and created very positive changes in forest management, protection and development such as : more clear strategy has been formed for protection and management of special-use forests, protection forests and existing natural forests; To attract mountainous people to participate in forest establishment, forest protection, much more advanced agroforestry practices; many sustainable economic development models of farmer households have been established in different ecological zones. Programme 327 has really created a basic starting point for planning and implementing 5 MHRP on a larger scale in coming period.

Weaknesses in development investment policies in national economy and forestry sector

- Development and investment policies have not yet concentrated existing resources on agriculture and rural development.
- Investment capital resources are still arranged very scatteredly.
- Mechanism of investment resources is still too wordy, but in reality, a considerable amount of investment capital is till lost during investment process.

For the forestry sector:

- Allocation of investment capital for development of forests is still scattered, thus, not yet creating conditions for quick and effective construction of watershed protection forest in important catchment areas.
Investment policy on forest products processing industry is not clear, investment orientation is not consistent and still separated from between investment for construction of processing basis and raw material basis, thus, concentrated forest area has not yet been effectively used. Integration of different programmes in mountainous areas is not well done, therefore, efficiency in integrated development of mountain rural areas is not high.

If the above-mentioned weaknesses can not be soon overcome then it will result in:

- The life of the people in forest areas can not be quickly improved, real and specific benefits can not be obtained from the forests, so, protection work will cope with difficulties.
- Unable to create conditions for quick construction of a system of effective protection forests in important watershed areas and natural disaster prone areas.
- Unable to establish production forest area as worked out by the objectives of 5 MHRP.

2. Legal framework impacts on forestry sector

In renovation period, from 1992, the Government has promulgated a new Constitution of the Socialist Republic of Vietnam. After that, the National Assembly has passed many basic laws. These laws are the foundation and principles for establishment of a system of forestry institution in Vietnam in the renovation process. Legal framework has created much impact on forestry sector as classified and presented as follows:

2.1 Legal framework is related to administrative management of the Government in forestry

➤Land Law: Revised and added Land Law is now being applied which has been declared by the President on 11/12/1998 (revised 1993 Land Law).

Land Law stipulates clearly:

- Land belongs to the entire people and is uniformly managed by the State. The State protects the rights and legal benefits of land users.
- The State allocates land to organizations, households and individuals for long term use under the form of land allocation, not collecting money for land use and collecting money for land use. The State also leases land to organizations and individuals including foreign organizations and individuals.
- People with allocated land have the right to change, transfer, lease, inherit, and mortgage the land use right.
- The State ensures for the people involved in agricultural production, aquaculture to have land for production (Article 2, Land Law).
- Rights, obligations of the land users can only be implemented within the period of land allocation, land lease and in correct purpose of use and lease of allocated land (Article 3 of the Land Law).

➤Forest Development and Protection Law: promulgated by the President on 19/8/1991. This Law has stipulated on forestry land consisting of: 1. Forested land; 2: non-forest land that can be planned for afforestation.

Regarding forest ownership: it stipulates clearly that natural forest, forest establishment with State budget belongs to the State ownership. Forest established on the allocated land not with State budget, in this case, forest plant products belong to the ownership of organizations, individuals who have invested. For forest animals, the Law has also stipulated that the forest owners are authorized to exploit and develop ordinary animals on the allocated land (except rare and valuable animals).

Regarding forest classification and utilization, it stipulates that: forests are classified, according to purposes of use, into three forest types (special-use, protection and production forests) and it also stipulates competent authorities for determination on classification of forests and conversion of purposes of use.

Regarding benefits and obligations of the forest owners: it stipulates that: forest owners should use forests in accordance with law stipulations, they are authorized to enjoy results, achievements from the forest area, allocated land for afforestation; all activities damaging the forest resources are forbidden; In case of taking back forest, forest planting land, forest owner is compensated and refunded for labour achievements; Forest owner receives technical instruction and capital support; Forest owner must pay taxes in accordance with stipulations of the law.

Regarding State management on forests and forest land, the Law has stipulated 7 duties for State management on forest and forest land for State management agencies at all levels.
The Government has promulgated many degrees stipulating specific tasks on State management on forests and forest land for Governmental agencies like:

- Assigned to the General Department of Land Management (GDLM), as a body directly belonging to the Government, to manage all land resources of the country including forest land (Decree No 34 CP on 23/4/1994 of the Government on functions, tasks, rights and General Department of Land Management).
- Assign to Ministry of Agriculture and Rural development (MARD) functions, tasks relating to State management on agricultural land, forest land like: submission to the Government strategies, master plans, long-term plans, organization for guidance, guidelines for implementation after being approved by the Government in terms of management, protection and development of forest capital, exploitation of forest products and organization for management of special use forest and protection forests. Therefore, both MARD and GDLM have the task of forest management and forest land (decree 73 CP dated 1/11/1995 of the Government).
- It stipulates “Forest Protection department is an advisory body to assist Minister of Former Ministry of Forestry (now MARD) to implement State management function on forest management and protection in the whole country” (Decree No. 39 CP on 18/5/1994 of the Government). Therefore, Forest Protection Department and lower-level agencies belonging to forest protection organizational system (provincial forest protection sub-departments, district forest protection units have the task to assist Minister (and People’s Committees at all levels) on State management on forests and forest land.
- Recently, Prime Minister has promulgated the Decision No. 245 TTg, regulating responsibilities, rights of all levels (Central, province, district, commune) for the task of management of forests and forest land, defining clearly rights, responsibilities of People’s Committees at all levels, chiefly district and commune levels.
- MARD has also stipulated the task of agencies under direct supervision of the Ministry for State management on forest and forest land like:
  - Forest Inventory and Planning Institute (FIPI) has been assigned to implement programmes, plans regarding to forest inventory, forest planning, monitoring forest changes, establishment and management of a database on forest resources and making forest maps.
  - Forest Development Department has been assigned to assist the Minister of MARD to make long-term, medium-term and short-term plans, programmes and projects for establishment, rehabilitation, use and development of forest resources in special-use, protection and production forests.

In the situation of forest protection management, there are many complicated changes, forest destruction still takes place and sometimes very seriously, therefore, Prime Minister has promulgated 2 important and urgent directives on forest protection i.e. Directive No. 286 TTg on 2/5/1997 on strengthening urgent measures for forest protection and development; Directive No. 287 TTg on 2/5/1997 regarding checking and tracking down individuals and organizations destroying the forests.

**Law on Environment Protection**: promulgated by the President of the State on 10/1/1994

In the Law on Environment Protection, there are provisions on forest protection and biodiversity relating to forest development and forestry.

Together with such basic laws, the laws on management of other natural resources like: Law on Minerals, Law of Water Resources …all have principles relating to construction and implementation of institutions on for State administrative management on forests and forest land.

### 2.2 Legal framework relating to basic investment and construction in forestry sector

**Regarding basic legal laws**: there are laws as follows:

- Credit Law promulgated on 12/12/1997.
- Law on Natural Resources Tax (revised) promulgated on 28/4/1945.
- Law on State Enterprises promulgated on 30/4/1995
- Law on Enterprises promulgated on 26/6/1999

**Regarding legal documents of the Government, Prime Minister and ministries**
The Government has promulgated many Decrees guiding the implementation of the above-mentioned laws. In some decisions relating to implementation of the task of socio-economic development in different areas or implementation of national programmes with objectives, Prime Minister of the Government has also stipulated a number of specific policies on investment relating to forestry sector.

List of legal documents relating to forestry in the Annex 3.

At the same time, ministries have promulgated many circulars and inter-ministerial circulars for guiding the implementation of Governmental Decrees, Decisions of the Government, promulgated many regulations and procedures for allocation, management, acceptance checks of investment projects by State budget or credit resources.

There are presently thousands of this type of documents, impacting quickly and concretely on investment in forestry. Now, the Government has a plan to streamline all legal documents, abolish documents which create wordy management rules, creating inconveniences to investors and also abolish less efficient and finished efficiency documents. But, this process is slow and less efficient.

Moreover, in addition to documents promulgated by Central level, at provincial, district and even commune levels, many regulations have been promulgated which influence on investment, in which local regulations are not in accordance with the law and promulgated legal documents promulgated by upper level.

Following are main contents of the existing legal documents related to legal environment on investment in forestry sector:

The law on encouragement of domestic investment that extends preferential regime and encourages BTO; BOT and BT investment forms clearly regulates that: The State set up investment support fund, export support fund to offer medium and long-term loan with preferential interest rate; guarantee investment credit; regulate operational aspects and areas entitled to preferential investment.

With regard to forestry sector, investment activities in: forest plantation, regeneration; perennial trees plantation on denuded hills; aquaculture raising in un-exploited water areas; other activities related to agro-forest products processing and direct technical services directly serve agriculture, forestry; (listed under A category) in addition to investment structures (under categories B and C) implemented in mountainous, island and remote areas are all entitled to the following preferential policies:

- To be exempted from land use fee in case to use the allocated land for forest production and plantation;
- To be exempted from land use tax for 15 years in case of being allocated land. Particularly, projects related to forest plantation, regeneration and perennial trees plantation on denuded hills are entitled to exemption from land use tax during the entire implementation period.
- To be entitled to preferential conditions on enterprise's income tax as: preferential export tax 25%, 20%, 15% depending on investment venues (most of forestry projects are entitled to preferential export tax of 15% vµ 20%); to be exempted from 2 to 4 years starting from the point with taxable income level; to be entitled to 50% tax reduction from 2 to 9 following years (concrete duration shall be made depending on implementation area of individual projects).

Forest investors who conduct export activities, a part from the cited preferential conditions are entitled to income tax reduction in case such income is generated from export. As regulated in the law on domestic investment encouragement, investors run these activities are entitled to preferential credit loan from the State development investment fund prescribed at Decree Nr. 43/CP dated 29/6/1999 of the Government.

Law on foreign investment in Viet Nam: was ratified by the National Assembly on 29/12/1987. From 1987 to present, this law has been revised several times (the last time was taken place in 2000) aiming at attracting foreign investment

According to the law on foreign investment in Viet Nam, foreign investors are entitled to invest in most of sectors in any regions or areas. Besides, they are entitled to select the most appropriate investment model: joint-venture or invest 100%; applied different forms as BOT; BTO, BT. This law also identified necessary assurance for foreign investors invested in Vietnam as: enterprises under every economic sector are allowed to cooperate with foreign investors; legal capital and assets of foreign investors are not confiscated, used or nationalized; lengthen operational duration of enterprises with foreign investment; protect foreign investors’ right at any changes of Vietnam’s law. In addition, foreign invested enterprises are entitled to mortgage assets in terms of land and land use right so as to enable them in accessing to credit loan. This law also regulated import tax exemption, reduction of export tax or tax on transferring benefit abroad. However, until now, there
has not been any single legal document on guiding specifically the implementation of the law on foreign investment in forestry sector.

> Positive impacts and strong points of current legal framework in forestry sector

Current legal framework has been almost set up in renovation process, leading to positive points as follows:

- Creating for farmers to feel assured the use of allocated land on more appropriate way.
- Creating legal environment to encourage investors to put capital to forestry development and farmer households to provide more labour inputs for forest tending.
- Creating for farmers to enjoy more benefits from the forests the before.
- Creating equality between State forest enterprises and other economic sectors in forestry production and investment in forest development.

Significant increment of the total social investment during renovation period has explicitly proved positive impacts of the implemented legal framework.

> Negative impacts and weaknesses of current legal framework towards forestry sector

Firstly, legal document system relating to forest development, investment in forest development has many constraints. Documents guiding the implementation of Forest Development and Protection Law promulgated by Central level is more than 50 documents, while in other provinces, many other documents have been promulgated for guiding and regulating to fit their local conditions. In some provinces more than 50 documents have been issued. The least province has 6 documents to guide implementation of Forest Development and Protection Law. Guiding documents and investment regulations are in similar status. Such situation has created too wordy and overlapped legal documents and in many cases, beyond competence of each level.

Status of repeated change of forest products export policy, unclear land use planning and inconvenient investment procedures have created bad influence on investors.

- Institutions on management, controlling of forest products, regulating forest products markets still bear the forbidden characteristics, limiting the market circulation, not developing the initiative of the people and investors while participating in forestry production activities.
- Technical procedures and management mechanism applied to each forest type are not appropriate. Benefits of people and investors are not ensured, so not developing local resources for management, protection and development of forest resources, especially forest stands with protection or special use functions.
- Policy for supporting forestry activities and for encouraging forest establishment has many points which are not appropriate to forest production characteristics (like credit policy, financial support are not corresponding to characteristics i.e. forestry production cycle is very long and implemented on less fertile soils).

In respect of legal framework in relation to land, forest and forest investment issues, weaknesses and not active points in current legal framework as follows:

- Planning and classification of land use in classification of forests and forest land into three forest types at macro level and village levels is not stabilized.
- Many regulations prescribed at various legal documents and organisation approach of implementation have made people feel insecure about land use right and benefit entitled from forest so as unable to mobilize their potential capital sources.
- Procedures on investment capital disbursement and management are rather complicated. However, in practice, the management of such fund is very loose. The leak of investment capital can be seen here and there. In investment project, beneficiaries' investment proportion is rather low.

2.3 Institutions and organizations

2.3.1 Overview of organizational structure of forestry

In Centrally planned system (from 1975 to 1986).

From 1960 to 1986 (in the North) and from 1975-1986 (in the whole country), organization of forestry activities were handled by General Department of Forestry (from 1960-1976) and after that by Ministry of Forestry (from...
1976 to 1995). Forestry organizational structure consisting of the three main systems are integrated:

- Enterprises (like State forest enterprises, enterprises, companies, unions of enterprises). These units are State owned economic units, trading on forestry activities, implementing independent accounting system. There are two types of subordinated relation: one type is directly managed by the Ministry and other type is directly managed by provincial people’s committees.
- Scientific research agencies and cardres training schools, technical workers schools (like Forest Science Institute, Forest Inventory and planning Institute...) in order to support to development requirements of forestry sector. These agencies have two types: one type is subsidized by National budget to support requirements of the whole country and one type is granted by provincial budget to serve local requirements.
- State management agencies in forestry: Ministry of Forestry at Central level, Provincial Departments of Forestry at provincial level, and many organizational forms at district level, but usually integrated with agricultural section so as to establish an agro-forestry sector with the task to assist district people’s committees to manage agro-forestry sector at district level.

**Characteristics of forestry organization and institutions in the Centrally planned and subsidized system are:**

- Forest products production and management were mostly handled by State enterprises. The State allocated investment capital from State budget to State enterprises to produce forests and forest products and collected profits from the enterprises or compensated lost amount caused by State enterprises.
- Forestry sector had to organize State owned enterprises to implement production plans of the Sector, including service enterprises. Each economic branch had to organize production activities "close cycle", "self sufficient" within the Sector and locality. Market relation had not been formed.
- The tasks and Ministry and provincial forestry departments used to manage State owned enterprises under their direct supervision rather than State management task towards non-State economic sectors or the whole society.

**In renovation period (from 1986 until now 2000)**

In renovation period, the Forestry Sector has been reorganized and changed in its institution on the basis of changing of main strategies as follows:

- **Shifting** from main objective as exploitation of existing forest resources into implementing the main objective as management, protection, establishment and development of forest resources.
- Shifting forestry institution from the task of establishment of State organizations as main duty into the task of implementing the task of development of social forestry, attracting participation of the people into forestry development process.
- Development of multi-sectoral economy.
- Strengthen the function and duties of State management of forestry administrative agencies at all levels. Management of the economy according to market mechanism.
- Promoting the right of business autonomy, self-responsible for financial issues by State enterprises, reducing subsidies of the State for State enterprises.

Following this orientation, the Forestry Sector is restructuring the management and organization of State forest enterprises, rearranging forest products processing enterprises; Regulating on registration and issuance of working license for forest products processing enterprises of different economic sectors; Formulating policies to encourage households to invest capital and labour to forestry production and to develop forms of attracting foreign investment for establishment of joint-venture enterprises with foreign capital.

### 2.3.2 Organization of Ministry of Agriculture and Rural development (MARD)

From November 1995, the National Assembly has made a resolution for merging Ministry of Forestry (established in 1976), Ministry of Agriculture and Food Industry and Ministry of Water Resources into Ministry of Agriculture and Rural Development (MARD). The Government has promulgated the Decree No. 73/CP of 11/11/1995 stipulating functions, duties, rights and organizational mechanism of MARD. Following this, at provincial level, Provincial Departments of Forestry, Agriculture and Water Resources have been also merged into Provincial Department of Agriculture and Rural development (DARD) to assist District Peoples’ Committees to manage aspects belonging to MARD (according to No. 852 TTg of 28/12/1995 and Inter-ministerial Circular No.O7LB/TT of 24/4/1996 of the Governmental Committee of Organization and Personnel and MARD).
From 1995, MARD is a body belonging to the Government which implements State management on agriculture, forestry, water resources and rural development. Therefore, management of forests and forestry activities has become one of the State management functions of MARD.

At present, organizational structure of MARD body consists of three components:

- Bodies assisting Minister to implement State management consist of 7 departments, Ministry inspection and Ministry Office. Departments are agencies to provide advisory to the Minister to work out decisions to manage the Sector.
- State Specialized departments: there are presently 9 professional departments of which two departments are specialized for forestry activities i.e. Forest Development Department and Forest Protection Department. In addition, other departments are also assigned to manage some aspects relating to forestry like Department of Agriculture and Forestry Extension has been assigned to conduct forestry extension work; Department of Agricultural and Forestry Products Processing and Rural Industries has been assigned to manage forest products processing branch; Department of Fixed Cultivation and Resettlement and New Economic Zones has been assigned to manage fixed cultivation and resettlement work in ethnic minority areas, as activities closely related to forest protection.
- Administrative organizations like scientific research units, training schools, health care stations. From 1995 until now, MARD has rearranged its organization to support its requirements of agriculture and rural development sector. Administrative units with characteristics of serving each specialized sector (water resources, forestry, agriculture) are still maintained to support to requirements of each sector.

At present, under direct supervision of MARD, there are forestry administrative organizations as follows:

- Two institutes specialized in forestry research i.e. Forest Science Institute and Forest Inventory and Planning Institute.
- Forestry University has the duty to turn out forestry engineers and post graduate engineers (scale about 800 people).
- Three forestry secondary schools for training forestry technicians (scale of enrolling is about 1000 students per year).
- 6 forestry technical workers schools for training technical workers (scale about 2500 students per year).

While other sectors are also managing administrative organizations which are assigned to carry out scientific research and train forestry staff like Tay Nguyen University, Thu Duc Agriculture-Forestry University (Ho Chi Minh City), Hue University, Thai Nguyen University. Scale of enrolling for training forestry engineers is 1000-1200 students per year.

