

THE VIETNAMESE NON-GOVERNMENT ORGANIZATIONS NETWORK ON
FOREST LAW ENFORCEMENT, GOVERNANCE AND TRADE
(VNGO-FLEGT)



REPORT

The Livelihood Impact Assessment of the VPA



Ha Noi, March 2014

**THE VIETNAMESE NON-GOVERNMENT ORGANIZATIONS NETWORK ON
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Not with standing the research efforts, given a new method and assumptions, the report is not without errors in the process of researching and editing. We truly hope to receive feedback from readers to further complete the report.

Sincerely thanks,

Vu Thi Bich Hop



Chair of VNGO-FLEGT Network Steering Committee
Executive Director of SRD

ABBREVIATIONS

CSOs	Civil Society Organizations
DFID	Department for International Development, United Kingdom
EU	European Union
FLEGT	Forest Law Enforcement, Governance and Trade
LD	Legality Definition
LIA	Livelihood Impact Assessment
NTFPs	Non-Timber Forest Products
TCA	Transmission Channel Analysis
TLAS	Timber Legality Assurance System
CPC	Commune People's Committee
VNFOREST	The Vietnam Forest Administration
VNGO-FLEGT	The Vietnamese Non-government Organizations Network on Forest Law Enforcement, Governance and Trade
VPA	Voluntary Partnership Agreement

I. INTRODUCTION

1.1. BACKGROUND

Vietnam is in the final negotiation stages towards signing a Voluntary Partnership Agreement (VPA) with the European Union as part of the FLEGT (Forest Law Enforcement, Governance and Trade) Action Plan, which aims to ensure legal timber trade and fair forest governance. This report provides a summary of the methodology, main findings and recommendations of a preliminary Livelihood Impact Assessment (LIA) of the VPA that was conducted by the VNGO-FLEGT Network over the last year.

Voluntary Partnership Agreements (VPAs), and the processes through which they are developed, have considerable potential to bring about pro-poor policy reforms and can result in the empowerment of the more vulnerable community groups. With the implementation of the VPA, the timber production and processing industry has to adapt to changing market demands and export regulations, and an action plan to ensure timber legality is required by Vietnam. This action plan has to focus on raising awareness, amending and reviewing legislation, encouraging enterprises to import certified timber, developing and implementing a timber legality assurance system, and strengthening international cooperation with export countries such as Laos and Cambodia and with markets in EU countries.

To assist in this process and ensure that the voice of the local people is heard, Vietnamese CSOs and NGOs joined forces through the establishment of the VNGO-FLEGT Network in January 2012, at present consisting of 40 member organizations. The VNGO-FLEGT Steering Committee includes four organizations: The Centre for Sustainable Rural Development (SRD), People and Nature Reconciliation (PanNature), Research Center of Forest and Wetlands (ForWet) and Centre for Rural Development in Central Vietnam (CRD). The network is currently engaged in three FLEGT related projects, with two regional projects funded by the EU and one smaller-scale national project funded by the FAO FLEGT Program.

Substantial contribution of the network to VPA negotiations has been the submission of consolidated comments on the drafts of the Legality Definition (LD) and the Timber Legality Assurance System (TLAS) to the Vietnam Forest Administration (VNFOREST). The network has also participated in VPA/FLEGT-related meetings held by VNFOREST and stakeholder organizations, and network members have joined the 7th and 8th FLEGT Week, in addition to participating in relevant training courses in the UK, Indonesia, Thailand and Malaysia. Public consultation activities in six provinces on timber legality have been carried out by the network that shares its activities and information about FLEGT/VPA developments through various websites and regular email updates.

It is anticipated that the VPA will have many positive impacts and benefits on the Vietnamese timber market. Improved governance and regulation of the forest sector will result in better economic and market prospects, including market

opportunities in the changing global trade environment for timber, assured EU market access for FLEGT licensed products and economic opportunities for wood processors and exporters. However, VPA processes of formalization and legalization, combined with a stricter enforcement of laws and regulations also have the potential to impose negative impacts on those whose livelihoods were previously dependent on the formally “illegal” use of the forest. It consequently appears inevitable that the VPA process and its implementation will result in winners and losers, and there are likely to be a range of social or equity effects, some positive and others negative. Because Vietnam’s land management and land use rights have progressively developed in different stages, various documents exist outlining the legal basis for the issuance of land use certificates and forest user rights. There is currently a shortage of relevant legal documents for providing the necessary evidence and assuring a clear understanding some aspects of legality. Measures to integrate TLAS verification strategies by local governments still have to be refined and an issue of current concern is the adequate certification of imports from timber exporting countries.

To support a better understanding the VNGO-FLEGT Network has been investigating the potential implications of the VPA on potential vulnerable groups and households by carrying out a Livelihood Impacts Assessment (LIA). In Vietnam, this LIA is conducted before the VPA is finalized (*ex ante*), and therefore assesses the likely impacts of VPA on vulnerable stakeholders. The LIA can importantly contribute to the design of the VPA, including the identification of key social safeguards issues and responses, and exploring opportunities for enhancing livelihood outcomes. The emphasis consequently focuses on identifying risk reduction and mitigation measures, while building the capacity of CSOs to engage in VPA negotiation and implementation and to undertake LIA work. An effective and constructive contribution to the LIA necessitates an adequate understanding of the impacts on the livelihoods of potentially vulnerable groups and households, and a through review of respective national laws and regulations.

1.2. OVERALL METHODOLOGY

The LIA process involved a series of three workshops, interspaced with a series of analytical work including stakeholder analysis, an institutional analysis and a transmission channels analysis. The LIA has four stages: Stage 1 identifies and prioritizes the vulnerable stakeholder groups; Stage 2 studies the constraints and problems the VPA may cause to livelihoods, acknowledging existing difficulties faced by stakeholder groups; Stage 3 develops the theories of change and strategies that ensure the outcomes are positive; and Stage 4 conceptualizes a monitoring plan with appropriate indicators. A detailed description of the four stages of LIA is provided in Table 1 below.

During an inception workshop in Ho Chi Minh City in March 2013, network members provided key insights and discussed critical issues with regard to the

potential impacts of the VPA on key stakeholder groups. The workshop provided participants with a comprehensive understanding on the theory and practise of a LIA. Participants identified and mapped key vulnerable stakeholder groups in Southern, Central and Northern provinces in Vietnam and conceptualized a plan to undertake an ex-ante LIA with stakeholders, in order to understand how stakeholder's livelihoods are likely to be impacted by a VPA, and to constructively inform the VPA negotiation process. This first workshop demonstrated the high commitment of Vietnamese civil society to participate in the FLEGT/VPA process, with the aim to ensure that the rights of local forest-dependent communities are adequately respected.

At the completion of the inception workshop three potential stakeholder groups, likely to be significantly affected by VPA implementation, were identified as focus groups for the LIA, including:

Group 1: Small-scale woodworking households in woodcraft village, using high quality imported timber and using domestic timber sources;

Group 2: Ethnic minority households and communities whose livelihoods are based on the utilization of forest land and forest products;

Group 3: Households involved in forestry production, supplying timber to forest industries, but who do not have Red Book certificates for their land.

After the inception workshop, network members carried out research on the stakeholder and institutional analyses (LIA stage 1) for presentation at a second LIA workshop that was held in Hue in September 2013 with the attendance of 30 people, including members from the VNGO-FLEGT network, in addition to relevant stakeholders in the FLEGT/VPA process. The second workshop enabled participants to share and discuss the key findings from the stakeholder and institutional analyses, and provided valuable opportunities to further improve and refine the methods. Theoretical and practical components of Stage 2 of the LIA (Transmission Channel Analysis) were introduced in this workshop and participants elaborated transmission channels for the three stakeholder groups during group work. Capabilities of individual groups and sub-groups to adapt to amended forest governance laws were also discussed in order to prepare for the third stage of the LIA, the participatory theory of change analysis.

A third workshop in November 2013, hold in Vinh Phuc, focused on using the Stakeholder and Transmission Channel Analysis to develop a Theory of Change and resultant Action Plan to inform the VPA negotiations. This workshop was attended by 33 participants, including representatives from the VNGO-FLEGT network, VNFOREST, the United Nations Development Program, INGOs, in addition to representatives from FERN and Forest Trends. Participants were updated on the progress of the VPA negotiation process between Vietnam and the EU and learnt about current FLEGT/VPA developments, including regional initiatives, which are relevant to the interests of network members. The third workshop served as the crucial step to enable the successful conclusion of LIA analyses. Firstly groups presented and agreed

on the consolidated transmission channel analysis for the three stakeholders groups. Groups then conceptualized problem statements, results chains, analysed the probability and severity of risks, in order to propose a theory of change with associated risk abatement strategies and measures. The VNGO-FLEGT network can also contribute with valuable insight to the design of adequate indicators for monitoring, and network members can possibly be actively involved in the process of independent monitoring.

Table 1: Overview on conceptual LIA methodology

Stage 1: Stakeholder and Institutional Analyses

The first main stage of the LIA is a stakeholder and institutional analysis. A major goal of the stakeholder analysis is to gain an understanding about who could be negatively affected by a VPA. The stakeholder analysis typically includes descriptions of the coping strategies of vulnerable stakeholder groups and a gender analysis. An institutional or political economy analysis is also needed, and focuses on the likely distributional effects of a VPA and its behavioral incentives on stakeholder groups, especially powerful groups who could oppose key VPA strategies.

Stage 2: Transmission channels analysis

Transmission channels are pathways through which a policy intervention, such as a VPA, affects vulnerable stakeholder groups. Transmission channels analysis is a core tool in the World Bank PSIA toolbox. Six primary transmission channels are generally considered: employment, prices, transfers and taxes, authority, assets, and access to goods and services.

Stage 3: Participatory theory of change analysis (including indicators and monitoring plan)

A theory of change is a hypothesis of how an intervention such as a VPA will achieve its intended objectives and goals. As with any theory, there is no guarantee it will work. It is based on a set of plausible cause-and-effect assumptions that proponents of an intervention hope will hold true. Conceptualizing the theory of change involves setting out and tracking a set of “results chains” linking an intervention’s strategies and activities with its outputs, outcomes, impacts, and analyzing the cause-and-effect assumptions between them.

Stage 4: Development of a monitoring plan with an appropriate set of indicators

An important aspect of the LIA is to develop a process for monitoring the effects of VPA implementation on livelihoods. This requires the identification of appropriate indicators. An ideal indicator will show progress between outputs, outcomes and

impacts, and will be derived from a SMART (Specific, Measurable, Attainable, Relevant, Time – Bound) objective conceptualized from a key result in the results chain. From the SMART objectives, indicators can be developed that help to track and measure progress. Once the indicators are developed, a monitoring plan can be created. The monitoring plan outlines what data is needed, and how it can be collected, for each indicator.

1.3. RESEARCH AGENCIES AND PARTICIPANTS IN THERESEARCH

Table 2: Overview of Research Responsibilities

Stakeholder Study	Field locations	Researchers (name and organizations)	Contact details of researchers.
Group 1 Small-scale woodworking households in woodcraft village	Dong Nai, Lam Dong	Phan Trieu Giang (SRD), Nguyen Chi Thanh (ForWet), Dinh Van Tai (ForWet)	Phan Trieu Giang: trieugiang.phan@gmail.com Nguyen Chi Thanh: thanh.wetland@gmail.com Dinh Van Tai: dinhtai51@yahoo.com.vn
Group 2 Ethnic minority households and communities	Thua Thien Hue	Truong Quang Hoang (CRD), Tran Nam Thang (CORENARM)	Truong Quang Hoang: hoangtranghue@gmail.com; Tran Nam Thang: trannamthang@huaf.edu.vn
Group 3 Households without Red Book certificates for their land	Dak Lak, Thanh Hoa, Phu Tho, Hoa Binh	Duong Thi Lien (SFMI) Dang Ngoc Toan (CHCC), Nguyen Kim Trong (CARTEN), Le Thanh Yen (CRD – Thanh Hoa)	Duong Thi Lien: duongtlien@yahoo.com Dang Ngoc Toan: dngoctoandaklak@gmail.com Nguyen Kim Trong: trong.hadeva@gmail.com Le Thanh Yen: lethanhyenldp@gmail.com

The research group working on the institutional analysis (To Dinh Mai – CECOD (email: todinhmai@gmail.com), Nguyen Xuan Lam – PanNature (email: lamnx@nature.org.vn), Pham Anh Tuan – SRD (email: tuan@srd.org.vn) collaborated

closely with stakeholder analyses research groups to ensure that all relevant information and insight from stakeholder analyses was adequately incorporated. The LIA research was coordinated by SRD and led by Ms Pham Thi Bich Ngoc (Climate Change Manager – SRD (email: NgocPTB@srd.org.vn), in collaboration with Dr Michael Richards (email: MRichards@forest-trends.org), Dr Mary Hobley (email: mary@maryhobley.co.uk) from Forest Trends who provided technical expertise and advice to network members throughout the course of the LIA research.

1.4. STRUCTURE AND CONTENTS OF THE SUMMARY REPORT

The summary LIA report is divided into five main parts:

Section 1 Introduction

Section 2 The Stakeholder and Institutional Research

Section 3 Summary of Transmission channels analysis

Section 4 The main recommendations for VNFOREST and EU negotiators based on the findings from the group research studies and the institutional assessment.

Section 5 List of annexes including the full group reports, project and participant details.

II. FINDINGS OF THE STAKEHOLDER AND INSTITUTIONAL ANALYSES

2.1. SMALL-SCALE WOODWORKING HOUSEHOLDS

2.1.1 Main characteristics of small-scale woodworking households

Woodworking households are important stakeholders because of their large number and production of traditional wood products, especially in peri-urban areas all over the country. Currently there are no formal data on the number of small woodworking households. Official data of MARD have only been collected on production units whose capacity is over 200m³ timber per year (MARD 2011). Data on small producing households (<200 m³/year) is not compiled and is also variable. MARD (2011) estimated about 10,000 woodworking households, 201 woodcraft villages in the Red River Delta, and 5 villages in the South Central Coast Region. According to To Xuan Phuc (2012, cited from HRPC 2009), there are about 20,000 households and 302 woodcraft villages throughout the country.

These households process about 1 million m³ timber/year. Of which, 350,000 - 400,000m³ are used in woodcraft villages, approximately 400,000m³ are used in timber industry clusters, and 200,000m³ are used by small households (To Xuan Phuc 2012). The household-scale producers often use rare local or imported wood. At the national level, accurate figures on the quantity and origin of the wood input to household-scale producers is not clear.

Regarding economic conditions, there is no official data on the poverty status of woodworking households. However, they generally have higher income compared to the average wage. The average income of a carpentry worker varies from 2 to 4.5 million dong, while a workshop owner may have an income from 10 to 13 million dong per month. The main labor forces of these household producers are often family members or relatives. In general, men have a dominant role in all production stages due to better health, knowledge and techniques. Most men have more power in decision-making. In small woodworking households, the ratio of female labor is very low. Although women and children are often involved in some light work, these groups are more sensitive to the working environment. Their health is adversely affected by the polluted production environment. Hired workers often stay in uncomfortable rented accommodation nearby.

2.1.2 Small woodworking households and their issues

Studies in Lam Dong and Dong Nai provinces showed that, in general, there are four major types of woodworking households, including: (i) households producing for export markets, (ii) households processing industrially; (iii) households producing industrially for domestic markets, and (iv) small-scale woodworking households. Problems faced by this latter group are described in Figure 1—the Problem Tree.

Woodworking households are monitored directly by the Commune /Ward People's Committee (CPC) and also subject to the monitoring, inspection and licensing of local agencies such as: the District Economic Section (assisting the People's Committee in issuing business registration certificates for households), the Natural Resources and Environment Section, Department of Taxation, Department of Statistics, Market Monitoring Department, Forest Protection Station, environmental police, fire prevention police, and economic police, and business-related entities such as banks, credit funds, etc. However, in general the supervision of woodworking households is quite loose and coordination between related agencies has not been in place.

Many households, especially small woodworking households, have no business license, and do not record their inputs, outputs and revenues. Some households pay only a fixed tax per month and purchase receipts from Department of Taxation when needed. In Ho Nai woodcraft village (Dong Nai), the number of households with business licenses accounts for only 12.5% of total woodworking households. Most households cannot provide receipts to customers. According to the report on the northern woodcraft villages, 30% to 78% of households sell their products without providing product records or invoices (Forest Trends, 2012). One reason is to avoid tax payment, and another reason is that the scale and capacity of household producers is too small to comply with complicated legal requirements. Woodworking households also often do not participate in professional associations.

Figure 1: Problems that small woodworking households are facing



Material sources of woodworking household are quite complicated. Most of materials are purchased from illegal loggers and middlemen, due to lower price, sometimes down by 50% in the forest proximity. In Dong Nai, material sources of individual households are mostly imported timber (acquired from middlemen), and account for 70% (including *Azelia xylocarpa*, *Pterocarpus pedatus*, *Xilya dolabriformis*, *Pygeum arboreum*, oak, pine, ...). Apart from domestic planted forest (mainly *Acacia auriculiformis*, teak and rubber making up 28%), the remainder (2%) is packaged wood and unknown wood in the market. In Lam Dong, timber is purchased from both legitimate business and illegal loggers. Illegal timber is usually cut by illegal loggers and sold to sawmills near the forest. Timber transported from the forest is then often cut into units with length commonly about 2-3m and surface about 30-40cm. Due to the difficulty of illegal logging, illegal loggers usually choose rare timber. Some sawmills often disperse timber at their relatives and friends' buildings in the area rather than store all the timber in one place. Timber is smuggled into the supply chain through many sophisticated ways. A household producer with 2-3 workers typically uses about 10-20 m³ of timber per year.

The scale of production facilities and equipment may vary in different groups. In Dong Nai, due to the large production scale, most producers have a workshop area ranging from 200-1000m². The small producers have a workshop averaging about 50m². However, the majority of households have a material storage area ranging from several to tens of square meters. For small producers, machinery is not complicated, mainly tools including saws, planers, PU blowers etc. Equipment in each household is from 1 to 2 units per type. The industrial processing households, due to less involvement in all stages of production, also have simple but highly efficient equipment. Some households may saw timber with CD saws placed far from a residential area. According to some small producers, most of the equipment is made in Vietnam or China and costs less than 15 million dong. However, the equipment of large households is quite modern and sometimes in an assembly line.

The relationship between owners and workers is often not binding. Unskilled labor is abundant, while skilled labor is scarce. This creates easier conditions for industrial producing households, while small woodworking households often face shortages of skilled labor. The small households often have about 2-10 workers depending on the season. However, except in large factories where workers are usually paid monthly and some have labor contracts, the majority of workers including foremen are usually paid weekly and without contracts, employment insurance, or social insurance. Due to the unbinding nature of this working relationship, workers take the risk when accidents happen. During the low season, many workers are laid

off. Unskilled workers are most likely to be laid off. However, this method of verbal contract is preferred by both the owners and the employees because of its flexibility. Workers can switch employers when presented with higher salary opportunities, while owners can choose the right person, ultimately reducing costs.