2.3.3 Present forestry organization and management at local level.

At provincial level: from 1996 until now, all provinces have established provincial Department of Agriculture and Rural Departments (DARD) (in 61 provinces); as specialized agencies with the task to assist Provincial People's Committees to mange fields of agriculture, forestry, water resources and rural development of the provinces. DARDs are under professional guidance of MARD.

State management organizations in forestry sector at provincial level are under organizational structure of DARDs and have no uniform organizations. At present, there are 3 forestry management forms as follows:

- Forest Development Sub-Departments have been established in 24 provinces belonging to DARDs for forestry management. In these provinces, forest management work is directly undertaken by Forest Development Sub-Department. Even, established Forest Development Sub-Departments in the provinces still have different organizational forms. In some provinces, Forestry Development Sub-Departments have been established while still maintaining forestry technical section in the organizational structure of DARD office. But, some provinces, after establishing Forest Development Sub-Departments, there is no more forestry section in the organizational structure of the DARD.
- The remaining provinces do not establish Forest Development Sub-Departments under direct supervision of DARDs but only setting up professional sections in forestry in the organizational structure of DARDs.

At district level:

Management agencies of agriculture and rural development at district level are agricultural and rural development sections. Permanent personnel. Average number of permanent staff is 5-7 people, of whom there is only one staff assigned to monitor in forestry activities. Many districts have no forestry officer.
At commune level:

In the communes with forests, forestry committee is set up and chaired by a vice-chairman of the Commune People's Committee. Composition of the Committee usually consists of representatives of different sectors, mass organizations relating to forests. And activities of the Committee are not regularly conducted. Some provinces have arranged a full time forestry officer working in Commune People's Committee and who is paid by local budget.

2.3.4 Origination of forest protection forces

Pursuant to the Decree No.39 CP of the Government, forest protection forces has been established at all levels as follows:

At Central level: Forest Protection Department is under direct overall supervision of MARD.

At provincial level: Forest Protection Branch is under direct supervision of Provincial People’s Committee (similar as the position of DARD), presently, 58 provinces (Out of 61 provinces) have Forest Protection Branches (FPB) and 44 provinces have placed FPBs under direct supervision of Provincial People's Committees and 14 provinces have placed FPBs under DARDs.

At District level: District Forest Protection Unit belongs to Provincial FPBs in terms of organization and permanent personnel and steered by District People’s Committees to implement the task of forest protection at local level.

At commune level: At present, Forest Protection Department is planned to arrange forest projectionists to work at village level, chiefly in forested villages. In some districts, there are forestry guard stations operating in many communes to carry out forest protection work down to communes.

2.3.5 Regarding forestry institution and management methods

At present, macro management methods for regulating forestry activities in market economy have not yet been established and fully implemented. State management agencies in forestry are regulating relations in forestry sector mainly with administrative orders much more than application of macro regulation methods which are appropriate to market economy.

In brief, the change of forestry institution (including organization, institution and management methods) from Centrally planned economy to market economy and widely participatory forestry economy at initial stage, forestry institution has not yet been timely perfected with market economic development and forestry production characteristics. Institutions in allocation of forest land, policies on preferential credits, forestry extension organization and forest product market management, have not really encouraged use effectively two important resources of the country i.e. labour and land resources.

Strong points of current forestry institution organization

- At present, the whole country has 412 State forest enterprises, located in almost mountainous districts. According to the planning, nearly 5 million ha of forest land has been allocated to State forest enterprises for management, forest stands and forest land are concentrated, located in key position, with difficult conditions that many economic sectors do not want to invest. These are necessary organizations for establishment and management of forest areas belonging to the ownership of the State, Forest enterprises are now having a group of technical staff and skilled workers playing a key role in guiding people in management, protection and establishment of forests, this can be clearly seen in the establishment of concentrated raw material areas and implementation of the programme 327. System of State forest enterprises are being renovated and restructured to implement key role in forestry business activities.
- Special-use forest and protection forest management boards have been set up. There are now 11 management boards of national parks (of which 10 management boards belong to MARD) and a number of management boards of important nature reserves under direct supervision of the province, (there are 65 nature reserves) and 20 protection forest management boards.
- State enterprises are being rearranged, reorganized in management, and equitized in the sectors of forest product processing, agriculture and forestry and rural development service.
- At present, there are many farmer households and other economic sectors which are investing and producing forestry, achieving good results in forest management and protection. Of which there are tens of private enterprises managing more than 500 ha by each enterprise.
Scientific research institutions have been reorganized, training of staff, technical workers to coordinate organizations and capital resources available of three former ministries in order to establish new research and training institutions which provide impact for specialized development and have active and strong impact on integrated development of rural areas.

System of agriculture and forestry extension organization has been established at provincial level and be planned to be extended to district level to assist farmers in business technique, forest establishment and management.

**Weaknesses of organizational structure**

- Forest management organizations at Central level and other levels are still scattered. Organizations and resources of lower level are very weak, not have enough conditions to conduct management task.

At Central level: assigning the task for forest management between Forest Protection department and Forest development Department is not reasonable and separated. Forest Protection department is almost specialized in management of special-use forests, Forest Development department is almost specialized in management of protection forests, management of afforestation programmes. Functions to assist Minister in research and formulation of forestry policies are not well defined. Functions on State management on forest resources have not yet been clearly assigned.

At provincial level: there is a problem that Forest Protection Branch directly belongs to provincial peoples’ Committee and Forest development Branch (or forestry sections) directly belong to DARD. Many issues in terms of tasks between these two organizations are not clearly assigned. Position of organization of forest management agencies is somewhat not appropriate. Responsibilities of the Forest protection Branches and Forest Development Branches, DARDs are not clear.

At district level: forestry management organizations are too weak, not capable for management of forestry projects and transferring of technologies to farmers.

At commune level: There almost existed no conditions for implementing State management function on forestry, mobilizing people to take part in forestry activities and checking the impact by people in the communes on forests.

- **Scientific research organizations are still lack of resources and cost for operation and not concentrated all efforts.**
  
  - System of training is unbalanced in training scope between university-secondary-worker level.
  - Forestry business organizations from different economic sectors are coping with many difficulties in terms of production capacity and efficiency of business is not high. At present, most of State forest enterprises are in the situation of: forest resources are deteriorating, all resources are weak and poor, efficiency in business and production is very low, only capable to operate their business on 15 % of planned forest land.

**2.4 Economic infrastructures**

Until 1993, forest sector has invested to construct about 23,000 km to support to exploit forest products, going in front in infrastructure construction, serving production and livelihood in remote areas. From 1993 to 1998, Programme 327 has opened more 5000 km together over 1000 km of road in service of timber exploitation in different forest enterprises, creating road network in mountainous areas. Forest road system is being deteriorated in terms of quality due to lack of fund for continued maintenance and repair.

In recent years, mountain rural infrastructures have been considerably improved:

- At present, there are 97% of communes having road accessible to commune Center, 70% of the communes have electricity; 60% of communes have markets, nearly 100% of communes have primary schools; 87% of communes have secondary schools; 98% of communes have health clinics; 80% of communes can communicate by phones; 36% of rural population access to use of clean water; more than 60% of farmer households have concrete and semi-concrete houses. Thanks to increased rural infrastructures, facilitating socio-economic and forestry on mountainous areas. However, socio-economic infrastructures in rural areas still have many difficulties: more than 500 communes having no road to access to commune Center, 30% of road in districts and 50% of roads in communes are inaccessible in rainy seasons, quality of electricity supply is weak, quality of constructions is low. Now, some infrastructures are low, chiefly water resources in mountainous areas, therefore, investment for
increased infrastructures in forestry development process, implementing 5 MHRP is still a matter of concern.

On the other hand, material and technical basis of forest product processing and exploitation sector is very weak. Until now, timber processing sector in Vietnam is mainly sawmilling sector. In addition to paper making institutions managed by industry sector in some institutions which have joint venture with foreign countries and forest product processing network is small and backward. Presently there are more than 700 timber processing institutions with very backward equipment and technologies which cannot compare in the market. Timber processing system is not relevant to the duty of processing of timber from the plantation forest.

2.5 Human resources

2.5.1 Human resources directly involved in forestry production

In last decade, human resources have been developed following to two tendencies:

- Human resources of State forestry agencies have been reduced nearly half. At present, there are only about 80,000 people. Human resources in State forest enterprises are more than half reduced. Now, there are only 45,000 people who are assigned to manage more than 5 million ha of forests and forest land.
- Social human resources involved in forestry has been considerably increased. In the process of implementation of 327 and development of social forestry. At present, there is no formal statistical data in terms of quantity and quality of this resources. But, it can be estimated that nearly one million farmer households with millions of labourers taking part in forest development projects.

Human and social development taking part in forestry activities is an advanced tendency and will be increased, but social human resources involved in forestry activities is considerably weak and poor:

- Number of State labourers and social labourers is limited.
- Most of them are seasonal labour, technical qualification is weak and poor.
- Income from forestry activities can not feed labourers.
- Work of fostering and development of forestry human resources has not defined its strategy.

2.5.2 Forestry scientific and technical staff:

There are presently 4 professors (out of total 63 professors of agriculture and rural development sector).

- 6 Vice professors (out of total 152 vice-professors of agriculture and rural development sector).
- 100 masters (Out of total 400 masters of agriculture and rural development sector).
- University degree officers have about 7000 people (out of 22,800 people).
- Forestry secondary officers have about 10,000 people (out of 28,000 secondary staff of agriculture and rural development).
- About 10,000 forestry workers have been trained at vocational schools.

2.5.3 Forestry civil servants

- Forest protection: the whole country there are 8764 people of whom 7823 men and 941 women. Forest protection forces have 2049 university level people, 4105 people having secondary level, 2615 people have primary level.
- Forestry management agencies at all levels.

Civil servants work in forestry State management agencies are mainly statisticalized in Forest Development Department (Central level) and 25 Forest development Branches of provinces.

At present, the Forest Development Department has 42 permanent staff, in provincial Forest Development Branch, it has an average of 10-15 people in one Branch, at district level, averagely there are 1-2 staff.

Strengths on human resources:

- Already have technical human resources having university level, managed at important production institutions.
- In recent years, some technical officers in research institutes, central agencies, provinces having ODA
projects, have opportunity to study, study tours abroad to raise knowledge.

- A considerable number of civil servants working in State management agencies have been raised on State management according to the requirements of standardization of civil servants.

**Weaknesses on human resources:**

- Structure of technical workers and officers is not appropriate. Many engineers, few workers and secondary staff.
- Many engineers, technical staff do jobs which are not corresponding to their trained profession.
- A major of scientific and technical staff and civil servants are working in forest protection forces, Forest Inventory and Planning Institute and Forest Science Institute.
- Age of scientific and technical staff is relatively high, chiefly scientific and technical staff have university and postgraduate levels.
- Number of civil servants working at district level and commune levels in agriculture and forestry extension system and organizations directly related to forestry production and forest management is in small number.
- There is no relevant policy to mobilize scientific and technical staff and forest management to go and work in difficult areas and local areas to implement the task of forest development.

### 2.6 Official Development Assistance (ODA) and Foreign Direct Investment (FDI) resources

#### 2.6.1 Overview on Governmental policies towards ODA resources

After 1993, official relation has been reestablished with main multi-donors like: International Monitory Fund (IMF), World Bank (WB), Asian Development Bank (ADB). ODA resources have been considerably increased. Many efforts have been made by Government of Vietnam to perfect legal framework for mobilization and use of ODA resources.

**During the period 1993-1997,** policy for management of ODA resources has been implemented according to the decree 58/CP on 30/8/1993 of the Government regarding Regulation for management of loans and paying debts to foreign countries; Decree No.20/CP of 20/4/1994 on Regulation of management of ODA resources. However, because of newly set up system, so, it has exposed many impediments and not synchronously foe example:

- Responsibilities of Governmental agencies are not clear, many tasks are overlapped.
- Action coordination between Governmental agencies in loan negotiations and signing, drawing and use of ODA resources is not close.
- Many regulations of Vietnam differ from regulations of donors and international rules.

**From 1997,** system of ODA management policies has been gradually perfected and revised. Government has promulgated decrees on management of ODA resources like:

- Decree No.90 /198/ND-CP on 7/11/1998 promulgating the Regulation on foreign debt.

Ministries have also promulgated numerous documents guiding the implementation of mechanism, policies for ODA management.

Generally, Vietnam has formed a relatively comprehensive legal framework on management, use of ODA loan resources, capital recovery and arrangement for resources for ODA payment. In policies relating to ODA management, main contents are:

**Defining incentive policies to attract ODA resources for loans and grant resources:**

Decree No 87 CP/promulgated on 5/8/1997 replaced Decree 20 CP, in which priority order for attracting funding resources has been adjusted as follows:

**For grant aids:** (1) health, population and family planning; (2) Education and Training; (3) Social issues; (4) Environmental and living environmental protection; (5) Research and development; (6) Budget support; (7) Support to scientific research and technologies; (8) Raising State management capacity; (9) some other fields according to the decision of the Government.
For loans: (1) Energy; (2) Transport and Communication; (3) Water Resources; (4) Infrastructures of industrial areas; (5) Society; (7) some other aspects under the Decision of the Government.

At present, the Decree 87 CP promulgated on 5/8/1997 is being under consideration for revision on order of priority areas for fitting new situation.

Defining procedures for management of ODA projects consist of 8 steps:

1. Orientation for ODA use
2. Defining programmes or projects having ODA resources
3. Preparing documents, programmes or projects.
4. Appraising and approving projects
5. Officially signing projects.
6. Project implementation
7. Checking and evaluation of projects
8. Termination of projects and transferring.

Definition of assignments between ministries in management of ODA resource:

- Concentrating focus points on agencies like Ministry of Planning and Investment, Ministry of Finance is an official representative for "borrower" of the Government; The State Bank of Vietnam has the task to coordinate with relevant agencies for preparation of programmes, projects using ODA resource, contents for negotiation and organization for negotiations.
- Competence for approving the programs and projects using ODA resources has also been defined between the Prime Minister of the Government and ministries, sectors and Provincial people’s committees, cities directly belonging to the Central.
- All programmes and projects using ODA resources of the Government should be arranged with sufficient and timely counterpart fund resources.
- Implementation of disbursement of funds for ODA resources of the Government has been reflected through State budget. All projects using foreign loans can be allocated by State budget, or onlending and reflected in yearly investment plans.
- The Government is onlending of fund to other investment and development projects which can recover capital under the conditions of borrowing-paying back signed with foreign countries and interest rate is decided by Prime Minister including fees for onlending domestically.
- ODA Programmes and projects are implemented through bidding competition as Decree 93 and 14 of the Government and signed International Treaty on ODA.
- Policy on taxes applied for ODA projects has been gradually perfected and uniformly regulated.
- Programme management committees, ODA projects must make periodical reports on situation of ODA uses.

2.6.2 Policies and requirements of donors

On the basis of legislative framework of Vietnam as mentioned above, during negotiation and signing of agreements, generally. Donors have accepted ODA regulation of Vietnam. However, in some projects, donors have required certain requirements for their projects.

Purpose of support activities in forest projects is to assist people to have conditions for production and ensure their livelihood and reducing their dependence on forests, reducing forest cutting and destruction of forests in watershed protection areas and special-use forests, contributing to environmental protection, hunger eradication and poverty reduction.

- Projects of donors are all concentrated on some specific areas aimed at raising institutional capacity to contribute to eradicate hunger and reduce poverty,, improving environment and living habitat,, raising living standard of population community.
- Projects of local donors are focused on socio-economic development objectives, raising living standard of population in combination with afforestation projects, increasing infrastructures, and providing credits.
- Donors all want to define requires of the projects from grass root levels, raising initiativeness of grass root levels, encouraging people in the process of identifying requirements. However, these approaches have limitations, as inn some areas, peoples’ knowledge is still low.
- For multi-bilateral projects, each donor has its own requirements. For example, projects of Japan: requirements of Japan assisted projects are that contractors must be Japanese contractors and companies, donors of the Netherlands concentrate less investment on infrastructures, all process of management and allocation of fund is directly managed by the projects. Specific requirements are commonly beyond existing regulations of legal documents of Vietnam, donors all want the Government
of Vietnam to have separate guidelines for specific projects, creating complicated and difficulties in management work. Management and allocation of fund to projects between project agencies with State management work on loans and debts is generally still weak.

2.6.3 Situation of commitment and disbursement of ODA resources of Vietnam for the period 1993-2000

Commitments of ODA have been ever increased

Through 7 yearly Advisory Meetings, donors have committed to provide financial support to Vietnam nearly US$ 15.3 billion (excluding US$ 1.2 billion to support to renovation in 1998 and 1999). Of which agreements valued at US$ 10.9 billion have been signed. Commitments of donors as of end of 1999 are presented in the Annex.

From 1993 to 1996, the period before economic and financial crises in the region, level of commitment to provide ODA resources by donors to Vietnam is yearly increased, with US$ 1.810.8 million in 1993 and US$ 2.430.9 million in 1996. For the period 1997-1999, due to crisis in the region, financial resources are partly scattered, but commitment of donors to Vietnam is still high, over US$ 2 billion each year.

From 1993 to 8/2000. Value of international treaty on ODA signed with donors has reached at US$ 12.15 billion, of which loans are US$ 10.22 billion, representing 84%, the remaining of US$ 1.93 billion is grant support.

Situation of disbursement of ODA fund has been ever increased

In 1997, disbursement level has reached at US$ 1.000 million, increased 11% as compared with 1996; in 1998 at US$ 1.242 million, increased at 24% as compared with 1997; in 1999 at US$ 1,350 million, increased at 9% as compared with 1998 in 2000, estimated to reach at US$ 1.700 million, increased 26% as compared with 1999.

Disbursement of ODA fund for 1993 – 1999 (US$)

<table>
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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-1999</td>
<td>6.367</td>
<td>413</td>
<td>725</td>
<td>737</td>
<td>900</td>
<td>1.000</td>
<td>1.242</td>
</tr>
</tbody>
</table>

However, generally, disbursement of ODA resources in Vietnam has been assessed as still low proportion as required. A number of donors assumed that the capacity of receiving ODA resources of Vietnam has reached a limit level. This capacity is closely connected with institutional capacity and human resources and ability of counterpart fund provided. Thus, in order facilitate the level of capacity of receiving ODA resources, it should improve in institutional capacity, management capacity, project implementation, aid reception programmes as well as measures for raising level of other disbursements.

ODA resources are attracted mainly for support to development of socio-economic infrastructures (suitable with stable strategies and socio-economic development) like: development of electricity accounts for about 1/3; transport and communication. In recent years, tendency of attracting ODA resources has been changed to agricultural field, environmental protection, health, education. In 1998, ODA resources for the fields of agriculture-forestry-fisheries and rural development has reached more than 12%, then water supply and environment at 6.5%, health and education only 5%. Generally, ODA resources flowing into Vietnam has made an active contribution to improvement of socio-economic infrastructures of Vietnam.