Informal associations of traders are also observed in small-scale producers at different levels, popular in Dong Nai, but not as well established as in Northern woodcraft villages. At the household level, the relationship between producers and affiliated households, trading households in the product chain is closely linked. Transactions among the household groups are often unrecorded, only in the form of personal letters or verbal agreement in order to avoid taxes, and to reduce production costs.

The small production facilities are usually very independent although they may know a few other households in the area or some relatives. These households often exchange information on raw material prices, daily wages, material inputs, but may not cooperate in terms of labor, machinery, customers, or other matters. Thus, similar to the Northern woodcraft villages, no established linkages among households leads to setbacks in competition, capacity development and markets.

Environmental problems are a pressing issue, especially if the woodworking households are located in residential areas. In manufacturing, wood dust and paint are factors adversely affecting the health of workers, especially women. Nearby households often smell the paint even if shutting all their doors. Small woodworking households don't have equipment to treat wood dust and paint. At many stages, the amount of dust is not large but it is small and dispersed in the air. Small households often don't comply with sanitation standards, and accept fines; their profits remain higher rather than making investment in facilities and improved working environment. Prolonged pollution often causes resentment of amongst local people, leading to complaints, affecting public order and security, and distrust of people toward the authorities. Some people believe that state management is not good, appears negative, while some local authorities have ignored violations of the law. In addition, households have many workers, and products all over the facility; while fire extinguishers are poorly equipped leading to high risks of fire and explosions. Regarding sanitation and fire prevention, the majority of households do not receive guidance, training, and do not comply with the regulations.

The types of product are diverse including: tables, chairs, sofas, shrine cabinets, wardrobes, beds, office furniture, shelves, stair handrails, stair pillars, wood flooring,

ceilings and walls. In some places, there are many kinds of interior decorative products (God of Wealth statues, clocks, etc.). Most woodworking households produce for the local market. A small number of households produce for export companies such as households in the Dong Nai area. In Northern woodcraft villages, more than 83% of the products are consumed within the country and around 16% are exported to the Chinese market. Particularly in Dong Ky Village, about 33.3% of companies and 42.8% of households export their goods to the Chinese market (Forest Trends 2012). However, accurate data on small household production and types of wood produced for both domestic and international markets and other industries are not officially recorded at either national or local levels.

While many large producers often have close relations with Forest Rangers, the District Economic Section and market monitoring section, small households rarely contact state agencies and do not understand relevant legal regulations. Many households operate in an informal way. The informal institutions observed include their relationships with wood suppliers, some related officials, employees, communities, and sources of loans. The informal relationships help many families avoid many regulations and restrictions. Households are responsible for reporting periodically on timber exports/imports to the local forest ranger, or when timber arrives at the workshop, especially when importing timber from natural forest, they must report immediately. But in reality, households neither record nor report regularly, and forest rangers do not check regularly on small woodworking households. However, local rangers know well about woodworking households in their area. Due to unclear legal requirements, many small producers work in difficult or covert conditions. In some areas, households often lock the door and operate internally, or build covered workshops behind their houses to avoid inspection by the authorities.

2.1.3. Impacts of VPA to small woodworking households

In general, none of the four groups of woodworking households considered in this study will have a direct or significant effect on the operationalization of the VPA. Nonetheless, the impacts of the VPA on these groups are potentially quite significant and varied.

In the future, the stricter application of regulations could increase the powers of the concerned authorities such as those related to business registration (Department of Planning and Investment), forest inspection (Forest Rangers) and environmental regulation (Department of Natural Resources and Environment). This may cause difficulties for producers if bureaucratic corruption observed in many places is not

addressed. To avoid this situation, there should be a coordination mechanism to control and monitor the use of powers of law enforcement agencies. Besides, the legal system needs to be streamlined and clear, and understanding of the laws amongst producers should be raised.

Although potentially facing some initial difficulties, many groups will benefit from the VPA to different extents, including the standardization of laws and regulations. If implemented well, the VPA will potentially create a fairer and competitive environment for business. For export-oriented processing households, because of good management capacity of this group, the VPA may help them expand and stabilize their market. Many groups will enhance their production capacity as anticipated by the VPA. Common difficulties that these households will face are the increased costs of production, reduced profits or increased competitiveness due to the initial cost of standardization of production, which includes legally purchased timber, environmental protection equipment, fire prevention, and social security for workers.

The households producing for domestic markets which are enterprises with business license will not be directly affected by the export licensing requirements under the VPA, but may be affected by strengthened forest law enforcement and forest management regulations in the country. Many households using timber from unidentified sources, or packages of timber, will have difficulty in proving the legality of timber. In addition, a large number of households acquiring timber through bidding or purchasing illegal timber through legitimate auction may no longer have easy access to this source. These households often work in polluted environments, do not ensure safety as well as fire prevention, and the rights of workers. The implementation of the provisions of VPA will probably increase the production costs of this group. However, due to their larger scale of production and their larger capital resources, these households would not find it hard to adapt.

The strict and effective implementation of the VPA will potentially have the biggest impact on smaller-scale woodworking households. These changes will require small woodworking households to have a business license, and to comply with tax, environmental sanitation and labor contract regulations. While currently the majority of small woodworking households have little capital, no business license, limited book keeping capacity or tax knowledge, and no labor contracts with workers due to the seasonality of employment. Therefore these requirements will be difficult for households, even to the point of leaving their jobs, if they are not supported with adequate capacity. The success of VPA will not be complete if some groups are put

into this circumstance given this is a large group in the country, supplying traditional wood products primarily in peri-urban areas.

2.2. FOREST-DEPENDENT ETHNIC MINORITY HOUSEHOLDS

2.2.1 Main characteristics of stakeholder group

According to the findings of this study, this stakeholder group has the following common or distinctive characteristics:

- Most of them are ethnic minority people (with some Kinh people living side-by-side in local communities);
- Living within or near natural forest (special use, protection or production forest);
- Native to the local area or migrant households;
- Livelihoods are dependent on and are attached to forests: harvesting of timber and non-timber forest products (NTFPs);
- Most are poor, having a low living standard and limited resources;
- Limited access to public services and markets;
- Low level of formal educational attainment;
- Having forest-related cultures and customs;
- Large family size;
- Participating formally or informally in community forest management but often with no allocation of natural forest.

With their difficulties and distinct characteristics, this group is subjected to poverty due to several reasons:

- The infrastructure for production is not well developed with limited investment and shortages of production land;
- Having many children but shortages of labour, low incomes and dependent on social support;
- Little or no knowledge of financial management;
- Little knowledge of science and technology.

The ethnic minority people in Thua Thien Hue, where the field research was conducted, live mainly in Nam Dong and A Luoi districts, and some in Phu Loc, Phong Dien, and Huong Tra districts. The main ethnic minorities ranked in terms of number are the Pa ko, Ca tu, Ta oi, Van Kieu and Pa Hy. Most of the people practice shifting cultivation, with no irrigation (Rerkasem, 2009).

A recent survey on socio-economic conditions in Thua Thien Hue reveals that poor households in the whole province account for 11.16%, while the rate for the mountainous region is 18.9%, and for ethnic minorities is 28.57%. The percentage of near-poor households is 6.83% for the whole province, and 14.72% for ethnic minorities. All 18 communes in the mountainous and ethnic minority areas have a poverty rate more than 25%. Annual statistics show that the risk of falling back into poverty is very high (Thua Thien Hue Ethnic Committee, 2013).

For local ethnic minority people in Thua Thien Hue, forest and forest products play a very important role. According to some studies, forest products contribute substantially to the incomes of local people (Wetterwald et al, 2004). According to research on the dependency of local people on forest resource in Nam Dong and A Luoi, the dependence of ethnic people on forest resources ranges from 30% to 50% (with some cases up to 70%) in 2004 to 2005 (Thang, 2004), gradually reducing to 18% in 2009 (Thang, 2010).

Especially in recent years (2010 and 2011), the expansion of protected areas (i.e. the extension of Bach Ma National Park and the establishment of the Sao La Reserve in Quang Nam and Thua Thien Hue) has had significant impacts on local livelihoods. For the forest are as previously under management of forest companies and Forest Protection Management Boards, people were allowed to harvest non-timber forest products. But under the expansion and establishment of new protected areas, in principle all these products are protected. Areas of cultivated land by the local people (shifting cultivation) are not allowed.

2.2.2 Importance and influence of the stakeholder to VPA

It can be said this stakeholder group is not really related to timber supply and processing for export markets, and their number is not large. However, they are ethnic minorities that traditionally depend on forest resources; therefore, the impacts of the VPA and FLEGT on forest resources will indirectly affect them. They are potentially vulnerable to a serious extent.

Moreover, most of the ethnic minorities live in low economic conditions with lower living standards than the general population; they are not allocated or contracted natural forest, even though they have a long tradition of forest management. Therefore, the impacts of the VPA and FLEGT on their lives will potentially be very large.

Given that the implementation of VPA and FLEGT is geared toward creating social equity, the impact of this process on marginalized and vulnerable minority

groups will be one of the priorities that must be addressed in order to create social equity as well as achieving the main objective of this process.

The VPA/FLEGT process raises concerns about the interests of people who depend on forest, as well as the environmental impacts. This concern may require that forest owners have to compensate for the damage to local people when exploiting forest. Moreover, the objective of VPA/FLEGT is to improve forest governance and forest development, leading to the improvement of livelihoods of forest-dependent ethnic households. To conclude the VPA, both the government and enterprises need to improve the working and living conditions, as well as other aspects of this group.