ODA fund structure has been changed towards active direction

In parallel with the disbursement of the increased ODA fund, over the last years, ODA fund utilization structure also has been changed towards active direction in terms of both economic sectoral structure and territorial areas.

Changes in sectoral/field structure, structure of attraction of ODA resources is in the form of support and following territorial areas... also structure is being shifted to active direction, meeting the requirements of strategy, planning and development plan. Structure of aid between investment support and technical support has gradually been shifted: investment projects, chiefly investment in the field of infrastructure structure has been considerably increased. Average during the period 1993-1998, investment projects occupied nearly 50% of disbursement level, in 1998 respectively, this figure has increased up to 60% (US$ 715 million). Technical...
support in the early years of receiving ODA resources has been taken into account aimed at strengthening capacity of human resources and institution, but it has decreased in later years. Averagely during the period 1993-1998, technical support occupied 37% of disbursement rate, respectively in 1998 this figure has dropped to 30%. Proportion of ODA resources for rural areas is about to be increased. Proportion of ODA disbursement in the areas outside big cities has increased about 29% in 1995 up to 48% in 1998. Proportion of ODA resources for basic social services has increased from 5% in 1990 to 10% in 1990 in recent years. Other important characteristic is that ratio of loans and debts out of total ODA resources received tends to be increased, grant aids tend to be decreased. In 1993, loan proportion only represented at 10% of the total disbursed ODA but increased up to 65% in 1998.

2.6.4 Situation of use of ODA resources in forestry sector

Round Table international meeting on Forestry Sector Review in 1992 is an important milestone which marked the start of quick investment of foreign investors in almost aspects of forestry.

Until now, there are about 50 projects which have been and are being implemented with a total fund of US$ 290 million.

Of which:

- Aid resources : US$ 231 million accounting for 80%
- State budget resources of Vietnam : US$ 59 million representing at 20% (counterpart fund and beneficiaries)

Out of 50 above-mentioned projects, there are 17 afforestation projects which have been registered and are being implemented with a total investment fund of US$ 233 million, and planting area is 723,915 ha. Until the end of 1998, about 250,000 ha of forest has been established.

In addition, there are 4 projects with a total fund of US$ 40 million and 4 projects will be committed to be implemented from 2001 with total investment amount of US$ 189 million, bringing a total investment amount up to US$ 508 million, accounting about 50% of investment capital for forestry sector.

- This is an important resources, occupying a considerable amount of 5 MHRP. It needs to formulate mechanism and policies appropriate to attract much more ODA resources for 5 MHRP. In addition to ODA grants, ODA loans should be strengthened like funding resources of JBIC, Japan.

2.6.5 Situation of use of Foreign Direct Investment (FDI) in forestry sector.

In afforestation sector: until 1998, total FDI projects are 10 with a total investment capital is US$ 120 million. Concrete situation is presented in the Table below:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Total</th>
<th>100% foreign capital</th>
<th>Joint venture</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects still in effective</td>
<td>10</td>
<td>1</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Total investment capital (US$ 000)</td>
<td>114.906</td>
<td>14.115</td>
<td>100.803</td>
<td>4,988</td>
</tr>
<tr>
<td>Legal investment (US$ 000)</td>
<td>38.776</td>
<td>4.234</td>
<td>29.554</td>
<td>4,988</td>
</tr>
<tr>
<td>Number of disbanded projects</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Investment capital of disbanded projects (US$ 000)</td>
<td>35.510</td>
<td>30.397</td>
<td>5.113</td>
<td>-</td>
</tr>
</tbody>
</table>

Out of 10 afforestation projects, 200,000 ha of new forests registered to be established, 450,000 tones of raw materials per year to be processed. In reality, until this moment, 6 projects were licensed before 1995, only 33,685 ha of forest has been reforested.

The most difficulty of afforestation projects is that local authorities are unable to ensure enough land for afforestation as committed.

In timber and forest products processing sector:
Total sector has 25 projects still in operation, of which 32 projects produce products from timber and 23 projects produce products from bamboo and rattans and other forest products. Total investment capitals US$ 101.3 million. More specifically in the Table below:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Total</th>
<th>100% foreign capital</th>
<th>Joint venture</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects still in effective</td>
<td>55</td>
<td>22</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>Total investment capital (US$ 000)</td>
<td>101.318</td>
<td>54.545</td>
<td>44.304</td>
<td>2.469</td>
</tr>
<tr>
<td>Legal investment (US$ 000)</td>
<td>59.936</td>
<td>26.418</td>
<td>31.049</td>
<td>2.469</td>
</tr>
<tr>
<td>Number of disbanded projects</td>
<td>29</td>
<td>3</td>
<td>22</td>
<td>4</td>
</tr>
<tr>
<td>Investment capital of disbanded projects (US$ 000)</td>
<td>39.257</td>
<td>2.770</td>
<td>32.944</td>
<td>3.543</td>
</tr>
</tbody>
</table>

About 60% of enterprises are operating normally with rather good revenue, 25% of enterprises operate difficulty due to insufficient raw material and lost business. The above-mentioned areas, 28 projects have withdrawn their license.

- FDI projects have established some typical raw material forests, in combination with processing institutions and stable export markets, contributing actively to the programme of regreening of openland and barren hills, creating raw material areas, and protection areas for agricultural production of Government of Vietnam, creating jobs, and satisfying a part demand of timber and fuelwood of the people in the project areas.
- Most difficulty in attracting FDI resources: land use planning and raw material basis are not sustainable, results of inventory and planning are not accurate, policy for export of forest products is always changed.

2.7 Credit policy for agriculture, forestry and rural development.

2.7.1 Overview of credit policy relating to lending to afforestation

**Rural Credit:**

Legislative framework of credit for rural area has been defined by two laws:

Civil law (passed by National Assembly on 9/11/1995): in this Law, there are 9 provisions (from Article 467 to 475) on relation of borrowing and paying back credits.

Law on credit organizations (passed by National assembly on December 1997), in which it stipulated that the State will set up banks operating on the basis of non-profitable basis in service of the poor and implementing social policies of the country. (Article 4) the State will bring out preferential credit policies in terms of interest rate, procedures and lending duration to assist households in business development.

The Government has promulgated a number of legal documents on credit policy like:

- Decision 67/TTg of the Prime Minister : to permit farmer households, no need to have collateral, to borrow money upto 10 million VN Dong and some Decrees to ensure loans like Decree 178/1999/ND-CP, Decree 08/2000-ND-CP.

**Regarding preferential credit for afforestation:**

Before 1999, borrowing mechanism for afforestation is implemented in accordance with the Decision 264/CT of 22/7/1992 of the Council of Ministers, this Decision regulates that interest rate is 30-50% of ordinary interest rate, after cutting cycle, forest owners should pay back to the bank original plus interest, not included accumulated interests.
Until 1999, this mechanism has been changed. At present, lending mechanism for afforestation from State credit resources is applied according to the following legal documents:

- Decree No. 43/1999/ND-CP of 29/6/1999 regarding development investment credit of the State.
- Decision 661/QD-TTg of 29/7/1998 on objectives, tasks, policies and organization for implementation of 5 MHRP.
- Decision No.221/1999/QD-TTg of 28/10/1999 of the Government on borrowing interest rate for establishment of forests for raw materials supplied to industries.
- Decision 175/QD-TTg on 2/3/2000 of the Prime Minister on lending interest rate for development investment of the State in 2000.

According to the regulations of such documents, lending mechanism for forest establishment includes the following contents:

- Target groups for preferential loans are owners of investment involved in establishing production forests.
- Being allowed to borrow loans according to yearly forest plantation plans with borrowing level of 90% of total investment amount of the project.
- Preferential lending interest rate is 7% per year.
- Borrowing duration depends on growth cycle of plantation species.
- State enterprises are allowed to use properties originated from loans to ensure loans. Other investment owners, besides, use properties originated from loans to ensure loans having collaterals valued at least 50% of borrowing level.
- When exploiting forests, forest owner pays both loans and interest rate, accumulated interests not calculated.
- Owner of investment is examined to exempt, reduce, extend, pending or forgiving debts incase of risks.
- In case of being not allowed to borrow or allowed to borrow a part of preferential credit, investment credit of investment owner is ensured upto 70% of total borrowing capital for investment.
- Investment owner has enough conditions to enjoy preferential investment and has completed the project credited from resources of other credit organizations and already returned preferential loans supported with interest rate after investment from National Investment Support Fund with support rate of 50% of credit interest rate for development investment multiplied by total borrowing fund.

### 2.7.2 Remarks on credit system in support to agriculture and afforestation

#### Strengths:

Credit has considerably satisfied loan demands to develop agriculture production and rural area.

According to the data of the Bank of Agriculture, in the area of households, outstanding debts for lending in forestry only reached 115,946 million VN Dong, representing at 0,58%; in the area of enterprises, loans for forestry only valued at 95 billion VN Dong out of total outstanding debts of 10,107 billion VN Dong, accounting 0,94%.

Data from Development Investment Support Fund, from 1996 until now total outstanding debts for lending in forestry development area (including afforestation and processing institutions) are nearly 400,000 million VN Dong. Most of these loans have not reached the recovery date, thus, situation of capital recovery cannot be evaluated.

- At present, there are many credit organizations, banks involved in lending loans to support to development of agriculture and rural areas, including lending to afforestation like: Bank for Agriculture and Rural development; Bank for the Poor. Credit funds have made a considerable contribution to limit the status of heavily interest lending in rural areas.

#### Constraints:

- Mobilization of capital resources from the people is still limited, not enough to meet the demand of borrowing of capital of farmers.
- Proportion of mobilized capital only represents at 10% for long term and medium term leading to the status of seriously lacking of this capital resource. Main reason is that people do not actively deposit money for long-term and medium term basis, because of current interest rate that is not enough to stipulate and lenders still do not feel assured about safety of long-term and medium term capital.
One of the most difficult problems for borrowing money from the bank is still procedures for mortgaging, guaranteeing and procedures for approving projects and credit contracts. Loans are provided for long-term industrial crops and forest trees only accounting for a small proportion out of credit scheme of commercial banks.

2.8 Investment to afforestation and forest rehabilitation

2.8.1 Overview on investment in forestry sector:

- **Under subsidy system:**
  - Most of the investment fund in forestry sector is financed from state budget under 2 ways: basic construction fund to be invested in forestry production units, mainly forest industry production unit (forest products exploitation and processing) and new plantation. Economic public fund to be invested in forest production support activities as: forest inventory and planning, science research, training festival forest plantation support staff etc.
  - Investment is targeted at forest enterprises and state owned enterprises
  - The State uses economic public fund to invest in SFEs for upgradation of exploited natural forest (upon the expenditure level on 1 ha for exploitation preparation and site clearance after exploitation).
  - Invest in establishment of nursery, technical support to develop scattered forest plantation movement.
  - The State used economic administrative capital to invest to State forest enterprises and tending of natural forests included in exploitation (according to the cost norm for one ha of forest when ready for logging and after hygiene after exploitation).
  - The State used basic construction investment capital from State budget to invest to State forest enterprises to implement their duties: tending of degraded and poor forests; establishment of new forests, opening forest roads, construction of forest products processing units and houses for workers.
  - Basic construction investment capital and administrative funds allocated from State budget for forest tending and establishment was very low. Therefore, speed of forest establishment was lower than that of opening available forested areas for logging. Moreover, as these capital resources were not well managed leading to a common case that funding resources were used for wrong purposes, investment to afforestation was not profitable, survival rate was low.

**In renovation period:** from 1990 until now, the State has promulgated 37 legal documents relating to investment and credits in forestry. The State applies credit system to invest to projects on forest industry and establishment of forests to supply raw materials to paper mills and coal mining industry. On the other hand, many policies on investment in agriculture have been changed. Therefore, early 90s’, State forest enterprises and forestry enterprises dared not to borrow funds to invest for basic construction, therefore, at the beginning of the renovation process, forest planting area and material and technical basis of forestry sector have not only been increased but also reduced and seriously damaged.

From 1993 to 1998, the State has invested under the programme 327 to regreen open land and barren hills and established special-use and protection forests. This is a national programme with the objective which has been applied for the first time in forestry sector and brought about many positive results:

There exists an important change that the State has paid special attention to invest directly in farmer households and developed various incentive policies aiming at incremental investment in the entire society and forest career.

2.8.2 Investment scale:

According to the available information source, investment fund on society development increased 27.1% in 1996, 12.2% in 1997 and in 1998, this figure was not increased but reduced 4.8% in compared with 1997. Investment fund from state budget was getting more and more difficult with the gradual reduction tendency in terms of both scale and speed. In 1997, 1996 increased 4.79%; 1998/1997 reduced 4.8%; non-state fund increased 1.84% and reduce 2% accordingly; FDI increased 12.18% and reduced 3.1% in the 2 perspective years. At the moment, sufficient information on forest investment is not available. According to the collected data, from 1991 to 1995 total investment in forest was about 340 billion VND in average. In 1991, this figure was about 134 billion VND (current price), accounted to 8% GDP generated from forestry sector (silviculture, exploitation, forest product processing), of which the total investment in national economy covered 12% GDP, this proportion was equivalent to the investment proportion/GDP of America, England during the last years in decade 60s, of Indonexia at late decade 70. In 1995, the total investment in forestry sector was 618 billion Dong, covered 9.1% GDP generated by forestry sector, while total investment in national economy was accounted to 18%/GDP. Program 327 from 1993 - 1998 (6 years) with the total investment fund of nearly 2.905 billion VND, annual investment was around 484 billion VND in average. In 1999, total investment in forestry
sector was 1.186 billion VND, covered 12% GDP generated by forestry sector (silviculture, exploitation, forest product processing), while total investment in national economy at the same year, covered 21.3% GDP.

To review investment scale from state budget, we could find out that: from 1994 - 1998, state budget invested in forestry sector (silviculture, exploitation and forest product processing) was 2.155.6 billion VND, covered 1.16% of the total state investment in economy; in 1995: 546.4 billion VND, covered 2.9% of total state investment fund; in 1998 was 390.8 billion VND, covered 0.61% of the total state investment fund in economy.

In 1996, forest investment (silviculture, exploitation, forest product processing) was accounted to 1% of the total investment fund in the entire national economy, whereas GDP generated by forestry sector only covered around 4% GDP of the entire economy; in 1999 forest investment was about 1.6% of the total investment fund in national economy, whereas forest GDP in that year only covered about 3.5% GDP of the whole national economy. In 1999, state budget supported to protection and special use forest plantation was about 314 billion VND, in 2000, state budget investment increased from 15 - 20% in comparison with that in 1999. Under plan for 2000, State budget disbursed 316 billion VND to 661 projects of which basic construction covered 94.9%.

These cited figures indicated that from 1990 to present, forestry investment/GDP has tendency to increase in terms of both investment scale and proportion. However, investment proportion/GDP of forestry sector is lower than investment proportion/GDP of the whole national economy in average. It is proved that forestry sector is not prioritized to be invested

2.8.3 Investment structure:

- With regard to internal forestry investment structure: From 1991 - 1995, average silviculture investment was 220 billion Dong, accounted to more or less 81% of the total investment in forestry sector; investment fund in forest products processing covered about 7% of the total investment. In 1991 silviculture investment was 81,6 accounted to 61% of total investment, forest products processing covered 10,6% of the total forest investment. In 1995, silviculture investment was 84,4% of the total forest investment, while forest products processing only covered 6,2% of the total investment. Program 327 from 1993 - 1998, invested in silviculture 272 billion VND in average, accounted to 61% of the total investment in the program; the remaining proportion was invested in infrastructure, moving people, offering loan for agro-forestry production and management fee. In 1998, silviculture investment was accounted to 80 - 85% of the total forest investment (without forest products processing).
- With regard to decentralization on fund management: in 1996, MARD managed 88 billion VND - accounted to 17.6% of the total state budget invested in forestry sector. In 1998: 120,1 billion VND covering 32,3% of total state investment. In 1999: 211,4 billion VND accounted to 35%; the remaining proportion was managed by provincial level.
- With regard to investment structure on sources basis: for the entire economy since 1995 - 1999, state budget covered around 50.5% of the total investment fund, private sector covered 23%, and FDI (foreign direct investment) accounted to 26.5%. Considering different sources that formulate state budget, we can see that: state budget covered 44%, credit loan of about 23.6%, the remaining proportion was available fund owned by state enterprises covering about 32,4% of the total state investment. Within forestry sector, from 1991 - 1995 state investment was accounted to 76.9% of the whole forest investment fund, credit loan covered around 7,8% only, and the remaining of about 15,3% was joint-venture and foreign aid sources. Program 327 (1993 - 1998) state financed about 84% of the total investment, and the left proportion was non-interest loan. In1999, forest investment fund from internal sources covered around 90% of the total investment fund meanwhile state budget only covered about 27%.

According from results of the conducted surveys, households' available capital (their own fund) covered more or less 23.2% of their total investment. This is really a very crucial capital source for households to operate production and business the allocated areas.

- With regard to investment structure upon different economic sectors: data on private sector's investment in forestry sector is not available at present. In terms of the entire economy, non-state sector's investment in comparison with the total investment fund of the whole society has tendency to reduce step by step, from 50% in 1991 down to 21% in 1998. With regard to SFE system: total fixed assets of SFE up to 1998 was 181 billion VND, around 439 million VND/SFE in average; working capital was about 8 million VND/SFE, approximately, 90% SFE owned less than 1 billion VND

From the above mentioned data and other sources, we can know that

- Investment structure within forestry sector has shifted toward the direction that is eligible with the changes of forest development strategy - that is to focus on forest protection and establishment and to
be clearly reflected via silvicultural investment proportion for the last years

- There is also changes related to foreign aid projects, shifting from direct support to timber production (i.e. forest supported by Swedish) into support to forest protection, special-use and protection forest development (i.e. latest projects funded by WB to support national parks and nature conservation areas and social forestry support projects).
- Renovate forest development perception by new forest plantation in combination with natural regeneration, particularly for protection forest, rather than only new plantation. Shifting from protection forest to the one with production purpose combination - and less crucial forest is managed as production forest. Such changes has adjusted investment structure within forestry sector.
- Fund invested in forestry sector is mainly domestic mobilized source.

2.8.4 Forest investment efficiency

Not any study on assessment of forest investment efficiency has been conducted so far. IRR is one of criterion to reflect efficiency of a long-term investment and is applied in forestry sector. The collected data has shown that:

- Forest plantation by indigenous species (60-year rotation): IRR = 2 - 3%.
- Eucalyptus forest plantation of 7 year-rotation, in case of non-interest loan, after 3 rotations, people will get benefit of around 10-15 million/ha. If interest rate is 9%, around 1 - 1.5 million VND/ha shall be lost for the first rotation, to accumulate 3 rotations (23 years) people only benefit 8 million VND/ha regardless to risks due to forest fire or diseases.
- As calculated by several forestry experts, the loan interest that enable forest planters to get back their money would be from 3 - 4%/year, similar to the interest rate regulated at decision 264/CT (1992) (this decision is no longer effected once decision 661 issued).