2.2.3 Issues faced by the stakeholder and VPA impacts

The problems faced by this stakeholder group are summarized in Figure 2– Problem Tree.

Loss of production land. Implementation of the VPA may potentially result in a loss of production land for this group. This may result from: (a) inadequate land use planning and management (due to weak capacity of staff in land use planning, or reflecting the priorities of local officials), with a lack of concern given to the ownership rights and customary law of local people; and (b) local people may be persuaded into selling their land because economically-capable plantations owners and forestry companies seek to purchase forestland, causing harm to ethnic minority groups.

Figure 1: Problems that the ethnic minority groups are facing



Land use changes. Land use changes which may result from implementation of the VPA may have positive and/or negative impacts.

- Positive impacts: inefficient agriculture land may be converted to more economic plantation forest. This will potentially increase the efficiency of land use, contributing to raising incomes and improving living standards for ethnic minority households. Moreover, increasing the efficiency of land use (i.e. revenue and profit per unit area increase) may reduce the demand for land and thus reduce forest encroachment.

- Negative impacts: these may result from monoculture systems replacing the previous integrated farming systems (Hoang, 2011). In monoculture systems, the livelihoods of households depend primarily on timber from planted forest. But planting forest also increases risks of natural disasters, and price reductions due to market fluctuations. Meanwhile, the ability of households to deal with risks reduces once the livelihood options are restricted due to limited access to forest resources. Moreover, ethnic forest-dependent households are poor and often do not have enough funds, so they may have to borrow to invest in afforestation. Once the risks occur, it may increase their debt burden, and thus limit their ability to access loans to restore production and stabilize their lives. The way of ethnic minority households to deal with these risks is often through illegal forest exploitation and forest land encroachment for agricultural production in order to maintain the family's livelihood.

Customary law in natural resource management is not respected. The extent to which the customary laws of ethnic minority groups towards forest and land resources are acknowledged will also determine impacts on this group. In this respect, there may be two types of impacts:

- The allocation of forest land to forest owners from outside the community (e.g. forest companies and other plantation owners), combined with stricter controls over forest resource utilisation coupled with a lack of participation of local people in forest management, may limit access of local forest-dependent people to forest and land resources. Local people's livelihoods such as clearing land for agriculture production and harvesting forest products will be limited, which may in turn lead to a reduction in income and livelihood diversification of these households.

Alternatively, the recognition of customary laws through the allocation of forest land to households and groups in the community with legal rights, or through co-management arrangements, will safeguard the accessibility to land and forest resources for local people. In particular, if local communities are considered as legal entities and

they are enabled to harvest their forest resources for trading purpose, the timber will be recognized as legal timber. This can help ethnic forest-dependent families have better incomes from their traditional forest areas.

Loss of income from NTFPs. It is anticipated that the VPA will create better opportunities for Vietnam to export timber to the European market. Growing population and demand or declining forest recovery in some countries will increase the demand for timber in Vietnam, expand the timber market, increase timber prices accordingly, and generate profits for producers. This may provide an incentive for forest owners (organizations and households) to expand the area of forest plantations. Especially forestry companies, whose primary concern is profit rather than conservation of forest resources, will focus more on the development of plantation forests. Expanding plantations may lead to land conversion and replacement by plantations. Natural forest, currently considered of poor quality (in terms of timber volume), still also provides considerable NTFPs and therefore has an important role for the livelihoods of forest dependent households. Once the area of natural forest reduces, non-timber forest products diminish, causing loss of a vital resource for forest-dependent ethnic communities and households.

Difficulty in access to the labour market. As indicated above, implementation of the VPA may result in a number of changes in land use, increasing the demand for forest land and promoting the development of forest plantations, which may limit access to forest resources and forest land of ethnic minority households. The livelihood options of ethnic minority households may be narrowed down and they might have to work for local forestry companies. Other disadvantages of ethnic minorities such as limited formal education and skills and language barriers can reduce the bargaining power of the household with employers. Consequently, they can be at disadvantaged in these labour markets.

Insufficient access to information and procedures related to VPA/FLEGT. Due to the fact that ethnic minority groups are mostly poor, with low living conditions and restricted resources for development, limited access to public services and markets, these factors limit access to information related to markets and VPA/FLEGT. There is potential that people will not fully understand the requirements of the VPA/FLEGT in order to apply this understanding to their production activities. This is also one of the difficulties which people encounter.

In summary, it is possible that the VPA could marginalize ethnic minority households and communities whose livelihoods are dependent on forest resources,

there by increasing economic inequality through a number of specific impacts, such as: (1) loss of production land, (2) not acknowledging customary law in forest resource management, (3) loss of income from NTFPs, (4) difficulties in access to labor markets, and (5) limited understanding of issues related to VPA/FLEGT, in order to participate and benefit from this process.

2.3. HOUSEHOLDS PLANTING FOREST ON THEIR ALLOCATED LAND WITHOUT RED BOOK CERTIFICATES

During the research for documents and data of various sectors and in various publications, it was found that there is no document or report on the forest land area allocated to households without ‘red book’ land use certificates¹. What is available is a document containing statistics on forest land allocated to households per region (the National Survey on Land Management in 2010 published by the Ministry of Natural Resources and Environment) including forest land allocated to households with red books, but not forest land allocated without red books per region. Thus, the households in this stakeholder group are mentioned only in general terms.

2.3.1 Main characteristics of households planting forest on their allocated land

Geographical distribution. Although distributed across eight forest ecological regions, households allocated with forest land are mainly concentrated in the North-East and North-West mountainous regions of the country (where 62.74% and 61.77% of the allocated forest land area has been allocated to individual households respectively) and in the North Central Coast Region (36.62%). These figures are higher than the average rate nation wide (29.13%). The rate of households allocated forest land is lowest in the Central Highlands (where forest land is allocated mainly to organizations) and in delta areas. Households with allocated forest land often live in mountainous regions, in habited by many different ethnic groups.

¹ Red book certificates refer to formal land use certificates issued by the land administration authority under the Ministry of Natural Resources and Environment. Households may have forest land allocated to them but have not yet obtained red book certificates. Usually these households have other types of papers confirming the legality of the land allocated to them, such as land allocation decisions of the Commune People’s Committee, or forest land allocation papers previously issued by Forest Protection (‘green books’). In the draft Timber Legality Definition that is being prepared under the VPA, these others types of papers are recognized as legal proof of land use rights.

Percentage of poor and near-poor households. The Northwest has the highest poverty rate of 33.02% (near-poor poverty rate of 12.08%); the Northeast has a poverty rate of 21.01% (near-poor poverty rate of 9.58%); while the North Central Coast has a poverty rate of 18.28% (near-poor poverty rate of 12.38%), compared with the national average rate of 11.76% and 6.98% respectively. Moreover, many households in the mountainous rural areas have a limited level of educational attainment, mostly at primary or secondary level. Growth of the economy is slow due to insufficient infrastructure for trading activities with the delta regions. Livelihoods of this group are difficult, mainly based on forestry, agriculture and animal husbandry, with limited industry in the mountainous regions.

Gender aspects. It was found in this research that women account for around 57% of forestry activities, while men generally take up 43%. However, heavy work like timber harvesting is undertaken by men (90%). Especially, men also often have responsibility for business activities, such as buying seedlings (men 85% women 15%), selling timber (men 90% /women 10%). Women usually do lighter work such as tending nurseries (women 76%/men 24%), planting and weeding etc. Women participate less in social activities such as meetings and trainings, which leads to limited knowledge and techniques, given that they are involved much in tending forest plantations. Furthermore, limited participation of women in communication activities means they have little information on forest policies and regulations. When the VPA is implemented, women may be at a disadvantage because they have limited understanding of the meaning of timber origin and legality, and related forestry policy.

Timber supply chain. The cycle of forest plantations under household management is usually about 5-7 years, so the harvested timber usually has small diameter. A majority of timber from household plantations is used as raw materials for pulp-and-papermills, wood chips for export, or making wooden boards. Pulp mills, chip processing factories, and board processing facilities are located in a scattered way across these regions with planted forest. This stakeholder group can contribute significantly to the wood processing industry.

2.3.2 The importance and influence of this group to VPA

Influence: When the legal framework for forestry and land use rights is strengthened, the livelihoods of these households without red book for their forest land will be affected directly, and their timber may be considered illegal. Moreover, these households often have limited market and product information, little

understanding of the legal origin of timber and timber products, and limited capacity and “voice” and little influence in promoting VPA-related policy reform.

Importance: These households are numerous, live near the forest, with good knowledge about the forest and local area, so they can effectively spot wrong-doings (especially in harvesting and transportation). Therefore they are potentially important in monitoring the implementation of VPA locally.

Benefit: When VPA is signed, there will be an incentive to speed-up the issuance of red book certificates for this group, and stakeholders will be more interested in raising awareness and building capacity. As a result, they will be more confident in developing capacity in legal harvesting and production, and selling forest products with suitable price.

Risks: The VPA will require that only timber of clear legal origin is sold on the market. This could impact the livelihoods of this stakeholder group greatly. Some households may have to resort to selling timber illegally for low price because they don't have legal proof. This may drive them, whom are already poor, into even more poverty.