**Strengths:**

Investment in forestry: 1.5 million ha of plantation forests has been established including 500,000 ha of concentrated raw material production forests which are being exploited, and protection forests in watersheds areas are initially rehabilitated and in important sand blowing protection areas.

- Support investment for people’s tree planting and investment for programme 327 have really resulted in environmental improvement, creating jobs, raising income for the people.
- Support investment for scientific research, staff training has provided the way for preparation of minimum and necessary technical and material basis for 5 MHRP.

**Weaknesses**

- Due to not very accurate planning and establishment of forestry master plans, so, efficiency in investment arrangement has not yet been high. It is commonly found that investment is scattered and spreaded and emphasis was much placed on quantity and area rather than effectiveness and benefits of protection and productivity of plantation forest.
- Attached importance to establish new forests, but, not to invest to management, raise quality of established forests as well as existing natural forests.
- System of current policies have not really encouraged investors and not yet created conditions for people who can earn their living from forestry activities, after investment projects terminated..
- Mechanism for management of investment capital for afforestation applied exactly as management of investment of basic construction for industrial structures is not reasonable. Because the forests are biological structures, having completely different characteristics.
- Not attaching importance to investment to construction of infrastructures for protection of the results of plantation forests and existing natural forests. Until now, almost no considerable investment has been made for raising capacity for prevention and controlling of forest fires, harmful pests and diseases.
- Orientation for investment to processing is unclear, therefore, general status is to invest to urgent needs of export markets rather than investment provided to build up an oriented industry.
- Clear policy system is not available in order to maintain achievements of investment in afforestation, after the period of forest establishment.

III. INVESTMENT, INVESTMENT SUPPORT – INVESTMENT MECHANISM FOR 5 MHRP

1. Concept of investment, investment support and mechanism for investment support in 5 MHRP
**Investment** is an economic operation with the task of using funding capital and other natural resources (land, existing forests, human resources) for a rather long duration aimed at bringing about certain socio-economic benefits.

MHRP is a national programme with 3 objectives: environmental ecology, economy and society, these three objectives have similar important positions and have very close relation (if do not want to say that ecology and environment plays the most important role).

In the investment contents for 5 MHRP, investment for establishment and development of forestry into a production with profitable potential is also an important content. Strengthening the capacity for production of products and business efficiency of forestry activities is still an urgent matter in Vietnam, as forestry is a sector of production of materials of the country. So, economic objective and commodity development in 5 MHRP should not be lightly considered.

However, investment with purpose of production in forestry in general and in 5 MHRP in particular has many differences with investment or production in other economic sectors.

That is why, common economic efficiency criterias cannot be used like: proportion of products to be displayed for sale, capacity of cost recovery for determining total investment capital and evaluating investment efficiency. Appropriate investment management mechanism should be studied with characteristics and social benefits which forestry sector should ensure.

**Investment support** is mechanism, measures, and additional resources in order to endure and increase efficiency of investment capital and benefits of investors.

Support to invest in forestry is firstly expressed in a way that the State creates new favourable conditions to encourage investors to invest in forest establishment and forest development in difficult and extremely difficult areas.

On the other hand, investment support also consists mechanism, institutions and activities worked out by the State and implemented to increased efficiency for investors.

**Investment support by the State related to 5 MHRP includes:**

- State budget is being invested to implement many national programmes in forest and mountainous areas to raise livelihood of the people, improving infrastructures and social conditions, creating new factors in order to investment efficiency for 5 MHRP.
- Promulgated and implemented laws and policies in order to ensure sustainable forest land use right, protect right of property ownership, investment capital, recognition of rights and other legal benefits of investors, creating legal corridor necessary for investors to fell assured to put investment in forest development.
- Promulgating and implementing preferential policies, investment incentive on tax, support of capital, credit to attract investment capital for 5 MHRP.
- Establishing and encouraging to establish specialized funds to lend medium term and long term loans with preferential interest rate, supporting partly interest rate for preferential investment projects, guaranteeing investment credit, providing credit with preferential rate aimed at supporting enterprises to develop export products production, export items trading, widening export markets and guaranteeing export credits.
- Directly organizing or encouraging different economic sectors to organize investment support activities such as investment legislative advisory, promoting agriculture and forestry extension work; Training forestry profession and forest management for forest owners; Providing information on markets; sciences and technologies to forest owners; marketing and promoting trade of forest products; setting up associations, cooperatives to create conditions for forest owners to be supplied with input services favourably with reasonable price and marketing of forest products with reasonable price.

**Investment mechanism and investment support** are system of policies, legal documents which regulate investment resources, items of investment, investment methods, investment support methods for forming and use of resources aimed at implementing objectives of 5 MHRP. Until now, investment mechanism and investment support for 5 MHRP are expressed in legal documents as listed in the Annex.

2. **Mechanism of investment and investment support for 5 MHRP**

Forms of investment and support to investment in 5 MHRP are allocated by funding resources which are
Matrix about forms of investment and support of investment in 5 MHRP (allocated by investment resources).

<table>
<thead>
<tr>
<th>Investment resources</th>
<th>Contents and items of investment</th>
<th>Investment level (VND/Ha)</th>
<th>Measures for support for investment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. State budget</strong></td>
<td>Protection forest and Special-use forest</td>
<td>250,000 VND/5 years</td>
<td>- Policies on forest land allocation and benefits when allocating forest land planned for protection forest and special use forests</td>
</tr>
<tr>
<td></td>
<td>Protection in 5 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Natural regeneration and enrichment</td>
<td>1,000,000 VND/ha</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Forest establishment</td>
<td>2,500,000 VND/ha</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Support to establishment of production forest with rare and valuable tree species with a long rotation</td>
<td>2,000,000 VND/ha</td>
<td>- National programmes implemented in mountainous areas</td>
</tr>
<tr>
<td></td>
<td>- Management fee of the project</td>
<td>- Not exceeding 8% of total investment capital (now abolished)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Construction of infrastructures</td>
<td>- About 5% of total investment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Construction of seed orchards and scientific research, transferring, training, land allocation, agriculture extension, forestry extension</td>
<td>- About 2.5% of total investment</td>
<td>- Support to investment</td>
</tr>
<tr>
<td></td>
<td>- Maintain forest management bodies at all levels</td>
<td>- According to regulation of administrative Fund</td>
<td></td>
</tr>
<tr>
<td><strong>2. Credit fund for development investment</strong></td>
<td>Establishment of production forests of different types</td>
<td></td>
<td>- Providing loans according to cost norms for each tree species and each type of forest. Providing loans according investment projects.</td>
</tr>
<tr>
<td></td>
<td>- Planting long term industrial trees on forest land area.</td>
<td></td>
<td>- Domestic Investment Incentive Law</td>
</tr>
<tr>
<td></td>
<td>- Construction of forest product processing infrastructures</td>
<td></td>
<td>- According to the stipulation of Development Investment Support Fund</td>
</tr>
<tr>
<td><strong>3. ODA resources</strong></td>
<td>- Protection forests and Special use forests.</td>
<td></td>
<td>- Counterpart fund of Vietnam supports to mechanisms for support to investments required</td>
</tr>
<tr>
<td></td>
<td>- Development of rural areas of buffer zones of Special use forests</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Small size afforestation projects in the households (PAM, GDR)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>4. Capital of enterprises of different economic sectors (private, State, joint-venture...)</strong></td>
<td>Production forests.</td>
<td></td>
<td>- Depending on capacity of investment of each enterprise.</td>
</tr>
<tr>
<td></td>
<td>Processing workshops</td>
<td></td>
<td>- Usually combined with investment credit.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Necessary incentive support policies.</td>
</tr>
</tbody>
</table>
Investment mechanism divided by investment resources has two main forms:

- State budget: investment to establish special use forest and protection forest (including ODA fund, according to current regulation of Vietnam, it is also considered as State budget).

State budget resources also support to invest to construction of infrastructures and forest activities which can support to 5MHRP:

- State development investment credit Fund: invest to establish production forest and plant long-term industrial trees with shade. In production forest type, rare and valuable tree species with a long cutting cycle are planted with partial support by State budget valued at 2,000,000 Dong VN/ha.

3. Investment procedures for the 5MHRP

Current investment mechanism:

**General principle:**

- State budget (Central budget) only disburses to the 5MH component projects.
- State budget disburse to the 5MHRP including: basic construction fund; public fund and production forest plantation support fund
- All the 5MHRP's component projects has to be ratified by authority bodies. Ministry of Finance disburses via state treasury; state treasury directly checks up and supervise concerned documents and subsequently, disburses to project's owners in compliant with the existing regulation
- Managers of component projects have to work out specific plans applicable to individual projects within the plan informed by the state
- Project's owners open accounts at state treasury
- Project's owners have to manage and use fund properly in the right purpose
- Fund disbursement units may refuse or revoke fund once project' owners use fund in the wrong purpose
- Design, cost estimation are ratified by authority bodies
- Statement on handling over of the completed volumes prepared by Handling over Mission at provincial level

**Investment fund establishment and disbursement**

- The State assigns annual plan
- Project manager assigns plan to individual projects.
- Project owner undertakes the annual plan on the basis of the plan assigned to project manager
- This principle is also applied by other national programs related to forestry
- Foreign investment in forestry sector is undertaken in compliant with fund disbursement and management regulation of individual investors. Normally, these regulations are different.

**Constraints on investment fund disbursement procedures**

- Necessary procedures have not been developed to combine and manage forest plantation projects implemented under ODA, FDI with the 5MHRP.
- Procedures on fund disbursement to component projects are inappropriate and cumbersome. For instance: as regulated: once to be established (ratified by authority bodies), project's owner has to submit to relevant bodies especially state treasury to approve the estimation cost for individual structural items on the basis of the annual investment fund; investment fund is just pre-financed and will be reimbursed once structural items are completed. These regulations are not necessary and do not create favorable conditions for project' owner to properly arrange necessary sources financed or supported by the Government to complete project.
- The Governments has guideline to combine national target programs on one locality, however, necessary regulation and procedures have not been worked out to undertake this guideline.
IV. IDENTIFICATION OF INVESTMENT GAPS AND SUPPORT TO THE 5MHRP

1. Defining Requirements of Investment Capital for 5 MHRP

1.1 Definition of total direct investment for 5 MHRP

Option 1: Basing on the area of items of 5 MHRP and cost norm for each area unit or investment proportion, supporting relevant activities stipulated in the Decision 661 TTg to calculate total direct investment.

Results of calculation of total direct investment capital from state budget for 5 MHRP are summarized in Table 1.

Table 1. Total requirements for direct investment from State budget for 5 MHRP

(Calculated according to cost norms in Decision 661 TTg)

<table>
<thead>
<tr>
<th>Unit: Billion VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>S,N Description of work</td>
</tr>
<tr>
<td>1 Protection of Special use and protection forest</td>
</tr>
<tr>
<td>2 Natural regeneration</td>
</tr>
<tr>
<td>3 New planting</td>
</tr>
<tr>
<td>4 Support to establish production forests with rare and valuable tree species</td>
</tr>
<tr>
<td>5 Invest to construct infrastructures</td>
</tr>
<tr>
<td>6 Fund for project management</td>
</tr>
<tr>
<td>7 Scientific research, forestry extension</td>
</tr>
<tr>
<td>8 Other costs (land allocation…)</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Option 2: (Calculated according to necessary investment rate. Basis for calculation is:

- State budget supports an average of 4 million Dong /ha to facilitate raising quality of plantation forests.
- Fund for operation of steering committees is covered by local budget (Decision No.38/2000-QD-TTg of 24/3/2000 of Prime Minister regarding revision and addition of some provisions of Decision No.531 TTg of 8/8/1996 of the Prime Minister).

Depending on this basis, requirement of State budget for 5 MHRP according to Option 2 is presented in Table 2.

Table 2: Total requirement of investment capital by State budget for the 5MHRP

(calculated according to necessary investment rate)

<table>
<thead>
<tr>
<th>Unit: Billion VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Description of work</td>
</tr>
<tr>
<td>1 Protection of Special use and protection forest</td>
</tr>
<tr>
<td>2 Natural regeneration</td>
</tr>
</tbody>
</table>
1.2 Identification on investment support capital from State's budget for forest activities that directly related to the 5MHRP

The 5MHRP is a national project that covers the entire forest related activities in the field of forest protection and plantation up to 2010. The entire structure on state management over forest at various levels and public service institutions (institute, schools) therefore operate to directly serve such a huge program. The whole state's budget fund distributed to these institutions can be considered as indirect investment fund to support to the development of the 5MHRP (for 2 options).

**Administration expense of forest management agencies**

This fund covers activities operated by forest protection force; forest development sub-department at provincial level and foresters at district, commune levels to exercise forest management responsibilities and support to project implementation.

Base on State's regulated levels, the total annual administrative expenses for such agencies is about 102 billion VND.

**Public service expenses**

This fund covers activities conducted by forest science research and training institutions. We also consider that this is an support oriented investment to the 5MHRP.

The total annual expense for these institutions is of about 68 billion VND

Hence, indirect investment in forest development under the 5MHRP for 10 years from 2001 - 2010 is: 1700 billion VND

And the calculation of investment need from state's budget for the 5MHRP can be made under 2 options:

Option 1: 4,717 billion VND + 1,700 billion VND = 6,417 billion VND

Option 2: 5,875 billion VND + 1,700 billion VND = 7,575 billion VND

1.3 Identification of capital needs invested in production forest plantation of the 5MHRP

As planned, 3 million ha of production forest plantation comprises 2 categories as follows:

**Material forest: industrial (production forest) of about 2 million ha**

Perennial industry and fruit trees of about 1 mil. ha. Different investment levels are applied in different plantation forests with different industrial and fruit trees. Hence, in order to make a sound calculation of investment need for this 3 mil. ha plantation, it is worthwhile to concretize different forest areas and planted species.

Base on planning documents and projects on development of material zones providing inputs to pit prop, paper
mills, particle board and perennial industrial trees that approved by the Government or is being submitted for approval, we identify area for production forest and perennial industrial trees to be planted under the 5MHRP. In addition, on the basis of necessary investment level, the calculation of the total capital needs invested in production forest plantation is made under the following key projects:

**Identification on investment fund for production forest and perennial trees plantation**

<table>
<thead>
<tr>
<th>Area (1000ha)</th>
<th>Investment level (1000 VND)</th>
<th>Total capital (billion VND)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Production forest</td>
<td>2001</td>
<td>17,255.4</td>
<td></td>
</tr>
<tr>
<td>1. Paper material</td>
<td>640</td>
<td>8,324</td>
<td>5,327.36</td>
</tr>
<tr>
<td>2. Pit-prop</td>
<td>56</td>
<td>8,400</td>
<td>470.40</td>
</tr>
<tr>
<td>3. Artificial board materials</td>
<td>400</td>
<td>10,162</td>
<td>4,064.80</td>
</tr>
<tr>
<td>4. Export chips materials</td>
<td>200</td>
<td>4,545</td>
<td>909.00</td>
</tr>
<tr>
<td>5. Basic construction wood and carpenter</td>
<td>450</td>
<td>8,430</td>
<td>3,793.50</td>
</tr>
<tr>
<td>6. Pine</td>
<td>140</td>
<td>8,361</td>
<td>1,170.54</td>
</tr>
<tr>
<td>7. Cinnamon</td>
<td>65</td>
<td>15,890</td>
<td>1,032.85</td>
</tr>
<tr>
<td>8. Yllicium verum</td>
<td>20</td>
<td>10,000</td>
<td>200.00</td>
</tr>
<tr>
<td>9. Bamboo forest</td>
<td>30</td>
<td>9,565</td>
<td>286.95</td>
</tr>
<tr>
<td>B. Perennial agriculture trees</td>
<td>663</td>
<td>17,395.69</td>
<td></td>
</tr>
<tr>
<td>1. Rubber</td>
<td>250</td>
<td>48,440</td>
<td>12,110.00</td>
</tr>
<tr>
<td>2. Coffee</td>
<td>90</td>
<td>27,000</td>
<td>2,430.00</td>
</tr>
<tr>
<td>3. Tea</td>
<td>23</td>
<td>23,726</td>
<td>545.69</td>
</tr>
<tr>
<td>4. Cashew</td>
<td>250</td>
<td>7,000</td>
<td>1,750.00</td>
</tr>
<tr>
<td>5. Other fruit trees</td>
<td>50</td>
<td>11,200</td>
<td>560.00</td>
</tr>
<tr>
<td>Total A + B</td>
<td>2,644</td>
<td>34,651.09</td>
<td></td>
</tr>
</tbody>
</table>

**a. As planned in the 5MHRP, 3 million ha of production forest need to be planted.** However, only 2.7 out of the total 3 million ha was scheduled to be planted under different target projects. Hence the remaining 300,000 ha of production forest has not been integrated in any projects and we believe that the most appropriate way is to increase natural regeneration area. So in such case, the estimated investment capital for this area is:

\[
100,000d/ha/year \times 300,000 \times 5 \text{ years} = 150 \text{ billion VND}
\]

**b. Investment capital in infrastructure serving forest plantation includes:** internal transportation road at forest plantation areas, fire belt, fire watching tower, forest nursery. As estimated, financial needs for this item covers around 6% of the total investment capital in forest plantation = 6% x 17,255 billion VND = 1,035.3 billion VND).

Total investment capital in production forest and perennial industrial trees plantation is:

- Capital invested in production forest plantation: 17,255.4 billion VND
- Capital invested in perennial industrial trees plantation: 17,395.69 billion VND
- Capital invested in natural regeneration: 150.0 billion VND
- Capital invested in Infrastructure: 1,035.3 billion VND

**Total:** 35,863.39 billion VND
1.4 Estimation of total investment need for the 5MHRP

Option 1:

Unit: billion VND

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Items</th>
<th>Needs of state's budget</th>
<th>Capital for production forest plantation</th>
<th>Total capital needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Direct investment in special use and protection forest</td>
<td>4,717</td>
<td>17,255</td>
<td>4,717</td>
</tr>
<tr>
<td>2.</td>
<td>Indirect investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Investment in production forest plantation</td>
<td>1,700</td>
<td>17,396</td>
<td>17,396</td>
</tr>
<tr>
<td>4.</td>
<td>Perennial industrial tree plantation</td>
<td></td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>5.</td>
<td>Natural regeneration of production forest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Investment level in infrastructure at production forest</td>
<td>1,035</td>
<td></td>
<td>931</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6,417</td>
<td>35,836</td>
<td>42,253</td>
</tr>
</tbody>
</table>

Option 2:

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Items</th>
<th>Needs of state's budget</th>
<th>Capital for production forest plantation</th>
<th>Total capital needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Direct investment in special use and protection forest</td>
<td>5,875</td>
<td>17,255</td>
<td>5,875</td>
</tr>
<tr>
<td>2.</td>
<td>Indirect investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Investment in production forest plantation</td>
<td>1,700</td>
<td>17,396</td>
<td>17,255</td>
</tr>
<tr>
<td>4.</td>
<td>Perennial industrial tree plantation</td>
<td></td>
<td>150</td>
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</tr>
<tr>
<td>5.</td>
<td>Natural regeneration of production forest</td>
<td></td>
<td></td>
<td>150</td>
</tr>
<tr>
<td>6.</td>
<td>Investment level in infrastructure at production forest</td>
<td>1,035</td>
<td></td>
<td>1,035</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>7,575</td>
<td>35,836</td>
<td>43,414</td>
</tr>
</tbody>
</table>

Many different calculation methods lead to one common result as: financial requirement directly invested and supported to the 5MHRP shall gradually increase annually during 2000-2010, and the total investment capital needed for the 5MHRP is very large.

Investment capital for special-use and protection forest establishment: the above calculated figure indicates that, capital need from this source is at the lowest level of about 6,417 billion VND, the annual average need is of 535 billion VND (within 12 years), increase 1.3 times in comparison with the annual investment poured into program 327; at higher level, it may need about 7,537 billion VND; and then annual capital need is of 631 billion VND.

Investment capital in production forest establishment and perennial industrial trees plantation: the above calculated figure indicates that, capital need for this case is nearly 36,000 billion VND, with the annual average need is of about 3,000 billion VND.
In short, in order to implement this project, it needs about 42,253 billion VND (option 1) or 43,414 billion VND (option 2). Of which:

State's budget invests from 6,417 to 7,575 billion VND.

The State's development investment credit fund should be well organized to satisfy farmers' loan needs.

On the other hand, it is important on one hand to fully apply the law on encouraging domestic investment, foreign investment and on the other hand to strengthen international cooperation in an attempt to mobilize available sources from local people in addition to ODA and FDI sources.

2. Assessment of capacity from various financial sources invested in the 5MHRP

2.1 Capacity of State's budget investment source:

➤ Status of state's budget allocation in 2000 as follows:

GDP in 2000 is 399,442 billion VND

Total state's revenue: 74,535 billion VND

Total allocated fund: 96,535 billion VND.

of which 25,7000 billion VND has been allocated to development investment (the 5MHRP is invested 300 billion and accounted for 1.16% of the total fund allocated to development investment. In 1997, the State's budget invested in the 5MHRP (shifted from program 327) was 350 billion VND in equivalent with 1.79% of the total fund invested in development investment.

➤ According to economic development strategy for 2001 - 2010, due attention should be paid on the following criterion:

Contribution to state's budget: 20-21% GDP

Fund allocation from State's budget: 24-25%GDP

Fund allocated for development investment: 6% - 6.5% GDP

Total social investment: 28% - 32%/year

Increase rate of social investment: 10-12%/year

Intensive investment in agriculture and rural areas, remain at the proportion of 15% of the total social investment.

➤ Base on the above calculated figures, the calculation of state’s budget investment option for the 5 MHRP can be prescribed as follows:

➤ Option 1: for the first 5 years (2001-2005), State's budget ensures to allocate an average amount of 350 billion VND/year. For the period from 2006 - 2010, fund allocated to the 5MHRP shall be increased 12%/year (as the average increase from contributed sources to state’s budget). Hence, the total investment from State's budget to the 5 MHRP is:

- From 2001 - 2005: 1,650 billion VND
- From 2006 - 2010: 2,350 billion VND

Total: 4,000 billion VND
From 2001, investment level in the 5MHRP of about 1.16% of the total fund allocated to development investment (about 500 billion VND/year) and the average increase of 12%/year as the increase rate of state's budget, hence, the total state's budget invested in the 5MHRP is:

- From 2001 - 2005: 3,175 billion VND
- From 2006 - 2010: 5,597 billion VND
Total: 8,772 billion VND

With the important role that the 5MHRP plays, the State's budget at least needs to ensure an investment level as it was in program 327 (about 1.8% of the total fund allocated for annual development investment).

### 2.2 Capacity of development and investment credit fund for production forest plantation

**With regard to capital source invested in production forest plantation**

Currently, the capacity of this capital source is ensured by various sources:

- Labour force and capital of farmers, state forest enterprises, processing enterprises, private farms.
- Extract 30% of the income generated from selling plantation forest wood at logging place 1 to invest in plantation of industrial inputs forest (around 100,000 VND/m³).
- Borrow from State development investment credit fund.
- Forest plantation capital from ODA project and FDI source.

Currently, capital from farmers' households, forest farms and state owned enterprises invested in production forest plantation is very low resulted from low price, difficult consumption of forest products and above all - low benefit.

In the coming time, capacity of the fund allocated from development investment credit fund on plantation of 3,000,000 ha of production forest and perennial industrial trees can be calculated under the hereby 2 options:

**Option 1:** when farmers perceive benefit from production forest plantation, they may invest 30% of the total needed capital (tending period), hence the development investment credit fund need to ensure the remaining proportion - 70% of the total capital need.

In short, it is estimated that around 12,148 billion VND is needed from the State development investment credit fund.

**Option 2:** If State's macro policies fails to indicate benefit generated from production forest plantation, farmers shall not invest their own means in production forest plantation. and obviously that, the 2 mil.ha production forest plantation project shall fail. In this circumstance, if the State finds that it is vitally necessary to develop production forest to ensure future capital needs, the State needs to provide preferential loan of about 90% of the total capital needs on production forest plantation to establish industrial inputs zone. Though, immediate benefit is not seen, but farmers may engage in production forest plantation as most of them are unemployment and now they are supported with preferential credit loan.

As explained, the State need to prepare the entire credit capital needs to provide loan to state forest enterprises and farmers' households to plant production forest. **The borrow proportion covers about 90% of the total capital needs, so the total necessary capital from the State development investment credit fund is about 15,619 billion VND.**

**With regard to capital on preferential industrial and fruit trees plantation**

Currently, perennial and fruit trees are planted under agriculture or agro-forestry farm modes. The results on farm survey have shown that:

Most of the existing farms are developed from farmers' households economics so as not to have favorable
conditions for fund accumulation. Hence, the **State needs to arrange a financial source from the development investment fund in order to provide loan for industrial trees plantation in the 5MHRP.**

At the moment, the development investment credit capital varies from 15 - 60% out of the total investment capital poured into industrial trees plantation at agriculture, forestry farms (it is up to different species and production area).

As the result, **there are 2 options on calculation of capital needs from development investment fund for perennial industrial trees plantation as follows:**

+ **Option 1:** the development investment fund provides loan as 30% of the total capital need. This option is to be undertaken in the circumstance when state's policies on land allocation, lease are efficiently implemented so as to attract potential investors in cities.

In this option, the total capital need from the development investment fund for plantation of perennial industrial trees is about 5,285 billion VND.

+ **Option 2:** The development investment fund provides loan as 50% of the total capital need for industrial trees plantation.

For this option, the State's development investment fund needs to provide of about 8,697 billion VND.

**➤ With regard to investment need for generation and establishment of infrastructure within production forests.**

+ **Option 1:** To be integrated into other projects, programs in order to ensure 50% of the total capital need. The remaining 50% shall be borrowed from the State's development investment fund.

So, in this option, **the total loan borrowed from the development investment fund is about 592 billion VND.**

+ **Option 2:** Borrow 100% from the development investment fund. **So, the total amount is of 1,185 billion VND.**

**➤ Synthesis of development investment credit capital need for industrial trees and production forest plantation.**

The aforementioned capital needs are synthesized as follows:

Unit: billion VND

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Activities</th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production forest plantation</td>
<td>12,148</td>
<td>15,619</td>
</tr>
<tr>
<td></td>
<td>Industrial trees plantation</td>
<td>5,285</td>
<td>8,697</td>
</tr>
<tr>
<td></td>
<td>Regeneration and infrastructure</td>
<td>592</td>
<td>1,185</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>18,025</td>
<td>25,501</td>
</tr>
</tbody>
</table>

In short, capital need from the development investment credit fund is rather large. As average, for the period from 2001 -2010, annually the development investment fund needs to provide loan from 1,800 to 2,550 billion VND for implementation of project. it is really hard for the development investment fund to meet such a large demand as at the moment, it provides about 18,000 billion VND to meet agriculture and rural development needs of which the loan for forest plantation is only accounted to 150 billion VND/year.

**2.3 Contribution capacity from farmers’ households**

The contribution made by farmers’ households to forest rehabilitation and distribution in Vietnam plays a significant role. For the last years especially during the implementation period of the program 327, this contribution was explicitly reflected on the following issues:
Despite limited state's investment, number of households received forest protection contract. If appropriate beneficial policies are developed, lots of mountainous rural communities shall cooperate to protect watershed protection forest to bring benefit to both the state and community.

- Invest additional means in terms of labour force and finance for natural forest regeneration of forest adjacent to villages, hamlets.

- Households' investment in terms of labour force and finance in addition to State's credit fund for plantation of industrial inputs forests, perennial industrial trees so as on one hand to create canopy for soil protection and on the other hand to bring new income source. Number of farmers' households with strong financial capacity and high technique have developed efficient agro-forestry or forestry farms.

Practical conditions shows that, if land use rights and forest land use planning are stable, agro-forestry products consumption market is well organised, agro-forestry extension activities are strengthen and benefit generated from forestry investment is not too low in comparison with that from other industrial trees plantation, obviously farmers' potential in terms of finance and labor shall be mobilized for considerable investment in the 5MHRP.

A part from potential of local farmers' households, it would be an oversight without calculating sources from investors in cities who have great financial potential and desire to invest in forest farm establishment. Despite the promulgation of the Government's resolution on farming economic development, the possibility in mobilizing this sources is still limited resulted from inexplicit matter related to land use planning, land allocation/lease or relations with local people. As the consequence, investors do not dare to pour their capital into this aspect.

This is a very important investment capital source of the 5MHRP, however, it is not easy to identify the precise amount of this capital source. The increase of this capital from this source shall rely on several factors as: forest development policy, situation on forest product market during the 5MHRP implementation process.

**2.4 Capacity of ODA and FDI capital sources for the 5MHRP**

The estimated ODA fund for 2001-2005 is 2,500 billion, this amount shall remain the same for 2006-1010. However, direct ODA investment in forest protection, management and plantation activities covers only from 30% - 40% of the total agreed fund. Hence, the ODA fund supports to forest plantation may reach from 800 - 1000 billion/5 years. If fund mobilization is effectively conducted, around 200 billion VND/year from ODA source can be mobilized for forest plantation.

FDI fund invested in forest plantation is just at a modest level. In fact, several ongoing implemented projects are confronted with inevitable obstacles in terms of land use planning. In the coming year, we could attract more FDI unless land use planning are properly formulated, policies and procedures on land lease to foreigners are appropriately adjusted in addition to high demands on forest products in both national and international markets.

**3. Identification of gaps from different capital sources**

The gap level of these capital sources is identified under 2 different following options:

**Option 1:**
- The minimum capital need in this option is divided into 2 possibilities:
  - The possibility to meet the demand for capital flow at the low level (possibility 1)
  - The possibility to meet the demand for capital flow at the reasonable level (possibility 2)

**Option 2:**
- Demand at the level guaranteeing suitable technical standards to obtain expected efficiencies.

The option also has 2 possibilities:
  - The possibility to meet the demand for capital flow at the low level (possibility 1)
  - The possibility to meet the demand for capital flow at the reasonable level (possibility 2)
Below is deficient rate of financial sources with 2 satisfactory possibilities responsive to each above-mentioned option:

### 3.1 Identification of gaps based on option 1:

The calculations are based on loan demands at the minimal level, 2 satisfactory possibilities are presented as bellows:

**Unit: Vietnamese Dong Billion (VND)**

<table>
<thead>
<tr>
<th>No.</th>
<th>Items</th>
<th>Demand</th>
<th>Possibility 1</th>
<th>Possibility 2</th>
<th>Insufficient P.A1</th>
<th>Insufficient P.A2</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td></td>
<td></td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(3-4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3-5)</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Protection and special-use forests</td>
<td>6,417</td>
<td>4,000</td>
<td>8,772</td>
<td>-2,417</td>
<td>+2,355</td>
</tr>
<tr>
<td>2</td>
<td>Plantation of production forests</td>
<td>12,148 (1)</td>
<td>8,700</td>
<td>11,200 (2)</td>
<td>-3,448</td>
<td>-948</td>
</tr>
<tr>
<td>3</td>
<td>Plantation of cash crops</td>
<td>5,285 (1)</td>
<td>0</td>
<td>0</td>
<td>-5285</td>
<td>-5285</td>
</tr>
<tr>
<td>4</td>
<td>Regeneration and infrastructure</td>
<td>592 (1)</td>
<td>0</td>
<td>0</td>
<td>-592</td>
<td>-592</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>24,442</td>
<td>12,700</td>
<td>19,972</td>
<td>11,742</td>
<td>4,470</td>
</tr>
</tbody>
</table>

Note:

(1) only demand for loans from State investment and development credit fund is counted

(2) 2500 billion VND needed to be mobilized from ODA source for supplement.

- **Possibility 1**: The deficient rate from State's budget invested in special-use and protection forests establishment is around 2,417 billion VND in comparison with that of 9,325 billion VND deficient from the development investment credit fund.

- **Possibility 2**: The mobilization of fund from State's budget invested in special use and protection forests establishment may have a surplus amount of around 2,355 billion VND, while it is deficient of 6,835 billion from the development investment fund. If the surplus amount of the former is transferred to support the latter in order to enhance production forest plantation loan, around 4,470 billion VND is still deficient.

### 3.2 Identification of gaps based on option 2

Capital demand is calculated at the level guaranteeing technical improvement standards to achieve the effectiveness of forestation and with 2 satisfactory possibilities shown as bellows:

**Unit: Vietnamese Dong Billion (VND)**

<table>
<thead>
<tr>
<th>No.</th>
<th>Items</th>
<th>Demand</th>
<th>Possibility 1</th>
<th>Possibility 2</th>
<th>Insufficient 1</th>
<th>Insufficient 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td></td>
<td></td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(3-4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3-5)</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Protection and special-use forests</td>
<td>7,575</td>
<td>4,000</td>
<td>8,772</td>
<td>-3,575</td>
<td>+1,197</td>
</tr>
<tr>
<td>2</td>
<td>Plantation of production forests</td>
<td>15,619</td>
<td>8,700</td>
<td>11,200 (3)</td>
<td>-6,919</td>
<td>-4,419</td>
</tr>
<tr>
<td>3</td>
<td>Plantation of cash crops</td>
<td>8697</td>
<td>0</td>
<td>0</td>
<td>-8697</td>
<td>-8697</td>
</tr>
</tbody>
</table>
Only farmers’ loan demands from State investment and development credit fund is counted, about 90% of necessary capital.

Only farmers’ loan demands from State investment and development credit fund is regarded, about 50% of necessary capital.

Additional 2500 billion VND in the form of ODA may be needed.

Hence, on the basis of the 2 options (investment in compliance with technical requirements) 2 deficient rates have been drawn as follows:

**Possibility 1:** to fully invest in special use and protection forests plantation, the State’s budget lacks of around 3575 billion VND

To adequately satisfy loan demand, the development investment credit fund may lack of 16,801 billion VND.

**Possibility 2:** State’s budget allocated for special-use and protection forest plantation may have 1,197 billion VND surplus while, to provide loan for production forest and industrial trees plantation, the development investment credit fund may lack of 16,801 billion VND

### 3.3 Conclusion on resources gaps

Based on the above mentioned calculation, we pointed out several conclusions on deficient rates as follows:

#### 3.3.1 Lack of budget fund:

+ With GDP growth rate and the increase of budget revenue as proposed in the State and plan and State Budget sustaining the investment rate that was applied to the Program 327 (1.8% of the total investment and development cost), projects for plantation of special-use and protection forests will not lack financial capacity or a little, if any.

If the investment rate for protection and special-use forests is still maintained to be about 330 billion VND in an initial 5-year period, (preparation may be not good) and then the rate increases steadily, the lack of capital is estimated to be around 2,417 billion VND. The shortage can be supplemented thanks to the policy on rights to get benefits from protection and special-use forests.

If the increase of State Budget invested in the 5 Million-Ha Forestation Program is associated the growth rate of budget revenue (12%/year), State Budget allocated to protection and special-use forests will not be deficient, but surplus in resources to improve the effectiveness of plantation of protection and special-use forests.

#### 3.3.2 Lack of State investment and development credit loans

+ Sound markets and macro-economic policies and increasingly high loan demands for plantation of production forests and cash crops will increase the possibility capital shortage from investment and development credit fund. With the possibility to mobilize farmers’ fund sources at the highest level (self-investment, approach to loans outside production expansion fund), for example, possibility 1, the inadequate rate of investment and development credit fund to satisfy the possibility 1 (minimum level) is 8,733 billion VND - if the ODA Fund assists around 2500 billion VND, the figure will be 6,233 billion VND.

If investment is made in consistent with technical requirements and the loan demands at the high level as proposed in Option 2, lack of credit loans for investment and development is anticipated to be about 14,301 billion VND - (ODA source is raised as supplementary fund under the possibility 2) or 16,801 billion VND (ODA...
source has not mobilized yet). Attentions need to be paid to this significant shortage.

Through clarification of the aforesaid deficient rate, we can find this:

- **The possibility of lack of investment capital from State Budget to establish protection and special-use forests is not very significant.** If the investment capital rate allocated from State budget for the 5 Million Ha Forestation Program is maintained at the level as high as that for the Program 327, the financial capacity may be guaranteed.

- The possibility to occur a deficiency from investment and development credit fund to establish production forests at the lowest level is about 6,233 billion VND and approximate 16,801 billion VND (depending loan demands of farmers). This possibility does not count on loan demands for plantation of cash crops because credit capacity to plan these kinds of trees may be relied on other projects such as rubber, coffee...

- The capital lack is very significant because it is known that State investment and development credit fund extends only about 18,000 billion VND/year of loans for purposes of agricultural production expansion and rural development.

In addition to the lack of fund sources to invest in the 5 Million Ha Forestation Program, it is noticeable that there exist great discrepancies in policy mechanism to mobilize internal forces throughout the country with aims at investing in the 5 Million Ha Forestation Program and shortcomings of investment capital management capability when investment capital keeps increasing dramatically. All the problems are clearly shown in the following aspects:

- Land use rights and plans have not been stable yet.

- Rights of farmer households and communities to get benefits from protection and special-use forests remains limited.

- Organization and management of forest product markets have not yet brought about appropriate benefits to forest owners.

- Farmer households do not want and dare not borrow investment and development credit loans for forestation.

- Disbursement of capital flows remains slow

- Investment is still fragmented, which has not produced practical efficiencies in certain areas, especially core-protected areas...