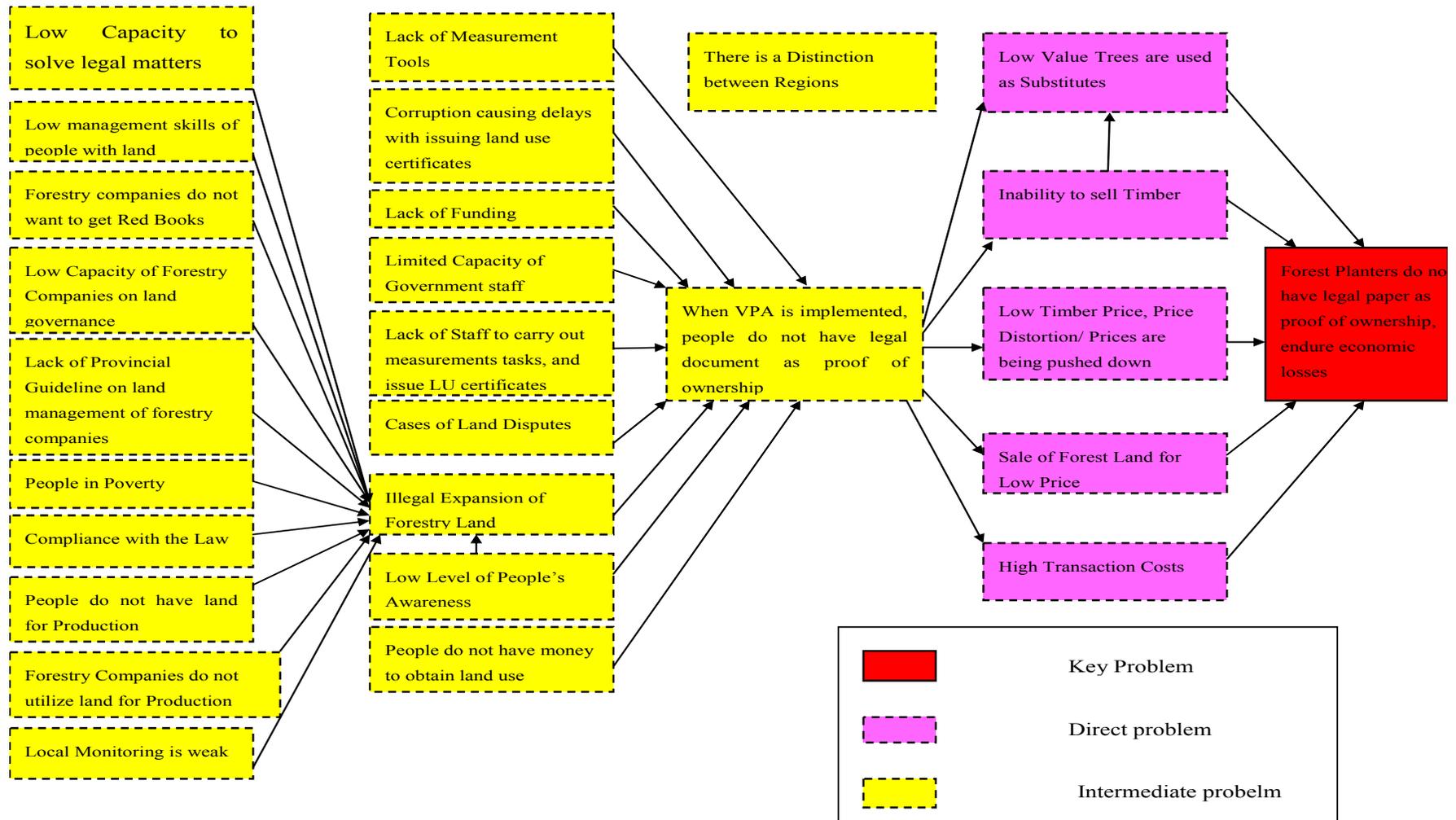
2.3.3 Problems faced by this group

Problems that this group has to face are summarized in Figure 3 – Problem Tree. The causes that lead to problems faced by this group are as follows:

Coordination between the land administration agency (under Natural Resources and Environment) and forest regulation agencies (including Forest Protection) is still limited. The demarcation of boundaries, dispute resolution, treatment of land law violations, are not yet implemented effectively. Forest land plots allocated to households are sometimes not measured and recorded accurately, which leads to disputes or overlapping land use issues. There are many subjective and objective reasons for this situation, including disputes between farmers and forestry companies; forestry companies returning land to the commune authorities who allocate the land to farmers while waiting for the official paper work; or in the past households investing on land which belongs to forestry companies, which is not yet resolved. It will take more effort to resolve these issues in order to ensure these households have the necessary legal status as wood producers under the VPA.

The second potential impact to this group is that the increasing demand for legal timber products will lead to the concentration of forest land in powerful forestry companies and plantations, which will impact the land use rights of these households.

Figure 3. Problems faced by the households without a red book



2.3.4 Impacts of VPA to the households without a red book

Land use Rights

According to the draft definition of timber legality (LD) and TLAS, beside the certificates of land use (redbook), green book and forest land allocation decisions of local government are considered legal papers for legal timber supply. However, it is important that only households with land-use certificates (redbook) have the full right under the terms of the Land Law, including the right to use land as collateral to borrow money. In addition, the certificates of land use are considered to be more secure in the long term. This is fundamental to the sustainable timber production and supply.

Awareness of households planting forest

Currently households producing wood for the market don't understand the legality of timber and timber products, the legal procedures for logging, so they often sell to dealers, and pay the service fee, which affects their livelihood.

III. TRANSMISSION CHANNEL ANALYSIS

As one step in the LIA, a Transmission Channels Analysis was undertaken by the research teams to analyze the potential impacts of the Voluntary Partnership Agreement (VPA) on vulnerable stakeholder groups including farm forest households without land use certificates, household wood processing units, and forest dependent ethnic minorities.

An overview of the methodology of the Transmission Channels Analysis is given in Figure 1 and the results of the Transmission Channels Analysis are presented in Table 2.

Definitions and methodology

Transmission channels are defined as the pathways through which a policy or intervention affects a stakeholder group or groups. Transmission Channels Analysis (TCA) is a tool for looking forwards – to predict and map-out the potential **distributional impacts** of a policy or intervention on livelihoods of the stakeholder group(s). These impacts may include: (i) **primary impacts** – which are the direct or short-term impacts of the policy or intervention; and (ii) **secondary impacts**– which are the indirect or medium-term impacts, and which result from changes in stakeholder behaviour in response to the policy or intervention. These distributional impacts may also be **positive** or **negative** in terms of how they affect livelihoods of the stakeholder group(s).

With respect to the VPA, we have assessed the potential impacts of fuller and stronger enforcement of Government legislation and regulations (i.e. through the Timber Legality Assurance System) on the three vulnerable stakeholder groups. The Transmission Channels Analysis has assessed these distributional impacts in terms of potential changes in six factors: costs and prices; employment; natural resource assets; access to goods and services; fees and taxes; and relationships of power and authority.

A set of questions was used to guide the analysis, as follows:

1) Costs and prices

- What are the potential impacts of stronger timber legality enforcement on the costs of raw material timber supplies and production costs for wood processors?
- What are the potential impacts on production costs and farm-gate prices for domestic timber growers?
- What are the potential impacts on transaction costs for timber growers and wood processors, including formal and non-formal transaction costs?
- How might these potential impacts differ for small-scale and large-scale domestic timber growers and wood processors?

2) Employment

- What are the potential impacts on the structure of the domestic timber production and wood processing industry sectors, and how might this affect employment?
- What are the potential impacts on availability of employment in timber production and wood processing, including formal and non-formal employment?
- How might the employment opportunities for women and for labourers from poor households be affected?
- Can labour move into different forest-based employment or into other industries if conditions in one area change?

3) Livelihood assets

- What are the potential impacts in terms of the market demand for legally produced domestic timber supplies?
- What are the potential impacts on the demand for production forest land, and how might this affect the security of land use by small-scale timber growers?
- What are the potential impacts on the structure of forest land use and access to forest land and forest resources for poor households?

4) Access to goods and services

- What are the likely impacts in terms of the demand for and provision of public services (e.g. for land use certification and other services)?

5) Fees and taxes

- What are the potential impacts of stronger legality enforcement on the level of fees and taxes paid by timber growers and wood processors?

6) Relationships of power and authority

- How will the relationships of power and authority change as a result of stronger legality enforcement in the forest sector?
- What are the potential impacts in terms of the burden of administrative procedures for timber growers, wood processors and regulatory agencies?
- What are the potential impacts in terms of the role and power of various intermediaries (e.g. middlemen, timber traders and timber agents)?
- How might these changes in power and authority affect the situation of poor households and small-scale timber growers and wood processors in particular?

In our analysis, secondary impacts are defined as indirect or medium-term impacts that result from changes in stakeholder behaviour in response to the policy or

intervention. These secondary impacts are therefore partly determined by each stakeholder's **capabilities** to respond to the new situation. We need to consider several different types of capabilities in order to understand these responses, including:

- **Economic capability** – for example, the economic capability of wood processors and furniture manufacturers to borrow capital and invest in new forms of production in response to changing market demands and conditions; or the economic capability of timber growers and wood processors to cover increased production costs and transaction costs.
- **Human capability** – for example, the capability of wood processing households and workers to adapt and maintain secure employment in a situation whereby there may be changes in the structure of wood processing industries.
- **Political capability** – for example, the capability of small-scale wood processors to be represented and influence the implementation of public policies.
- **Socio-cultural capability** – for example, the capability of small-scale timber growers and wood processors to join together to form producer or marketing associations or cooperatives to increase their bargaining power.
- **Social and legal protection capability** – including the ability of households and workers in forest industries to access various forms of social protection to lessen vulnerability and increase their capacity to withstand economic shocks.