- Integration of national programs implemented in rural and mountainous areas has not brought about overall effectiveness to territories invested.

- The above-mentioned shortcomings must be dealt with whilst financial capacity needs to be enhanced.

V. Sustaining the achievements of the 5 Million Ha Forestation Program within 10 years after the completion of the Program (2010-2020)

Sustaining the achievements gained by the 5 Million Ha Forestation Program depends on the following factors:

- Outcomes of implementation of the 5 Million Ha Forestation Program

- Changes in socio-economic conditions of the country after 2010

- Changes in economic management mechanism based on socialism-oriented market economy with multi-economic components.

- Awareness on the strategy for forest sustainable management in Vietnam after 2010

1.1 Social and economic changes

In the period from 2010 - 2020, the economy will strongly develop to shift Vietnam to basically an industrial country by 2020. In 2010, the land availability will be used more effectively, the forest cover is increased as well. Forecasting on forest resources and land availability at the year 2010 as planned:

Agricultural land: 9.4 million ha

Forestland: 16.2 million ha, of which

- Natural forests: 11.2 million ha
- Planted forests: 4 million ha
- Industrial trees having canopy on forestland: 1 million ha

Unused land: 4.6 million ha

The remained land are the specialized, residential and urban areas

1.2 Main advantages for maintaining results of the 5MHRP after 2010

Food security of the country, especially at mountainous, remote areas are ensured. Hunger and poverty (lack of food, clothes) at over 1,700 mountainous and remote communes are basically solved.

Scope of GDP of the national economy and GDP per capita are rather high, thus increasing internal resources for investment in forestry sector.

People's intellect and consciousness to comply with laws will be further increased.

Enhanced levels of industrialization, infrastructure and technology will facilitate increase of forest and labor yields in forestry sector.

Forest processing sub-sector will be improved towards the construction of wood processing establishments using materials from planted forests, and improvement of processing establishments at 2nd stage for export (refinery, production of handicraft, paper, artificial board...).

Local markets and forest products import - export will be further developed

Experiences and achievements from the 5MHRP will facilitate sustainable management of forests

1.3 Difficulties and challenges

Forest loss still occurs at the Central highland, Southeast area and Mekong river delta during the period to implement the 5MHRP.

By the ending period of the 5MHRP, we have yet establish the high quality system of watersheds that have multi-function to keep land and water at important upstream areas.

Yields of production forests (including both natural and planted forests) are low

Comparative advantages on the use of various resources will cope with more difficulties than the ones at present time.

After integrating into the global trend and implementing AFTA, there will be tough competition in production, import - export of processed products, especially paper and artificial board, which are the products planned for production under the 5MHRP.
After 2010, forestry sector is still unable to sufficiently self-invest in forest development as the requirements set for the sector in the course of industrialisation of the country (from 2010 - 2020).

2. Necessary preconditions for implementing forest development strategy and maintaining achievements from the 5MHRP after 2010

In order to implement sustainable forest development strategy and at the same time to maintain the fruit of the 5MHRP, it is needed to establish the following pre-conditions;

- Clearly identify stable national stands, classify forests in accordance with explicit and stable utilization purposes

Up to 2010, around 15 mil. ha of forest has been established. On the established 15.2 million ha of forests, it is required to clearly identify stable forest area to ensure meeting functions of protection, conservation of bio-diversification, supply of wood and forest products for important industries. Stable forestland area is the one constantly covered by forests, strictly managed to meet the mentioned requirements. According to the initial calculation, in the period from 2010 - 2020, we have to manage and protect a minimum of 12 million ha of stable forestland, including 6 - 7 million ha forests with major ecological purpose, and around 5 - 6 million ha forests for production of forest products to meet demands of processing industry. A part from the stable forestland area, there is also other area transferable to other purpose use for more appropriate with each development stage.

- Clearly identify the rights of forestland use, ownership and the use of forests by different forest owners

In the future, there will be 4 main owners of forests: the State, collectives, private and community. Based on the investment made during implementation of the 5MHRP, it is required to clearly identify ownership and rights to use forests by different forest owners, especially for the watershed.

According to the development tendency of the market economy, by early 2010, most of production forests will be managed, invested and directly run by private or joint-venture companies.

- Improvement of knowledge and techniques in doing business on and managing forests

For natural forests, after a period to regenerate, it is required to apply intermediate measures such as thinning, additional plantation... in order to enrich and increase forest yields. For planted forests, thinning measure is necessary. There should be plan, policy, technology, financial sources to improve efficiency of intensively planted forests that have been established before or in the program 327 or 5HMRP.

- Increase of forest product yields and efficiency in doing business on forestry sector

It is required to regulate and strictly manage nearly 3 million ha of existing natural forests having production purpose and capability to exploit during the period to implement the 5MHRP in order to provide forest products while still increasing the forest quality. Markets have to be expanded so as to effectively exploit planted forests. Business on planted forests should be developed so that forestry sector can be developed efficiently, thus enhancing it to catch up with development pace of other economic sectors in the industrialization era.

- Improvement of sustainable business on special-use and protection forests as well as inventive policy over investment, price of forest products in order to encourage private sector to invest in doing business on and production of forests

After the 5MHRP's completion, financial potential of the country is improved. It is required to allocate an appropriate amount from the State budget for continuous development of critical protection and special-use forests since these are the national property and for the social welfare. Besides, it is required to seek for markets, improve macro-policies in order to encourage private sectors to use their savings for investment in forestry sector.
Strengthening international cooperation to protect the forests that effect environment of several nations

3. Identification of strategic objectives for sustainable forest development at Vietnam after 2010

Sustainable forest development target in Vietnam after 2010 comprises the following points:

- **Sustainable management of the existing special-use and protection forests** in order to improve eco-environment efficiency of forests.
- **Increase of planted forest yields**, especially the intensive ones providing materials for industry, that have been developed in linkage with processing establishments. Improvement of forest product processing industry is to increase efficiency and competitiveness of forestry sector.
- **Increase of income and efficiency from forestry production** is to improve the capacity of self-investment of forestry sector as well as its comparative advantages to other economic sectors and other countries in the international economic integration process.

4. Strategic orientations for forest development to be focused in the period after 2010

Due attention should be paid on the following main strategies in order to reach sustainable forest management objective:

- **Continue to clearly the ownership of forests on the forestland for all the economic components** (the State, collectives, communities and private sector). Resources of the State has been gathered for effective management of stable forestland (critical special-use, protection forests and extremely important production forests).

- **Continue to invest in management of natural forests for the purpose to produce large-size wood** (around 3 million ha to ensure production of wood having large diameter to meet construction demands).

- **Continue to invest in management of 3 million ha of natural forests for the purposes of protection and ecological conservation** so as to meet the use’s purposes as planned.

- **Intensive production of 1.5 million ha forests to supply industrial materials on the linkage of processing industry** in order to produce forest products to serve the national economy.

- **Reform of the forest product processing industry** in terms of allocation, specialized structure, equipment, technology appropriate with the existing material sources and the industrialization course of the country. By 2010, basically the wood processing industry appropriate with the existing resources, internal and external markets for forest products will have been set up in order to suitably use production forests, especially industrial material forests being having been planted.

5. Maintaining major achievements of the 5MHRP

To maintain achievements from the 5MHRP after 2010, we have to solve 2 matters:

1. Which resources can be used to maintain and manage special-use and protection forests?

2. Capacity and resources to maintain and expand forest production?

5.1 **Maintaining results of special-use forests**

After the project completion, the area of special-use forest is approx. 2 million ha. Basing on the duties of scientific research, preservation of ecological system and tourism development in the 1st decade of the 21st century, it is the minimum special-use area that required to be established, managed and protected (around 12.3% of the forestland with forests and 6% of the national area). **Special-use forests are the important, therefore the State has to directly manage and invest so as to meet social demands.** The capability to maintain achievements of special-use forests depends on 2 factors:

Only when the State has a policy to extract part of revenue from tourism at special-use forests to made investment for maintaining, managing and improving quality of special-use forests, can the 5MHRP’s results be maintained.
Living conditions of people at the buffer zones of special-use forests are improved.

5.2 Maintaining achievements at protection forests

By 2010, absolutely that protection forests along the coastal line for preventing waves is completely established in accordance with the set protection duties. Protection and maintaining of achievements from those 2 forest types will not have many difficulties because:

Structure and methods to manage those forest types are simple

Improvement of living standards and awareness on forest protection in the area are rather favorable (coastal area, near the urban centers).

Forests for environmental protection at urban: by 2010, this forest type will have just been established so it is still primary and incomplete. Therefore, the period from 2010 - 2020 will continue to complete the system of environmental forests and to strengthen its management. The investment source to keep developing the this forest type after 2010 is large since there is possibility to mobilise from the investment capital for construction of new urban and industrial areas. In the planning and fund allocation for construction and expansion of urban areas, it is required to allocate a part of the fund for investment in environmental protection forests.

The most concern is to maintain the achievements on establishment of the watershed.

In order to maintain such achievements, it is required to be well aware of the following factors:

In the period to implement the 5MHRP, it is required to identify the priority watersheds so that the investment from the State budget source will focus on these areas

To identify the watershed at the sub-basins of important major ones where a large population is living, then to plan forestland allocation to the community for management and to guide them how to manage the forests in the way to meet demands of the community, of which there is a demand on protection of water sources for domestic consumption.

After 2010, the protection forest system will have yet been completed so the State is requested to directly invest in completion of the system in the period 2010 - 2020.

There should be a policy to manage protection forests appropriately so as to protect the ecological system while bring into full play economic efficiency of the protection forests.

On that basis, management of protection forests have to rely on the combination of 2 objectives: protection and supply of wood, forest products. If there is a suitable forest management plan with strict supervision, part of the protection forests can be exploited in sustainable manner, which will originate an important income source for people living in the forests as well as for the State to maintaining the protection forest and improving its quality.

5.3 Maintaining achievements from production forests

By 2010, the production forests are including:

5 million ha natural forests

3 million ha planted forests

Maintaining planted forests with production purpose will not be difficult because of the following reasons:

Improved processing industry of wood and forest products

Improved capacity for intensive forest production

With the average production at present - around 100,000 VND is extracted from selling 1m3 wood for replant production forests, it will be sufficient (with the production of 60 - 70m3/ha/10 years in a 10-year-cycle. It is a
6. Policy and mechanism solutions to maintain achievements of the 5MHRP

6.1 Forest management institution

- Formulate and complete the system of monitoring, statistics and registration of results from the 5MHRP, which is the database for forest management after the project completion. Therefore, right from now, it is required to have plan to supervise, monitor and register results of the 5MHRP. It should be well prepared from the time being, should not wait for unexpected inventory.

- Complete the rights to use forests and forestland for major types of forest owners: the State, cooperatives, private sector and community. The following principle has to be ensured "Forest has its owner; the owner has certain rights, benefits and responsibilities".

- Work out regulations for forest management by community.

- Clearly identify boundaries of forests belonged to the State direct management and ownership, divide forests into units, strengthen Management Boards of protection and special-use forests and State forest enterprises so as to enable them tightly manage those forest resources since they are the significant forests invested by the State budget.

- Have specific policy on transferring the rights to use forests and set up the form to gather forest owners into cooperatives or associations with larger scope so as to overcome the situation of scattered forests and to make the production and consumption of forest products more effectively.

- Organize management of protection forests in accordance with the protection objectives of individual basins.

- Organize management of production forests in combination with processing establishment.

- Develop forest management by the community

- Decentralize State management over forests to the local authority as stipulated in the Decision 245 TTg. Strengthen capacity to manage forests for the communes. Re-organize the institutions charged with forest management at commune, district, provincial and Central levels in compliant with the following requirements: uniformity of the organization, focus on forest management, clear identification of the duty to regulate forest production at different levels consistent with their functions, duties, authorities and organization.

- Issue license of sustainable forest management. It is only permitted for circulation in domestic markets the products exploited from the forests having been managed in sustainable principle.

6.2 Improvement of financial and development investment mechanism

➤ Mechanism to sell standing trees

For planted forests, the forest owners have to calculate clearly price of standing trees in the production cost from plantation till exploitation. When forests can be harvested, investment capital for forestation has to be returned, which then will be used for establishment of new forests.

For natural forests, price of selling standing trees has to be enough to cover necessary costs such as protection and management of forests during the time the forests are too premature to be exploited. When exploitation, the price of standing tree has to be included in the price final products and forest users are entitled to get the money from selling standing trees for regeneration of the forests assigned to them for management (a part from the natural resources tax they have to pay to the State).

➤ Work out and apply the mechanism to collect fee from the use of forest ecological benefits

Basing on the principle "commodity has its price, services have to pay fee" and "the one enjoying benefits will have to pay", it is also required to work out mechanism to collect fee for using and enjoying forest ecological benefits. It should be aware that it is not an administrative fee but the fee to cover investment cost for development of ecologically aimed forests. Scope to collect ecological fee is including:

The organs using the water sources conserved by the protection forests at upstream area for doing business

The organs engaged in mining, which affects benefits generated by ecological forests will have to contribute for the restoration of those forests
The organs using benefits of the ecological forests for tourism purpose

**Improvement of tax policy applicable in forestry sector**

Together with the development of the national economy and improvement of the State policy on tax, it is needed to have policy to favorably exempt tax for the economic organs doing business on forests.

**6.3 Improvement of macro regulating measures of the State:**

To revise the Law on Forest Development and Protection towards social forest development, strengthen people’s participation in the development of market economy

To re-formulate regulations and regimes to manage forests appropriately with the new Law and conditions of the market economy of Vietnam after 2010

Beside the administrative reform, to set up an uniform management system over forests so as to strengthen the system for effective management of forests at all levels.

To provide indicators for periodic inventory of forest resources

To regulate rational levels of wood and forest products exploitation at individual localities so as to undertake the principles: the level of forest exploitation and loss is not higher than the growth level.

Markets to be expanded to commercialise different types of forest products, thus enable farmers to gain income from forests.

**VI. STRUCTURE OF THE PARTNERSHIP**

**1. Overview on Partnership’s structure**

Support of the Partnership means regulations on coordination mode between foreign donors to invest in and support the 5MHRP. The issue to be dealt with is to identify the structure of the fund to support the Partnership as well as its running mechanism, which is also reflected in the approaches of the Partnership, i.e. whether it should be approached by individual projects or by a master plan of the 5MHRP towards establishing a single support fund for the 5MHRP.

Formulation of a general mechanism satisfactory all the donors and the Government is very difficult. However, all the scenarios should be tabled with elaborated analysis on their advantages, disadvantages and outstanding issues so that a rather most appropriate and effective scenario can be selected.

The donors (foreign countries, international organizations, NGOs) all have common expectation that their support and investment can target the set objective with remarkable outcomes. However, each donor has its own requirements, approaches, procedures, financial capacity as well as operation field.

In general, basing on objectives and characteristics of the investment, projects can be classified, as followings:

- Technical assistance for technology transfer
- Investment development projects (financial projects)
- Projects for strengthening capacity, training and organization
- Projects to support policy, institution and legislation

Each project has its own objectives and policy depending on target, capacity and requirement of the donor. Therefore, investment support mechanism and project selection basing on project classification and requirements of each donor are necessarily undertaken.
Basing on the reimbursement terms, operation of donors can be divided into 2 types:

- Grant aid
- Refundable loan

2. Information of some main donors

At present, Vietnam has about 30 partners of bilateral development, 15 partners of multi-lateral development and more than 350 non governmental organizations are operating, of which 3 largest donors i.e. Japan, World Bank (WB) and Asian Development Bank (ADB). According to the agreement signed in 1999, level of financial support of Japan accounts for about 42.6%, WB about 21.2 % and ADB about 14.5% of total financial support by foreign countries and international organizations for Vietnam.

Japan

Since November 1992, Japan re-provided aid to Vietnam and at present stays at the first line in the list of donors to provide ODA for Vietnam.

The 2 Governments have agreed priority areas using ODA, as followings:

- Human resources development, institutional establishment so as to support Vietnam shifting to the market economy
- Construction and rehabilitation of electricity and transport structures
- Agricultural development, especially rural infrastructure and technology transfer
- Education, training and health care
- Environmental protection

In the period 1993 - 1999, Japan had committed to help Vietnam with US$ 5,367.9 million, accounting for over 35% of the total capital committed by donor community for Vietnam.

The commitment level of Japan is rather stable and tends to increase: in 1994 - US$ 663.3 million, increasing 20% compared to 1993; in 1995 - increasing 21%; in 1996 - increasing 6%; in 1997 - decreasing 12%; in 1998 - increasing 15% and in 1999 - increasing 3% compared to the previous year.

In the period 1995 - 1998, US$ 891 million from Japanese ODA source had been disbursed to Vietnam, of which grant aid accounted for approx. 50%, the remaining 50% was favorable loans. The disbursement level tends to increase. In 1995, it was US$ 170 million and in 1998 the figure was almost double, US$ 368 million.

Disbursement of JIBIC loan was often slow, especially in the areas energy and transport, which was only paid more attention to accelerate the disbursement for the last few years. Annual disbursement of grant aid provided by JICA was mainly for rural development, health care and education programs, which was more quickly implemented.

Beside annual commitments, there were supplementary favorable credit programs. In the program to support Asian countries to speed up the process of economic structure reform and recover from the crisis over the last 2 years, Japan has provided commodity and special credit programs (MITI credit program). Vietnam was also in the countries’ list accessible to this program.

Mechanism for Vietnam to Japan fund source

The loans provided by JIBIC has reimbursement term of 30 years and 10 grateful years, interest rates varied from 1 - 2.3%/year. In 1997, the terms for environmental projects were 40 years, 30 years for the remaining projects; interest rates were 0.75% and 1.8% respectively.

World Bank (WB)
WB is strongly assisting Vietnam in integrating into the world economy through speeding up the reform and the process to shift to the market economy. Added, WB is also the active partner of Vietnam to implement poverty alleviation program. Practically, WB has supported Vietnam to develop economic infrastructure, enhance agriculture and rural development, invest in human resources development and enable sustainable development of the country.

Vietnam has submitted letters of guarantee for the fields of tourism, agro-business, industrial manufacturing, infrastructure and financial services to the Multilateral Investment Guarantee Agency (MIGA). Those letters are considered potential.

In the period 1999 - 2002, WB plans (after consulting with the Government, representatives of people, private sector and donor community) to offer priority to 7 areas: (1) strengthen management capacity and competitiveness of the national economy; (2) stabilize the financial system; (3) reform of State owned enterprises; (4) increase the productivity through improving the infrastructure system; (5) enhance rural development and environmental protection; (6) invest in human resources and encourage social equality; and (7) reform public administration, increase the transparency and people’s involvement. In this period, poverty alleviation and social problems will be the priority basing on the motto to closely coordinate different projects and policy dialogues, decentralization of the project implementation while moving towards launching the loans for sectoral programs if feasible.

Apart of the supportive programs, WB also has specific ones depending on the progress of policy reform, capacity to implement the projects and level of poverty alleviation. The budget availability for such programs is very flexible, from US$ 300 - 800 million per year.

In the period 1996 - 1999, the ODA disbursement of WB for Vietnam was US$ 870 million, of which 95% were loans and 5% were grant aid. The annual average disbursement was US$ 200 - 250 million.

**Mechanism for Vietnam to borrow loans**

At present, all the loans provided to Vietnam are belonged to the preferential group of the International Development Association. It is estimated that with the average income per capital of US$ 750 (price of 2000), by end of this century Vietnam is still under the group of countries eligible to preferential loans of WB with 40 years’ term, 10-year grateful period, service fee 0.75%/year, committed fee 0.5%/year. The national strategy for 1991 - 2002 prepared by the WB estimated that the amount lent by WB to Vietnam was around US$ 280 - 800 million/year, depending on the programs and the reform progress.

**Asian Development Bank (ADB)**

In the national support policy offered to Vietnam aiming at facilitating the transitional process to shift towards the market economy and encouraging harmonized and sustainable development, the following priorities are included: (1) policy formulation and institutional development; (2) agriculture and rural development; (3) development of socio-economic infrastructure; (4) environmental and natural resources management.

The period 1996 - 1999, OAD disbursement of ADB to Vietnam was US$ 542 million, of which loans accounted for 95% and the remaining 5% was grant aid.

**Mechanism for Vietnam to borrow loans**

Since 1998, thanks to good progress made in the economic development, ADB has classified Vietnam at Group B so the terms and conditions to borrow loans from ADB became more difficult. In the past, Vietnam was offered 40 years’ term, 10-year grateful period and interest rate of 1% but now the term is 32 years, only 8-year grateful period and interest rate of 1.5%. In the period 2001 - 2010, the proportion of preferential loans from Asian Development Fund will be reduced while the one from the normal source will be increased. According to the national support plan for Vietnam from 1991 - 2001 prepared by ADB, the planned amount lent to Vietnam was US$ 325 - 350 million.

**Federal Republic of Germany**

The policy of Germany is to enhance socio-economic development of developing countries in order to improve their living conditions. German development support fund can directly provide assistance through bilateral cooperation or through international organizations such as ADB, WB, UNDP, EU.
Bilateral development support is reflected under 2 types: financial and technical co-operations

Development support to Vietnam

Starting from support of the former Socialist of Germany, German-Vietnam development cooperation has witnessed a long traditional history especially in the field of agriculture, rural development and training.

German's ODA support to Vietnam was provided under Ministry of Economics cooperation and development (BMZ). ODA project implementation process have been strongly supported by KfW in terms of finance and GTZ in the field of technical cooperation.

Project sequence is applied for both of the project types: (i) German and Vietnamese Governments reach common consensus on project ideas; (ii) German Government (BMZ) and KfW/GTZ conduct project assessment; (iii) KfW/GTZ appraise and submit project to BMZ; (iv) if BMZ finds the project has met all standards and requirements, BMZ shall entrust GTZ and KfW to negotiate project agreement and implementation; (v) official agreement signing between 2 Governments.

The 2 Government also reached common consensus on several priority sectors such as: administration reform, strengthening private enterprises, sustainable conservation and use of natural resources including agro-forestry and aquaculture; strengthening related sources via support and assistance to health and education sectors; reducing poverty by encouraging people to earn their livings; support to transportation and communication etc.

During 1996-1999, the allocation of German ODA reached 180 million USD of which grant aid was accounted to 80% and the remaining 20% was soft loan. The annual fund distribution varies from 30-50 million USD

The Kingdom of Sweden

Development support to Vietnam

The general agreement on development cooperation 1999-2001 between Vietnamese and Swedish Government was signed in January 1999. The cooperation program covers the following aspects: (i) support to strategic projects within the framework of economics, social and administration reform to speed up the transition period to market oriented economy; (ii) projects applicable to areas and inhabitants with special difficulties; (iii) support to development process under sustainable environmental protection; (4) strengthening the implementation of democracy and people's rights via dialogues, direct support projects and combination of transparency, publicized issues with equal participatory of both male and female to the support projects and programs and (v) projects under energy sector focusing on less favorable areas. This cooperation direction shall be constantly sustained in the coming time under the following orientation:

Continue to focus on capacity and institution development in an attempt to support policy formulation and reform implementation process;

Grant-aid still covers majority proportion, however, soft loan shall be expanded.

Direct cooperation activities with locality shall be expanded if appropriate;

More attention shall be paid on male-female equality, environment and children's rights.

Respect and encourage the agreement on mutual benefit and widen cooperation between the 2 governments

During 1996-1999, the allocation of Sweden's ODA to Vietnam was about 138.7 million USD of which grant aid was accounted to 90% and the remaining 10% was soft loan. The annual fund distribution varies from 30-40 million USD

United Nation Development Program (UNDP)

NDP is one of first donors to set up cooperation relation with Vietnam (1977). UNDP's top priority to Vietnam is placed on human development of which special attention is paid on sustainable poverty alleviation via number of aspects: social development; policy reform, institutional development and regional/international integration;
environment and natural resources management, ODA coordination and mobilization.

During 1996-1999, the allocation of UNDP's ODA to Vietnam was 67 million USD with the entire 100% was grant aid. The annual fund distribution varies from 13-20 million USD.

The Royal Kingdom of Netherlands

As prioritized, Netherlands' ODA to Vietnam is placed on (1) support to research and education cooperation programs between Vietnam and Netherlands, specific research and education activities in economics aspect; (2) health care and fever prevention, nutrition, health care and maternity; (3) bio-diversity conservation via forest conservation programs, integrated management of coastal areas and (4) integrated program on water resources management.

Vietnam is one of the countries with sufficient standards to receive Netherlands’ ODA under the mixed credit program - ORET (non-refundable support in combination with several exchange activities in terms of production materials, consultancy services, civil structures etc. of which Netherlands’ contribution at least covers 60%) and MILEV fund that provides support to similar activities in the field of environmental protection.

During 1996-1998, the allocation of Netherlands' ODA to Vietnam was 62.3 million USD under non-refundable type. The annual fund distribution varies from 16-29 million USD.

European Community (EU)

The C-Vietnam cooperation strategy aims at the following targets: (1) development support to mountainous and rural areas with less favourable conditions; (2) support to the integration of environment into national development plants; (3) support to social issues particularly health care, education, human resources development which was impacted under the transition to market oriented economy; (4) create favorable conditions to support to 2-way technology, trade transference and European's investment; (5) Further support to economics and administration reform and (6) support Vietnam to integrate into global economic system. In addition, the European Investment Bank initiated to provide loan to infrastructure development oriented projects since 1998.

During 1996-1998, the allocation of EC's ODA to Vietnam was 60 million USD under refundable type.

Federal of Switzerland

Until now, the frame agreement on cooperation and development between Vietnam and Switzerland has not been negotiated and officially signed, hence individual projects or programs shall be signed with specialized Ministries after receiving approval from Ministry of Planning and Investment.

Currently, SDC's activities are mainly concentrated on the following aspects: urban development, sustainable natural resources development; education and training that are conducted under 2 forms: human resources development, strengthening institutional capacity and support to the most vulnerable inhabitants.

SECO's activities mainly focussed on capacity improvement for financial sector via comprehensive technical support activities to the State bank of Vietnam in addition to private banks and at the same time to provide investment capital and/or working capital to companies in Vietnam. Besides, SECO tends to foster its support to discipline development of private sector to enable this sector to become driving force for economic development in Vietnam.

During 1996-1999, the allocation of Switzerland's ODA to Vietnam was about 42 million USD of which grant aid was accounted to 79% and the remaining proportion was soft loan. The annual fund distribution was rather stable at similar level.

- FINLAND Finland’ s support to Vietnam is poured into poverty alleviation in rural area, sustainable management of natural resources, strengthening of administrative managerial activities, management of public structures and infrastructure. Forestry sector is considered one of prioritized sector receiving Poland's ODA; with the current forestry cooperation program in Bac Can province and the coming rural development and environmental sanitary programs, forestry sector shall still be placed on initial priority to be expanded and supported.

During 1996-1998, the allocation of Poland's ODA to Vietnam was about 21.6 million USD under non-
refundable type. In average, around 6.5 - 8 million USD was allocated every year.

**World Food Program (WFP)**

The development cooperation relation between Vietnam and WFP has been set up since 1975. By late 1999, Vietnam was provided 414 million USD by this organisation (the figure shall be 500 million USD if other non-food, technical and administration support are calculated). As scheduled, WFP shall continue to implement its programs in Vietnam up to the end of 2000 and then to close its representative office in Vietnam since Vietnam is no longer in the list of low income and food deficit countries. Food security status in Vietnam shall be monitored by WFP under its South-East Asia regional office.

Around 45 million USD was allocated to Vietnam from WFP's ODA for the period of 1996-1999.

**FAO (World Food and Agriculture Organisation)**

Within the development cooperation plan with Vietnam, FAO's priority is placed on nutrition, food and food-stuff security and sustainable agriculture development (including forestry and agro-forestry combination).

FAO is one of multi-lateral organisations that play very important role in providing policy consultancy to support for the changes of agricultural research system structure, for the development of national program on food security, for the combination of gender issues and support to the 5 MHRP. A part from that, FAO also has significant contribution to the establishment of agricultural investment projects for WB, ADB, IFAD etc. In future, these activities shall be constantly conducted in parallel with the expansion of support activities to enable Vietnam to integrate into the regional and international economy.

During 1996-1999, the allocation of FAO's ODA to Vietnam was about 12.3/5.6 million USD (total capital source managed by FAO/FAO's regular budget) under non-refundable type.

3. Assessment on support structure to forestry sector:

Over the last time, international organisations and countries' support to forestry sector in Vietnam has been reflected in number of aspects such as: support to policy studies funded by Germany, UNDP; bio-diversity conservation funded by Netherlands, EU, WB, UNDP, Denmark and Australia; Seedlings investment funded by WWF, Denmark; Watershed protection funded by ADB, Germany, FAO; Social forestry project funded by Denmark, Germany, Sweden, Switzerland and Poland; Agro-forestry combination funded by Thailand etc. As the results, individual projects have considerable impacts to different ecological and social conditions. On the basis of this outcome, practical experiences and lesson learnt shall be expanded to support other regions with different social-cultural, biological conditions and market accessing approaches.

In general, the international donors community are providing support activities to Vietnam via project investment. It is up to comparative advantages, authority (loan or non-refundable type), aspects invested by donors are different in terms of investment procedures, scale and efficiency. It is impossible to deny remarkable outcomes brought by these projects. However, there remains various issues need to be considered and surmounted in practice.

- To be set up independently from each other at different periods under different donors, projects activities do not match with targets, contents and implementation progress of national programs (as program 327), even worse, several projects are overlapping in terms of targets and activities resulted in low efficiency at macro level.
- Most of support projects are designed by donors who often play the key role in monitor and supervise project implementation. International experts involved in projects are entitled to high salary, while national experts only involve at certain aspect resulted in low efficiency.
- Vietnam's contribution fund is often less than 10% of the total project expenditure and the majority part of 90% is contributed by donor side. Due to the establishment of parallel structures for project implementation, the operation cost is often higher than scheduled.
- As the common sense in other sectors, due to inexplicit procedures provided with various condition, fund allocation is often made in low progress especially for large ODA projects in the field of agro-forestry and rural development.
- The inflexible shifting mechanism of non-refundable projects are hardly to be changed as operational activities are fixed at implementation level, expenditure are calculated for individual units for several years. In fact, certain outstanding issues should be discussed and adjusted to be suitable with practical conditions.
4. Identification of the Partnership’s support mechanism to the 5MHRP

5MHRP is national structure with the set objectives, implementation period and measures. This project has mobilized various sources of which foreign partnership’s sources is one composition. The question raised here is how to identify external partnership’s support mechanism in the way that it can effectively strengthen the sources and directly aim at the 5MHRP’s objectives.

4.1 Criterion and principles to identify partnership’s support mechanism to the 5MHRP

4.1.1 Criterion:

The identification of partnership’s support mechanism is made on the basis of the following criterion:

- Project type: technical support, technology transference, development investment project; or project on policy, institution, organisation; general or feasibility projects.
- Accessing approach: project or program oriented approach
- Project duration: it is up to short or long term project, different support and executive mechanisms are applied accordingly
- Investment target groups: silviculture, infrastructure, socio-economic development (structures serving livelihood).

4.1.2 Principles on identification of partnership’s support mechanism:

- Ensure unified project management between donor side and Government
- Ensure donors’ benefit generated in compliance with Government's regulation on investment.
- Ensure investment is poured into the right target groups and objectives
- Ensure investment efficiency
- Ensure publicity, transparency and credibility

5. Propose the 5MHRP support Partnership organisational structure

5.1 Investment mechanism under project

Accessing is conducted under individual projects, this approach has been applied so far. Under this approach, on the basis of Government's prioritized programs such as: watershed protection plantation, forest rehabilitation, natural resources preservation etc, donors shall develop project proposal and directly invest in project in accordance with their objectives and requirement once agreement is officially signed with the Government. On the basis of practical conditions at project areas (natural, economic, social conditions and staff capacity), close coordination and collaboration between donors and fund received country or localities at project implementation area shall be made during implementation period so as to ensure the best results.

By applying this approach, donors can directly undertake their requirements, donors’ strengths are effectively applied and accelerated. A part from that implementation results are widely known via checking up, assessment and monitoring related activities. This creates favorable conditions for donors to control investment capital as expenditure quantity and items are coherently identified with concrete time limitation.

However, they are often short-term agreements (2-5 years) that are inflexible and hardly to be adjusted. Donors deeply interfere in project implementation, project implementation mechanism is unsustainable after project ends. Furthermore, general lesson learnt and basis are not developed as the already limited technical scope is constrained by institutional and geographical conditions. With the aforementioned features, investment shall be scattered, improperly distributed rather than concentrated into sound sectors that capable to create integrated strengths for the sectoral development in particular and economic development in general.

5.2 Investment mechanism under program

This mechanism is wider with longer term (10-12 years) and the Government takes active role in flexible management so as necessary adjustment can be made at different phases. Under this approach, donors sign a general support agreement for a general program or plan. With regard to the 5MHRP, as suggested by several donors: supported sources should be concentrated and then general support fund for the program
should be set up. This is a sound initiative since it develops good opportunity to unify donors' projects to build up integrated strength so as to create a good pace for effective program implementation.

Nevertheless, there exist number of difficulties within this mechanism as support conditions and requirements are varies from this donor to others. Hence, it is inflexible to certain donors to contribute to a general fund. On the other hand, in psychological aspect, donors expect to witness their investment results rather than contribute to the general fund managed by a steering committee. Therefore, donors tend to invest under project mechanism.

VII. RECOMMENDATIONS

1. Increase state budget investment in the 5MHRP

5MHRP is national project, however, investment from state budget in this program is lower than that in program 327 (in terms of absolute quantity and investment proportion in the 5MHRP in comparison with the total state's development investment fund). Due to urgent need on environment protection, especially on flood and storm control, the state should increase financial source invested in the 5MHRP to the level of 1.8% of the development investment fund (as the proportion applied in program 327).

In addition, a spare fund should be abstracted from the State's budget to compensate the different interest rates of commercial banks so as to enable farmer households to get soft loan that suitable with conditions and features of forest plantation activities.

It is required to focus investment from State budget as the measures having been proposed, including:

   Review and arrange local projects under the 5MHRP. It is required to take out low quality and inefficient projects.

   Conduct inventory of unused land in order to formulate projects to fulfil the objectives of the 5MHRP

2. State increases credit sources for development investment and improves the lending mode and credit policy to improve efficiency of this capital source.

The critical point at present is to enable investors gaining stable benefits once they invest in establishment of production forests. It is required to improve management of the credit sources from the State for investment in the 5MHRP, including reasonable interest rate, simple terms to borrow and repay the credits. Application of the investment guarantee mechanism, support of interest for the investment in case of the development credit of the State for the 5MHRP.

In case loan demand on production forest plantation under the 5MHRP increases, considering high efficiency of forest plantation projects, the State should use a part of ODA fund under foreign loan to re-lend to farmers households and investors.

3. Improve investment environment to attract investors:

   - Continue to allocate forest, forest land and contract forest to households. Accelerate beneficiary rights to farmer households who received protection contract of protection forest so as to encourage them to invest their capital (labor) in coordination with the state to establish and manage protection forest

   - Allocate several forest with protection function to local communities, and farmer households for management and they are entitled to benefit under certain conditions.

   - Apply land lease policy at industrial material forest plantation zone in an attempt to attract internal and external investors on forest plantation.

   - Stabilize forest product export policy and liberalize domestic forest products market so as to increase benefit entitled by forest planters.

   - Undertake fund contribution policy of enterprises, internal and external investors via benefit-sharing projects or establishment of joint-stock company on forest plantation.

   - Improve ODA fund mechanism aiming at accelerating foreign aid fund that directly invested in forest protection and management consistent with the objectives set in the 5MHRP. Currently, investment proportion from ODA projects into forest plantation is only accounted to 50%. It is worthwhile to increase
this proportion so as to accelerate ODA fund to satisfy requirements of the 5MHRP.

4. Certain measures and policies to supplement the missing sources

- Strongly encourage private sector to invest in forest plantation
- Study to apply public working regulation to establish protection forests.
- Decentralize on management in order to encourage localities to strengthen the available resources in localities.
- Well combine all national programs that speed up the 5MHRP being implemented in the same area, especially programs relevant to rural development and infrastructure construction.

5. Improvement of macro-economic policy for forestry sector

- It is urgently necessary to set up monitoring, supervising and registration of project outputs on the country-wide, on province, district, commune and for individual projects.
- Explicitly identify forest land use rights on protection forest system, the State should allocate part of forest land on protection forest to households for management and protection, especially the ones reside on protection forest area.
- Strengthen community forest development and allocate part of natural forest to community for management and benefits.
- Develop planning and re-organise industrial material forest in combination with forest products processing system and at the same time to set up forestry companies categorized by final products for management, protection and development of material zones.
- Promptly complete the provision of forest land use right license, strengthening agro-forestry extension and widen forest products markets in an attempt to encourage forest plantation and production forest re-plantation after exploitation.
- Allocate natural forest to commercial and production institutions on the basis of stands value calculation, revoking stands value when exploiting production forests (natural forest). This revenue shall be re-invested in forest rehabilitation after exploitation.
- Decentralize forest management to local authority at different levels. To strengthen commune authority at communes with forest, it is necessary to additionally assign 1 forester working in communal level for forest protection, management and development.
- Re-structure forest related institutions from Central down to provincial levels to synchronously undertake forest protection, management, development, and use. In parallel, intensify information system on forest management at various levels and at the same time to intensify capacity of district level, especially capacity in organising agro-forestry extension and forest management related activities. With regard to communal level, due attention should be paid to intensify commune capacity to monitor inhabitants’ disturbance to forest.