The Transmission Channels Analysis is a tool that is used to predict the potential impacts of a policy or intervention. It is, therefore, by necessity a subjective exercise that has some limitations. For instance, it is difficult to factor into the analysis possible changes in the macro-economic environment which may influence global timber trade, or changes in demand for timber products in European Union countries. Nonetheless, the Transmission Channels Analysis is a useful tool for identifying potential impacts, which may then be used as a basis for more detailed quantitative analysis in further studies.

Figure 1. Transmission Channels Analysis methodology

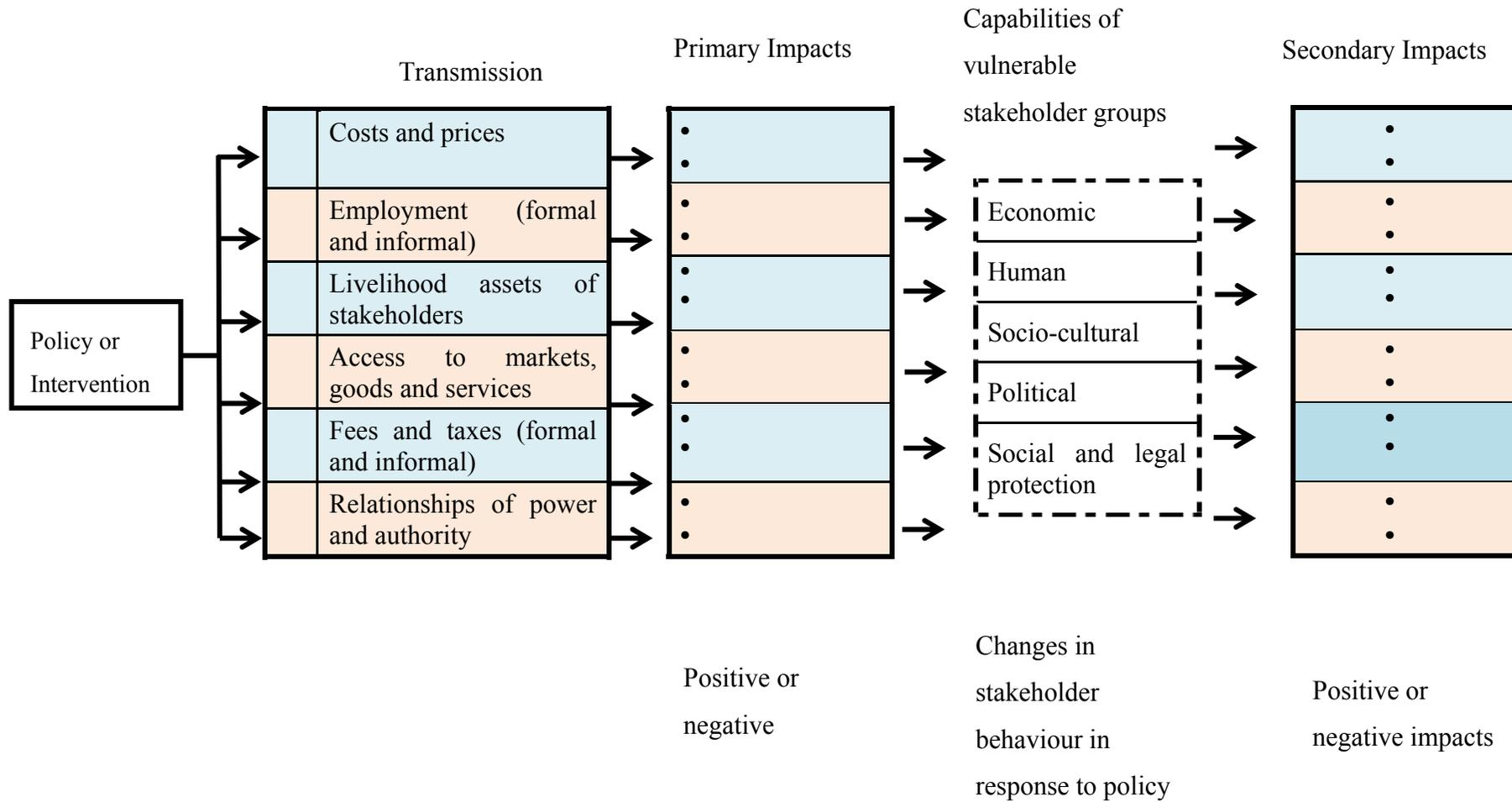


Table 2. Transmission Channels Analysis – potential impacts of the VPA on vulnerable stakeholder groups

Type of Impact	Primary Impacts (Direct and short-term impacts)		Secondary Impacts (Indirect and medium-term impacts – including changes in stakeholder behaviour in response to policy)	
	Description	Strength	Description	Strength
Prices and Costs				
For forest production households that have the capability to become fully legal timber producers (affordability)	► Increase in demand for legally produced timber supplies from domestic growers.	+	► Longer-term opportunities to invest in higher value forest plantations, more stable markets, and improved livelihoods and incomes.	+
	► Increase in transaction costs to become legal producers, including ‘formal’ and ‘informal’ costs of obtaining land use certificates (for households without Red Book) and preparing harvesting plans, checking and appraisal, obtaining harvesting permits... etc.	-		
For forest production households that <u>do not</u> have the capability to become fully legal timber producers (affordability)	► Shift to producing lower quality and less valuable timber products for local consumption (e.g. small poles and firewood) or alternative crops.	-	► Reduced incomes and loss of longer-term livelihood options and assets.	-
			► Reduction in quality and value of forest plantations and timber supplies.	-
			► Decrease in prices of some types of low value timber products for domestic consumers.	+/-
	► Sell forest land with low price.	-	► Reduced incomes and loss of longer term livelihood options and assets.	-
	► Potential for land concentration and increased inequality in land distribution.		-	

Farm-gate timber prices for forest production households	► Differentiation of farm-gate market prices for timber from land with and without land use certification (currently prices not differentiated according to legal status of forest land).	+/-	► Increased prices for legal timber and increased revenues for certified producers in medium to long term	+
			► Potential for wood processing companies and middle men to set low farm-gate prices for timber.	-
			► Increase in inequity in access to timber markets.	-
Cost of raw material supplies for wood processors	► Increase in prices for legal timber supplies leading to increased production costs for wood processing industries.	-	► Increased competition between small and large scale processing units for legally sourced timber supplies. ► Small-scale household processing units may find it difficult to source legal timber and difficult to afford price increases for timber supplies.	-
Transaction costs for wood processors	► Increase in transaction costs due to stricter enforcement of regulations that need to be followed by household processing units (business registration and management, environmental protection, taxation etc.).	-	► Reduced revenues. Small-scale household processing units may find it difficult to fulfil requirements and afford transaction cost increases.	-
Product prices for wood processors	► Increase in prices for higher-value wood products in domestic and export markets.	+	► Longer-term opportunities for successful wood processing units to capitalize on higher market value of legally sourced wood products.	+
Employment				
Employment for workers on forest plantations (non-formal)	► Variable changes in the availability of work for paid laborers on forest plantations. Increases in some localities and decreases in others.	+/-	► Reduced incomes for some households dependent on occasional / seasonal labor on forest farms. Better opportunities for others.	+/-

sector)				
Employment for ethnic minority labourers	<ul style="list-style-type: none"> ▶ Variable changes in the availability of work for paid labourers on forest plantations (including forest farms and forest companies). ▶ Potential increases in employment opportunities in some localities and decreases in others. 	+/-	<ul style="list-style-type: none"> ▶ Increased reliance of ethnic minority households on off-farm paid labour to maintain their livelihoods (e.g. in Central Highlands and Central Coast). ▶ Ethnic minority labourers less able to access labour markets. 	+/-
Employment for workers in wood processing industry (non-formal sector)	<ul style="list-style-type: none"> ▶ Potential reduction in employment for small-scale household processing units that find it difficult to adapt to new market conditions. 	-	<ul style="list-style-type: none"> ▶ Reduced incomes and increased vulnerability for some wood processing households. Note: most wood processing households and workers are not poor and are therefore not eligible for social protection support (e.g. free health insurance). 	-
Employment for workers in wood processing industries (formal sector)	<ul style="list-style-type: none"> ▶ Potential for temporary reduction in workforce amongst larger scale processing enterprises as they adapt to new market conditions. 	-	<ul style="list-style-type: none"> ▶ Loss of jobs and incomes for some workers in wood processing sector. ▶ Potential increase in informal temporary employment (not under contract) and increased vulnerability. 	-
	<ul style="list-style-type: none"> ▶ Stricter application of labour standards in wood processing industries (labour code, social and health insurance). 	+	<ul style="list-style-type: none"> ▶ More favorable working conditions for workers in wood processing industries. 	+
	Livelihood Assets			
Land assets and forest plantation assets of household timber producers	<ul style="list-style-type: none"> ▶ Uncertainty over the legal and economic viability of existing farm forest plantations (for both households with and without land use certificates). 	-	<ul style="list-style-type: none"> ▶ Expansion of production by successful farm households able to adapt to new situation and who can afford to become certified producers. 	+
	<ul style="list-style-type: none"> ▶ Differentiated impacts 	+/-		

	according to capability of households to obtain land use certificates and become certified producers.		► Potential for land concentration and increased inequality in land distribution; potential for increased land use conflict.	-
Access to forest land and forest resources for ethnic minorities	<ul style="list-style-type: none"> ► Reduction in supplies of illegally imported timber for wood processing industries. ► Increased demand for domestically grown timber and increased demand for land resources for forest plantations. ► Stronger prohibitions of the exploitation of natural forest and protection forest. 	+/-	<ul style="list-style-type: none"> ► Expansion and consolidation of forest land holdings by forest companies and forest farmers (including potential for ethnic minority households to be tempted to sell their forest land). ► Potential for increased trend of land conversion, land concentration and inequitable distribution of land. ► Loss of livelihood assets and reduced access to forest resources (land and products) and land on which to grow upland crops for ethnic minority households. 	-
Goods and Services				
Land use certification	<ul style="list-style-type: none"> ► Increased demand for land use certification. Institutional incentive to strengthen forest land use planning and complete the processes of forest land use certification. 	+	► More stable production conditions and better legal status for farm forest households.	+
			► Potential increase in informal costs and payments for obtaining land use certificates.	-
Raw material supplies for wood processors	<ul style="list-style-type: none"> ► Availability of natural wood and certified timber initially decreases. Increased competition between small and large scale processing units for certified timber supplies. 	+/-	► Disadvantage for small-scale processors, not having suitable timber as raw materials. Small-scale processors may find it difficult to source certified timber and adapt to new market conditions.	-
			► Adjustments in the structure of wood processing	+

			industry, increase in utilization of composites and alternative plantation species, shift to alternative product categories.	
			► Increased production for domestic markets and development the domestic wood processing.	+
			► Greater incentives for timber producers to invest in higher value forest plantations to meet the needs of wood processing industry.	+
Fees and taxes, and relationships of power and authority				
Regulation of forest production and harvesting	► VPA may give extra powers to district (and commune) authorities and local forest inspection agencies over forest production and marketing.	+/-	► Better and more effective regulations on forest production and marketing.	+
			► Potential for local forest authorities and inspection agencies to impose extra fees on producers (formal and informal fees).	-
			► High transaction costs for producers to fulfill paperwork procedures and other requirements.	-
Regulation of wood processing sector	► Role of the state in regulating the circulation of goods and supply and marketing chains is increased. Role of local government authorities and inspection agencies is enhanced.	+/-	► Heavy burden of procedures and high transaction costs for household processing units. ► Potential for local authorities and inspection agencies to impose extra requirements and fees on household processing units.	-
			► Household processing units become more experienced and capable of fulfilling legal requirements and procedures.	+

Timber marketing	<ul style="list-style-type: none"> ▶ Stricter requirements and more complicated procedures for producers to harvest and market timber. Many producers lack understanding and familiarity with procedures. ▶ Large-scale wood processing and export industries may increase the ‘out-sourcing’ of the purchase of timber supplies to middle-men in order to obtain sufficient quantities of certified timber at a good price. 	+/-	▶ Increased power of middle men and traders to set farm-gate prices for timber.	-
			▶ Forest farmers become increasingly reliant and dependent on middle men to assess timber quality, complete required paper work and to market their products etc.	+/-

IV. CONCLUSIONS AND RECOMMENDATIONS

4.1. CONCLUSIONS

4.1.1 Overall conclusions

- The Livelihood Impact Assessment conducted by the VNGO-FLEGT Network has indicated that potentially there would be many positive impacts and benefits of implementation of the VPA in Vietnam. This is in terms of both improved governance and regulation of the forest sector, as well as the potential for better economic and market opportunities for timber producers and wood processors and exporters.
- The assessment has suggested that, with implementation of the VPA, there would be a period of transition as domestic timber producers, wood processors and exporters adapt to the new situation – i.e. to fulfil the legal requirements and build capacity to adjust to the new market environment. It is also likely that larger, more well-established and better-resourced timber producers and wood processors would be in a better position to make this adjustment and to make use of the new opportunities.
- At the same time, small-scale timber producers (i.e. farm forest households) and processors (i.e. wood processing households) may be in a more vulnerable position and some may find it difficult to make the adjustment. In this respect, there may be both positive and negative impacts resulting from stronger application of the legal and regulatory framework and export license requirements.
- The most important overall conclusion to emerge from the assessment is that steps would need to be taken to ensure that a level playing field is created whereby all categories of timber producers and wood processors are able to benefit equally from the opportunities that the VPA would bring about. To put this another way, it would need to be ensured that, through a series of proactive measures, the VPA would not result in economic exclusion or marginalization of potentially vulnerable groups.
- The Livelihood Impact Assessment has focused on three potentially vulnerable groups: forest farm households without formal land use certificates, small-scale wood processing households units, and forest dependent ethnic minorities. The qualitative characteristics and potential impacts of VPA on these three groups are quite distinct.

Farm forest households without formal land use certificates

- The potential vulnerabilities faced by this group relate, primarily, to the uncertain land allocation status of production forest land that still exists in some localities and regions of the country. There are different objective and subjective reasons contributing to this situation, including continuing disputes between households and forest companies in some localities; forest companies returning land to communes and communes reallocating land to households without formal papers; or households investing in plantations on land which they traditionally cultivate but for which they do not have clear land use rights. Further efforts are required to resolve these uncertainties in order to ensure that individual farm forest households can obtain the necessary legal standing as timber producers under the VPA.
- A second potential vulnerability faced by this group is that increased demand for legally produced domestic timber may result in the acquisition and concentration of forest land by some better-resourced economic farms and forest companies, to the detriment of farm forest households that have uncertain land usage rights.

Small-scale wood processing household units

- It is possible that introduction of the VPA would result in some changes in the structure of the wood processing industries in Vietnam. In this situation, there may be several vulnerabilities faced by small-scale wood processing household units. These include: (i) increased production costs that may result from an increase in the price of legally sourced timber; (ii) increased transaction costs of obtaining and fulfilling the legal requirements for business registration and business operations; and (iii) vulnerability to changes in market conditions that may result in changes to employment (especially for household units engaged in out-sourced production).
- The cumulative impact of these factors may make it difficult for small-scale wood processing household units, in some localities and some sub-sectors, to adjust to the new situation. An increase in production costs and transactions cost, or the loss of employment as larger scale wood processing enterprises adjust to the new situation, may make it difficult for some wood processing household units to sustain their business, at least in the short-term to medium-term.

Forest dependent ethnic minorities

- Forest dependent ethnic minorities are not significantly involved in supplying timber and wood processing for the export market, as they are involved in small-scale activities aimed at local markets and consumption. However, ethnic minority communities have a long-lived historical and traditional association with forests and their livelihoods are often dependent on access to forest resources. They are, therefore, highly vulnerable to changes in forest regulations and changes in access to forest resources (include timber and non-timber forest products).
- The impacts of VPA on this stakeholder group will be mainly indirect, but may nonetheless be quite substantial and significant, with potential negative consequences for their livelihoods. There is potential that the VPA could contribute to economic marginalization and increasing economic inequalities for ethnic minorities.
- Based on the analysis made in the Livelihood Impact Assessment, it is possible to make a number of recommendations on issues and actions that need to be considered in the on-going preparations for the VPA in Vietnam.

4.1.2 Data and information gaps in VPA preparation

Farm forest households without land use certificates

The nationwide land inventory conducted by the Ministry of Natural Resources and Environment in 2010 indicates that 1,175,083 (Redbook) land use certificates have been issued to households for about 3,337,632 hectares of forest land (this indicates that the average land area of one certificate is equivalent to 2.84 hectares). At the same time, according to the statistics, the total allocated forest land area is about 4,270,850 million hectares, thus the remaining un-allocated forest land area is estimated to be approximately 933,000 hectares. This means that approximately 300,000 households currently do not possess a Redbook. The remaining 933,000 hectares of forest land without land use certificates had previously been distributed under the ‘Green Book’ or had been subject to forest land allocation decisions by the local government authorities.

It is recommended that the Government and local authorities should compile more comprehensive statistics on the forest land allocation situation to farm forest households, including particularly the number and situation of households without formal land use certificates. It is further recommended that this information should be made publically

available, because this will facilitate the development of plans and the allocation of resources to deal with outstanding issues related to forest land use certification.

Wood processing household units

In the VPA context, small-scale wood processing households are an important stakeholder group because this is a large group in terms of the number of household business units that are involved in supplying wood products for consumers (especially in non-urban areas throughout the country), or who are engaged in out-sourced production for larger wood processing enterprises. Statistics on the number of larger-scale wood processing enterprises are available (i.e. those producing over 200m³ of wood products per annum). However, precise data and information on the considerable number of small-scale household wood processing units is still lacking.

It is recommended that the Government should carry out further studies and data collection to ensure that the situation and concerns of this stakeholder group are addressed and incorporated into the VPA preparation process. Specifically, more detailed information is needed on: (i) the number of small-scale household wood processing units (this should initially focus on three focal regions in the wood processing industries – the Southeast Region, the Central Coast Region and the Red River Delta Region); (ii) the volume of production and type of production; and (iii) the number and type of workers in household businesses. This will enable a better understanding of the potential impacts of the VPA implementation on this important stakeholder group.

4.1.3 Regional differentiation

The Livelihood Impact Assessment has shown that there are important qualitative differences in the situation and characteristics of farm forest households and wood processing households in different regions of the country. Accordingly, the potential impacts of the VPA on these stakeholder groups may vary from region to region.

For example, there are differences in the structure of the wood processing industries, the main export markets and interactions between household wood processing units and larger-scale wood processing enterprises between the Southeast Region and the traditional craft villages in the Red River Delta. With respect to the situation of farm forest households, there are also important differences between the Northern Mountains Region (where a comparatively large proportion of forest land has been allocated to individual households) and the Central Highlands Region (where a comparatively low proportion of forest land has been allocated to individual households).