6. Flexible applicable Partnership mechanism under project and program approach

In order to avoid overlap and increase ODA fund efficiency, it is advisable to apply the both two approaches:

- **Investment under project approach**: applicable with projects whose components are clearly and suitable with donors’ requirements and it is possible to calculate efficiency
- **Investment under program approach**: applicable to technical and institutional reform support projects.

The Government should develop a support program for the 5MHRP and discuss with donor community to contribute finance, and establish steering committee to undertake this program

7. Develop investment support activities for the 5MHRP such as

To advise on legislation, investment, credit, business and management of forests for farm households and forest owners. Accelerate agro-forestry extension and expand forestry extension to the localities that have projects implemented under the 5MHRP.

To train on forest business for households and forest owners.

To provide information on markets, marketing, trade promotion for forest owners.

To set up associations, joint-ventures between forest owners to overcome the situation that the forests are scatteredly divided and operated under various small scales. Small owners are often unfairly competed by big owners.
8. Establishment of national fund for forestation

The objective of this fund is to attract and gather financial resources necessary for forest development like the investment from State budget, fund from State budget to cover credit interest deference for forestation, credit from the State for forestation, borrowed loan from ODA sources, voluntary contribution from organizations and individuals inside and outside the country, and the amount from selling standing trees. MARD is assigned to manage the fund in compliant with regulations approved by the Government.

VIII. REFERENCES

1. The National Program on 5 million ha reforestation 1998 – 2000 (the 4th draft), MARD (April 2000)
2. Study for preparation of investment levels for plantation of protection forests using indigenous species
3. Decision 160/1998/TTg of 4 Sept. 1998 by the Prime Minister on endorsement of the Master plan for paper industry development to 2010
4. Master plan for paper industry development to 2010 (Summary), Vietnam Paper Corporation
5. Decision 149/1998/QD-TTg by the Prime Minister on the Planning for forest development to provide wood mining
6. Planning of material development for mining wood
7. Program to develop material area for artificial board (1999 - 2000), MARD (draft), 1999
12. Project on plantation of the watershed of Thach Han basin, Quang Tri province, May 2000, Dept. of Agriculture and Rural Development of Quang Tri (DARD)
13. Project on plantation of protection forests at Thua Thien Hue (Dec. 2000), DARD of Thua Thien Hue
14. Project on plantation of the watershed of Duy Xuyen district, Quang Nam province (4/2000), DARD of Quang Nam
17. Thematic reports of the consultants in the Task Force 3 of the 5MHRP Partnership
18. Legal papers related (collected by the ADB/TA 3255)

ANNEX I: LIST OF CONSULTANT EXPERTS AND REPORTS OF TASKFORCE III

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
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<th>Tel.</th>
<th>Report title</th>
</tr>
</thead>
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<tr>
<td>Sub-group I</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Tran Dinh Tung</td>
<td>Planning Dept.</td>
<td>8431572</td>
<td>Overview on investment environment</td>
</tr>
<tr>
<td>2.</td>
<td>Nguyen Minh Hoang</td>
<td>Planning Dept.</td>
<td>8432402</td>
<td>Institution, infrastructure and human resources</td>
</tr>
<tr>
<td>3.</td>
<td>Tran Toan Thang</td>
<td>MPI</td>
<td>08044944</td>
<td>Forest development credit in Vietnam</td>
</tr>
<tr>
<td>4.</td>
<td>Nguyen Thi Be</td>
<td>FDD</td>
<td>7333026</td>
<td>Investment in forestry and relevant sectors</td>
</tr>
<tr>
<td>Sub-group II</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Nguyen Van Loi</td>
<td>Planning Dept.</td>
<td>8432615</td>
<td>Identification of investment and support mechanism for the 5MHRP</td>
</tr>
<tr>
<td>2.</td>
<td>To Dinh Mai</td>
<td>Policy Dept. (retired)</td>
<td>8436795</td>
<td>Maintain the 5MHRP’s achievements within 10 years after the project ends</td>
</tr>
<tr>
<td>3.</td>
<td>Vu Long</td>
<td>Forest Science Institute</td>
<td>7562389</td>
<td>Identification of investment and investment support level to the 5 MHRP</td>
</tr>
<tr>
<td>4.</td>
<td>Nguyen Huu Tu</td>
<td>Central Office</td>
<td>08045186</td>
<td>Identification of financial gap level and</td>
</tr>
</tbody>
</table>
ANNEX 2A: SUMMARY REPORT OF SUB-GROUP I

Sub-group I comprises 4 consultant experts who are assigned to study on investment environment.

The sub-group has overviewed investment environment in forestry sector in Vietnam via the following contents:

- Investment and development policy
- Legal framework related to investment in forestry sector
- Institution, organisation, infrastructure and human resources
- Policy and contribution of ODA fund
- Disbursement in forestry and relevant sectors at present and previous time
- Forestry credit

These cited contents are prescribed in the 4 individual reports and one general report of the sub-group I. The following recommendations has been indicated in the report:

- **It is necessary to improve investment environment** in order to attract both internal and external investment fund on the following aspects: land policy; credit policy, market and forest product import-export policy. In spite of considerable efforts have been made for these aspect, the current legal framework and procedures have not been attractive and appropriate enough to attract investment.
- **A great deal of attention should be paid to promptly improve institution and organisation** in an attempt to improve responsibilities, mandate and forest management knowledge to local authority at district and communal levels. Reform forest protection system and workflow relation between forest protection system with forest managerial institution at various levels.
- **Infrastructure**: It is worthwhile to combine national programs and the 5MHRP aiming at improving technical infrastructure in forest areas to meet the 5MHRP’s requirements.
- **Human resources development**: It is proposed to change the existing training structure so as to change training proportion between workers, technicians, silviculture officers. Greater attention should be focused on scientific themes to serve the 5MHRP.
- **Improve credit regime**: State budget should support to reduce interest rate of loan on forestry sector.
- **The Government is proposed to develop industry material plantation forest projects** and propose international banks to offer loan for establishment of industry material forest plantation.
- **It is vitally necessary to have a uniform partnership program** for international communities to coordinate support to the 5MHRP. This program has to be not only suitable with the 5MHRP’s objectives but as well flexible to attract donors.

ANNEX 2B: SUMMARY REPORT OF SUB-GROUP II

Sub-group II encompasses 4 experts whose tasks are focused on the identification of investment and investment support to the 5MHRP.
The sub-group elaborated 5 individual reports in addition with 1 general report of the whole sub-group covering the hereafter issues:

- Investment and investment support policy
- Mechanism on maintenance of the 5MHRP’s achievements
- Investment needs and insufficient levels of different financial sources of the 5MHRP

The general report has indicated that: financial sources for the implementation of the 5MHRP still has a big gap despite great efforts have been made so far. It is essential to recognize such a comprehensive gap in terms of mechanism, institution, policy, technique and finance for uniform dealing, rather than the increment of financial sources to fill the gap in the 5MHRP. The following recommendations were drawn out in the report:

- It is needed to accelerate investment fund from state budget and arrange fund sources in an intensive manner. In addition, prioritize clearly so as to invest properly.
- Due attention should be paid on the application of community forest management approach to contribute to watershed management protection.
- Explicitly identify land area for the establishment of industry material forest and at the same time to expedite forest land allocation in these areas, identify market in combination with processing enterprises and synchronously carry out other measures to encourage households and private economic sector to involve in establishing this forest type.
- It is necessary to have preferential credit interest-rate applicable to loan on forest plantation
- It is urgently to organise monitoring and assessment system of the 5MHRP.
- Continue to renovate macro policies in forestry sector especially: improve financial policy applicable to natural forest utilization, with certain fee charged for utilization of non-material benefit generated from forest for business, improvement of SFEs
- Promptly formulate sustainable forest development strategy to maintain achievement gained from the 5MHRP.

ANNEX 2C: SUMMARY REPORT OF SUB-GROUP III

Sub-group III, with 4 experts were assigned to study Partnership structure to support the 5MHRP. 4 individual and 1 general reports were developed to cover the following issues:

- Overview on partners who has invested and supported to forestry sector in Vietnam for the last 10 years.
- Analyse outputs on ODA and FDI investment in Vietnam
- Propose indicators and principles on formulation of the 5MHRP’s Partnership structure

The following recommendations were incorporated in the report

- External sources are very important, however, it is an obligation to initially develop and strengthen internal sources in terms of organisation, institutions and human resources in order to effectively use these sources. External sources shall be received unless internal sources are intensified. We should prove to external counterparts that we are able to attract higher ODA and FDI sources.
- It is suggested to improve external counterparts approach towards the direction that focus on the 5MHRP’s objectives, avoid overlaps and define clear phase-outs so as to have clear picture on implementation efficiency at individual region.
- Partnership approach should be flexible to be eligible with requirements of both Vietnam and donors sides. If we apply a uniform partnership organisation to support the 5MHRP, we certainly understand firmly the available sources so as to enable appropriate distribution of these sources to the 5MHRP component-projects. Nevertheless, due to the variance in terms of support target and procedures of difference donors, this approach would hardly be adopted by donors. For this reason, this report mentions the partnership structure under the combination between project and program approach.

The Government is proposed to formulate technical support projects (policy, organisation, institution, training and scientific study) into a uniform program and then perspective donors are requested to discuss and contribute finance to implement and set up a steering committee of this program.

With regard to specific forest plantation and establishment projects, it is viable to apply project approach oriented partnership. For this case, Vietnam side is supposed to coherently announce individual component-projects, division of project areas and subsequently jointly discuss with donors for implementation. However it
is, it is extremely worthwhile to improve procedures aiming at reducing communication cost for both Vietnam and donors sides.

It is suggested to further discuss with investors to develop more concrete partnership measures and regulation while synthesizing relevant reports.

ANNEX 3: LEGAL DOCUMENTS RELATED TO INVESTMENT AND INVESTMENT SUPPORT MECHANISM OF THE 5MHRP

I. Laws and Ordinances

- Law on revision, supplementation of certain Articles of the land law issued on 11/12/1998 (revision of the land law in 1993)
- Law on forest protection and development (issued on 19/8/1991)
- Law on environment protection (issued on 10/1/1994)
- Law on revision and supplementation of certain Articles in the law on state budget (issued on 1/6/1998)
- Law on Vietnam State bank (6/12/1997)
- Law on Credit (12/12/1997)
- Law on Trade (23/5/1997)
- Law on external investment encouragement (revision) (12/11/1996)
- Law on internal investment encouragement (revision) (1/6/1998)
- Law on State owned enterprises (30/4/1945)
- Law on enterprises (26/6/1999)
- Law on cooperatives (30/4/1996)

II. Bylaws

- Decree Nr.50/1999/ND-CP on 8/7/1999 of the Government on organisation and operation of the development investment fund
- Decree Nr.51/1999/ND-CP dated 8/7/1999 of the Government on detailed implementation of the law on internal investment encouragement (revision ) Nr.03/1998/QH 10
- Decree Nr.52/1999/ND-CP on 8/10/1999 of the Government on management and investment mechanism on basic construction
- Decision Nr.53/TTg on 8/8/1999 of the Prime Minister on management of National programs
- Decision Nr.38/2000/QDTT on 24/3/1996 of the Prime Minister on revision and supplementation of certain articles of Decision Nr.531/TTg on 8/8/1996 of the Prime Minister on management of National programs
- Decree Nr.43/1999/ND-CP on 29/6/2000 of the Prime Minister on State’s development investment credit
- Decision Nr.661/QD-TTg on 29/7/1999 of the Prime Minister on objectives, tasks, policies and organisation of the 5MHRP implementation.
- Inter-ministerial circular Nr. 28/1999/TT-LT dated 3/2/1999 of MARD, MPI and MOFinance guiding the implementation of Decision 661dated 29/7/1998 of the Prime Minister
- Circular Nr.28/1999 on 13/3/1999 of MOFinance guiding the management and disbursement of state budget for the 5MHRP.
- Instructive Nr.24/1999 dated 10/9/1999 on general land inventory
- Decree Nr.163 of the Government dated 16/11/1999 on forest land allocation. lease to organisations, households and individuals for long-term and stable use in forestry purposes.
- Decision Nr.211/1999 on 28/10/1999 on interest-rate of the loan on industrial material forest plantation.
- Decision Nr.175/Qd-TTg on 2/3/2000 of the Prime Minister on interest rate of State development investment credit loan in 2000
- And several other legal documents promulgated by MARD or relevant Ministries guiding technical, managerial procedures.

LEGAL PAPERS RELATED TO THE INVESTMENT MECHANISM AND SUPPORT TO THE 5MHRP

1. Decree 50/1999/ND-CP of 8/7/1999 by the Government on organization and operation of the Development Investment Fund
3. Decree 52/1999/ND-CP of 18/10/1999 by the Government on mechanism for investment management
and capital construction
4. Decision 531/TTg of 8/8/1996 by the Prime Minister on management of national programs
5. Decision 38/2000/QD-TTg of 24/3/2000 by the Prime Minister on amendment and supplement of some articles in the Decision 531/TTg of the Prime Minister on management of national programs
8. Decision 661/QD-TTg of 29/7/1998 by the Prime Minister on objectives, duties, polices and organization for the 5MHRP’s implementation
9. Inter-circular 28/1999/TT-LT of 3/2/1999 by MARD, MPI, MOF to guide implementation of the Decision 661/QD-TTg of 29/7/1998 by the Prime Minister
10. Circular 28/1999/BTC of 13/3/1999 by MOF to guide management and allocation of fund from State budget for the 5MHRP
11. Directive 24/1999/CT-TTg on 10/9/1999 general inventory of land
12. Decree 163/1999/ND-CP by the Government on 16/11/1999 on allocation and lease of forestland to organizations, households and individuals for long-term and stable use for forestry purpose
13. Decision 221/1999/QD-TTg of 28/10/1999 on the interest of credit for plantation of forests to serve industrial materials
14. Decision 175/QD-TTg on 2/3/2000 by the Prime Minister on the interest of development investment credit of the State in 2000

And some papers to guide procedures, technical management issued by MARD or other functional ministries.

In these documents, the documents usually have impact on investment policy in forestry are:

- Decree No.51 CP on 8/7/1999 of the Government guiding the implementation of domestic investment incentive Law.
- Decree No.52/1999/ND-CT on 8/7/1999 promulgating investment and construction regulation.
- Decree No.163/CP on 16/11/1999 of the Government regarding to allocation of forest land to organizations and individuals for long term use in replacement of Decree No.02/CP formerly. Decision No. 166/TTg of 29/7/1998 of the Government regarding objectives, tasks, policies and organization for implementation of 5 MHRP.
- Decision No.187/1999/QD-TTg of 16/9/1999 regarding restructuring and managing State forest enterprises.

ANNEX 4: FOREST PLANTATION PROJECTS FUNDED BY FOREIGN COUNTRIES AND INTERNATIONAL ORGANISATIONS

<table>
<thead>
<tr>
<th>No.</th>
<th>Project/program title</th>
<th>Duration</th>
<th>Budget (mil USD)</th>
<th>Area (ha)</th>
<th>Planted area (ha)</th>
<th>Remarks</th>
</tr>
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<tr>
<td>1</td>
<td>Completed and on- going projects</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Program funded by Sweden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Vietnam-Swedish forest cooperation program</td>
<td>1991-1996</td>
<td>13.3</td>
<td>64.940</td>
<td>-</td>
<td>64.940</td>
</tr>
<tr>
<td>1.2</td>
<td>Mountainous rural development program (5 provinces Tuyen Quang, Ha Giang, Lao Cai, Yen Bai, Phu Tho)</td>
<td>1997-2000</td>
<td>19.9</td>
<td>20.150</td>
<td>-</td>
<td>-</td>
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<tr>
<td>2</td>
<td>Forest plantation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Projects before 1991 (3 projects: 2396,2780 and 4126/A).</td>
<td>funded by World Food Program</td>
<td>1978-1991</td>
<td>35,6</td>
<td>207,845</td>
<td>207,845</td>
<td>-</td>
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<td>2.2 Projects after 1991 (3 projects 3352, 4304 and 5322)</td>
<td></td>
<td>1992-2000</td>
<td>53,3</td>
<td>240,000</td>
<td>-</td>
<td>-</td>
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<tr>
<td>3 Forest plantation projects funded by German GOV.</td>
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<td></td>
<td></td>
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<tr>
<td>3.1 Afforestation project in Bac Giang and Lang Son</td>
<td></td>
<td>1996-2000</td>
<td>6,3</td>
<td>14,100</td>
<td>-</td>
<td>-</td>
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<td>3.2 Afforestation project in Ha Tinh-Quang Binh-Quang Tri</td>
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<td>1997-2001</td>
<td>10,9</td>
<td>21,000</td>
<td>-</td>
<td>-</td>
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<td>3.3 Afforestation project in Bac Giang, Quang Ninh vµ Lang Son</td>
<td></td>
<td>1998-2004</td>
<td>7,8</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>4 Projects funded by Netherlands GOV.</td>
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<td></td>
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<tr>
<td>4.1 Mangrove forest rehabilitation in Mekong delta (Ca Mau, Soc Trang)</td>
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<td>1996-1999</td>
<td>3,6</td>
<td>6,100</td>
<td>-</td>
<td>-</td>
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<tr>
<td>4.2 Cat Tien National Park conservation</td>
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<td>1997-2001</td>
<td>6,9</td>
<td>1,000</td>
<td>-</td>
<td>-</td>
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<td>5 Projects funded by Japanese Gov.</td>
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<tr>
<td>5.1 Afforestation on sulfate are in Tan Thach</td>
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<td>1997-2000</td>
<td>2,0</td>
<td>780</td>
<td>-</td>
<td>-</td>
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<td>6 Projects funded by EU: Social forestry and nature conservation</td>
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<td>1997-2002</td>
<td>20,0</td>
<td>33,000</td>
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<td>-</td>
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<td>7 Projects funded by WB under loan agreement including 3 projects on forest protection and rural development implemented in Kon Tum, Dong Nai, Lam Dong, Song Be, Dac Lac.</td>
<td></td>
<td>1997-2004</td>
<td>21,5 (loan)</td>
<td>1,000</td>
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<td>-</td>
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<td>8 Projects funded by ADB via loan agreement on forestry sector and natural resources management implemented in Thanh Hoa, Phu Yen, Gia Lai, Quang Tri, Lao Cai, Ha Giang.</td>
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<td>1998-2003</td>
<td>33,0</td>
<td>114,000</td>
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The remaining will be planted by 2001

Planted from 1999-2003
| Total | 234.1 | 723.915 | 207.840 | 64.940 | 210.328 | 33.179 | 70.563 |