It is recommended that further research is needed to understand these regional differences in the structure of domestic timber production and supply and wood processing industries more fully. This is in order to make a better assessment of the potential impacts of the VPA on these stakeholder groups in different regions.

4.2. RECOMMENDATIONS AND SUGGESTIONS

4.2.1 Recommendations for the Legality Definition and TLAS

The VNGO-FLEGT Network members have had the opportunity to comment on drafts of the Legality Definition and Timber Legality Assurance System (TLAS). The purpose of this section is not to repeat the detailed comments that have been made on these draft documents. Rather, this section makes a number of broader observations and recommendations concerning the legal status of the particular stakeholder groups that have been covered by the Livelihood Impact Assessment in relation to the VPA.

Legal definition and status of small-scale household wood processing units

Currently, many wood processing households are not formally registered as enterprises under the Law on Enterprises. This is because of their small-scale of operations and/or because they lack the capacity to fulfil the necessary requirements for business registration and operations. Many have only registered as household businesses or have just informed the local authorities about their operations.

It is recommended that requirements for business registration and operations under the VPA should be more conducive and flexible to create suitable conditions for small-scale wood processing households to obtain the necessary legal status. This is so that they could maintain their livelihoods and benefit from the market opportunities that may be created by the VPA. Specifically, it is recommended that a broader range of business eligibility should be included: in addition to formal business registration, less formal and simple registration procedures and papers should also be accepted.

Land use certification for sustainable production by farm forest households

According to the draft Legality Definition and TLAS, in addition to formal land use certificates, Green book certificates and forest land allocation decisions of the local government authorities are eligible papers for legal timber production and supply. However, it is important to bear in mind that only households with formal land use certificates have associated rights according to provisions of the Land Law, including the right to use land as collateral to obtain loans to develop their production. Moreover,

formal land use certificates are seen to provide a greater degree of long-term security for producers, which is essential for sustainable timber production and supply.

It is recommended that the Government and local authorities prepare a roadmap for completing the process of formal certification of forest land. This is particularly important in situations where the land allocation situation is still unclear (e.g. under many Green book certificates land use demarcation and boundaries are still unclear) and situations where there are remaining land use conflicts between forest farmers and forest companies. The legality of land use rights is an important first principle in the Legality Definition and TLAS; therefore, all efforts should be made resolve and complete forest land allocation, to provide long-term security for farms households engaged in timber production, enabling them to access markets and sell their products

4.2.2 Social safeguards issues and recommendations

It is understood that the Voluntary Partnership Agreement would include articles to the effect that steps will be taken to identify and minimise potential adverse impacts on vulnerable stakeholder groups. An important part of the Livelihoods Impact Assessment is to help identify such potential adverse impacts and social safeguards measures. In this respect, a number of recommendations can be given based on the analysis made so far.

Disadvantaged ethnic minority groups

As indicated above, the impacts of VPA on ethnic minority households and communities in remote rural areas would be mainly indirect, but may nonetheless be quite substantial and significant. There is potential that, in some circumstances and in some localities, implementation of the VPA could contribute to increasing economic inequalities. It is to be expected that implementation of the VPA would result in increased demand for legally produced and sourced domestic timber supply. This, in turn, could result in a situation whereby better-resourced economic farms and forest companies seek to consolidate forest land holdings, to the detriment of ethnic minority farmers.

Given that implementation of the VPA and FLEGT is aimed at creating equity for the whole society, the impacts of this process on disadvantaged ethnic minority groups should be one of the foremost priorities to be addressed in order to achieve social equity and to achieve the objectives of the Vapid is recommended that the Government should conduct research to adequately and effectively define risk mitigation and social safeguards measures for this group, as well as precisely outlining assistance that would

need to be provided for this group during the VPA implementation process. These may be defined as social safeguards or additional supporting measures.

Specifically, these measures may include: (i) provisions on the priority use of local labor by forest owners and businesses operating in ethnic minority areas; (ii) fuller application of existing benefit-sharing regulations and mechanisms in forest management; (iii) improving capacity of ethnic minorities in forest production and business management; and (iv) facilitating equitable access to forest product markets.

Non-formal workers in wood processing enterprises

One important finding from the Livelihoods Impact Assessment is that a majority of wood processing households, and workers in wood processing industries, are not classified as poor households. At the same time, many of the workers in smaller-scale wood processing enterprises are still not employed through formal labour contracts. These workers are not, therefore, automatically or immediately eligible for social protection support in the case they are laid-off or are forced to close their family businesses.

It has been suggested that following introduction of the VPA, there would be a transition period in which wood processing enterprises adapt to the new situation. One possible implication of this adjustment is that there would be changes in labour requirements, with possible lay-offs and loss of employment for some workers, at least in the short-term to medium-term. The draft TLAS includes the provision that workers in the formal enterprise sector should be employed through formal labour contracts and with social insurance. However, this would not cover the large number of workers in the non-formal wood processing sector and small-scale household wood processing units. It is recommended that attention be given to the social safeguards required for these workers in the non-formal sector in the case that the VPA results in changes in labour demand.

4.2.3 Public information and disclosure

Freedom of access to information

Freedom of access to information is an important principle to help ensure that a level playing field is created whereby all categories of timber producers and wood processors can benefit equally from the VPA. This will be particularly important for small-scale forest farmers and wood processing households. The Livelihood Impact Assessment has indicated that, in a situation where small-scale producers may not have access to adequate information about the VPA, they may become vulnerable to various

practices of middlemen and traders (intermediaries). Middlemen and traders may withhold essential information from small-scale producers (e.g. about timber legality and licensing requirements, markets and prices etc.) in order to gain economic benefits from them.

3.1 Components of public information and education programs

It is recommended that attention will need to be given to designing and implementing an effective public information and education program to support VPA implementation. It is further recommended this program should have four main elements:

- Public disclosure of all essential documents and information related to the timber legality and licensing requirements and systems etc. through web-based media, mass media and local public information systems at commune level.
- Information made available at One Stop Shop offices including district One Stop Shop points, and at the Department of Planning and Investment (business registration), Department of Labor, War Invalids and Social Affairs (social policy regulations) and Department of Natural Resources and Environment (land use certification).
- Awareness raising, information and training programs carried out by business associations and trade associations in the forest sector for their members.
- Specially designed awareness raising, information and training programs for those small-scale timber producers and wood processors, and other vulnerable groups such as ethnic minority farmers in remote areas, who may find it difficult to obtain essential information through other communication and media channels. It is recommended that there will be an important role for CSOs, such as the VNGO-FLEGT Network members and their local counterparts, in supporting these programs with small-scale producers and vulnerable groups in particular.

4.2.4 Recommendations for VPA monitoring and oversight

Elements of the monitoring and oversight system

It is anticipated that there may be several different elements of an effective system of monitoring and oversight of VPA implementation. These elements include:

- Independent audit (or independent monitoring) as will be required by the Government and the EU in the VPA Agreement. The independent audit would be carried out by an agency that is independent of forest sector regulatory bodies, and would aim to provide credibility to the operation of the timber licensing system.

- Livelihood Impact Assessment (LIA) as related to social safeguards, to identify and minimise potential adverse impacts on vulnerable stakeholder groups.
- Community oversight of VPA implementation (or social audit) to help enhance accountability, transparency and equity in the application of the timber legality verification systems at the local level.

Local accountability and community oversight of VPA implementation

The Livelihood Impact Assessment has indicated that stricter application of forest management regulations and business regulations related to the VPA would increase the powers of concerned regulatory agencies at the local government level. This would have positive benefits and impacts in terms of helping to ensure the legality of timber supply.

At the same time, the business environment could become more difficult for timber producers and wood processors because of a higher level of bureaucracy. Moreover, there would be a risk that timber producers and wood processors would be subject to an increased level of transaction costs and informal payments (to middlemen, traders or local government officials) due to un-monitored corruption. It is recommended that steps should be taken to ensure an adequate level of community oversight to promote local accountability and minimize these potential risks in VPA implementation.

Currently, the role of socio-political organizations and community based organizations in the localities is not clearly defined, which may prevent the effective engagement of local people in the VPA implementation process. It is recommended that mechanisms are developed to enhance the role of these local organizations in providing oversight of the VPA process in each locality. This would help to enhance transparency and horizontal accountability (i.e. between local government authorities, forest regulatory agencies, forest owners and companies, and local communities etc.). These mechanisms may build on existing commune supervision structures and systems.

Role of civil society organizations in monitoring

It is recommended that attention is given by the Government to enabling CSOs to support these efforts in monitoring and oversight of the VPA process and implementation. The members of the VNGO-FLEGT Network and their local counterparts, together with support from some international agencies, have taken an important step in undertaking this preliminary Livelihoods Impact Assessment and other related FELGT research studies. Through this process the capacity of CSOs to engage with the VPA process has been increased and valuable skills have been obtained in the relevant methods of impact assessment. Looking towards the future, it is suggested that

CSOs can have a continued role in monitoring and evaluating impacts of the VPA, as well as supporting efforts to promote transparency and accountability in VPA implementation

ANNEX

Annex 1: Report of Woodcraft village household production units Analysis.

Annex 2: Problem Tree, Result Chain, Theory of Change, Risk and Mitigation Measures of Woodcraft village household production units.

Annex 3: Report of Forest Dependent Ethnic Minority Group Analysis.

Annex 4: Problem Tree, Result Chain, Theory of Change, Risk and Mitigation Measures of Dependent Ethnic Minority Group.

Annex 5: Report of the households without a red book Analysis

Annex 6: Problem Tree, Result Chain, Theory of Change, Risk and Mitigation Measures of the households without a red book.

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