

**GUIDE ON COLLECTING INFORMATION
FOR MONITORING AND MEASURING THE IMPACT OF VPA-FLEGT
FOR SMALL AND MEDIUM ENTERPRISES IN THE TIMBER INDUSTRY
[DRAFT 05]**

Introduction

This guide is a set of tools developed by VNGO-FLEGT Network in Vietnam (VNGO-FLEGT), led by the Center for Sustainable Rural Development (SRD), in collaboration with timber associations, Vietnam Rubber Association (VRA), and experts, with the objective to support / promote the implementation of the clause on impact monitoring within the Voluntary Partnership Agreement on Forest Law Enforcement, Governance and Trade (VPA-FLEGT), as stipulated in Article 16 and Annex IX of the Agreement. The purpose of this clause is to monitor the expected or unexpected impact of VPA based on a flexible set of metrics, and based on that, propose a plan to mitigate the negative impacts on economic, social, and environmental aspects.

The VPA-FLEGT Agreement came into effect on June 1, 2019 as agreed between the EU and the Government of Vietnam, to ensure that organizations and households in Vietnam involving in timber supply chains must comply with the legal timber requirements of domestic and export markets. The main contents of the VPA are in accordance with the Forestry Law, and therefore, have been made into decrees and circulars, including a decree on timber legality assurance system (VNTLAS) which will be issued by the Government in 2019, in addition to the Circular 27/2018/TT-BNNPTNT of the Ministry of Agriculture and Rural Development on management and tracking of forest products, Decree 156/2018/ND-CP of the Government on the details of some articles of the Forestry Law, as some of the key regulations on legal timber supply activities of relevant parties. In principle, these are not new legal frameworks for management of legal timber and forest products; previously, enterprises and households in the timber industry had to comply with similar provisions of the Law on Forest Protection and Development 2004. However, with the new Forestry Law and VPA-FLEGT, enterprises and stakeholders will have to adapt and comply with new requirements on legal timber, which are more comprehensive and adherent to the supply chain.

Together with households, small and medium enterprises (SMEs) in Vietnam involving in the timber supply chain are expected to be vulnerable as they must comply with legal timber requirements of VNTLAS of the VPA-FLEGT (or relevant regulations). For the timber processing industry, SMEs are mostly domestic enterprises registered as limited liabilities companies, joint stock companies, or private companies. General characteristics of SMEs in the timber processing industry in Vietnam are:

- Besides those enterprises that only operate in the timber processing sector, many other enterprises are multidisciplinary, combining timber processing and other areas

(construction, tourism, trade, agricultural production ...). ; therefore annual revenue does not only come from timber processing;

- Enterprises involve in one, many, or all stages of the timber supply chain - timber plantation, exploitation, and transportation; timber materials import; processing, trading, and furniture exporting; operating in both domestic and export markets;

The situation of SMEs in the timber processing industry in Vietnam has not been evaluated and described fully and systematically by responsible agencies such as MARD, MOIT or timber industry associations, due to recent changes in the classification of SMEs under the Law on Support of Small and Medium Enterprises issued by the National Assembly and effective from beginning of 2018. Decree 39/2018/ND-CP issued by the Government on 11 March 2018 stipulates the criteria for classification of SMEs in the field of agriculture, forestry and industry in Article 6 as follows:

Criteria	Small enterprise	Medium enterprise
Average number of employees participating in social insurance contribution per year (pax)	11-100	100-200
Total annual revenue (billion vnd)	10-50	51-200
Total capital (billion vnd)	3-20	21-100

Some general information about SMEs in the timber industry in Vietnam can be referenced from the following assessments in recent summary reports of MARD (2018, 2019):

- By the end of 2018, Vietnam had about 4,500 enterprises processing and trading timber and forest products, including 3,900 domestic enterprises [86,7%] and 600 foreign-invested enterprises (FDI), of which enterprises processing and exporting timber accounted for 30.3% (about 1,500 enterprises). In terms of value of furniture exports in 2018 (9.3 billion USD), the main share comes from FDI enterprises, accounting for 70%, while Vietnamese enterprises account for only 30%;
- Most of the timber processing enterprises are in the private sector (about 95%); and the entire industry has about 500,000 workers, of which workers who are trained and have stable jobs account for 55-60%, the rest is seasonal workers which account for 40-45%; not including the large number of workers in afforestation or timber materials supply in rural mountainous areas;
- In terms of scale, small and super small enterprises (charter capital of less than VND 50 billion) account for about 93%, the rest are medium and large enterprises (with charter capital of over VND 50 billion).

Monitoring the impact of VPA-FLEGT on timber processing SMEs in Vietnam is a necessary task for both the State, business, and other stakeholders in the first 5 years of VPA

implementation. The results from monitoring will help identify and understand the economic, social, and environmental impacts of VPA in forestry and timber processing sector, and for all the involved enterprises, especially SMEs; therefore motivating the verification:

- Whether the expected goals of VPA-FLEGT between EU and Vietnam are achieved, especially to prevent illegal logging, responsible trade, and strengthening forest governance at national and international level;
- Quality of policies and laws of the state (Vietnam) and readiness (institutions and capacities) to create a favorable environment for sustainable forest management and development and legal timber trade in national and local levels, especially for domestic enterprises; recognition of the need for policy reform;
- Socio-economic efficiency that enterprises and households obtain or generate from enforcing and complying with legal provisions on legal timber supply;

In order to connect, coordinate, and support enterprises and business associations to monitor and measure the impact of VPA-FLEGT on SMEs, SRD and VNGO-FLEGT propose the framework of information collection and assessment for the purpose of impact monitoring in accordance with the expected objectives of VPA-FLEGT, with 10 monitoring criteria for three impact groups as follows:

- (1) SMEs improve the adaptive capacity and are ready to comply with legal timber supply requirements in accordance with VPA-FLEGT and the current policy framework;
- (2) SMEs improve production, market access, and business efficiency from adapting and complying with regulations on legal timber supply; and
- (3) Improving local forest governance in order to facilitate SMEs' full compliance with legal timber supply requirements;

In order to specify the task of impact monitoring, each impact group is structured by criteria and corresponding indicators (see Criteria and impact monitoring indicators), directly reflecting the type and scope of impact that:

- Enterprises (SMEs) can notice and **actively inform or notify** in the form of qualitative feedback (such as observations, reviews, comments) or quantitative (figures), done by responsible department or individuals of the enterprises;
- Government, local communities, state agencies related to SMEs and / or the timber processing industry may inform or clarify the actual condition or policy environment that affect the timber supply of SMEs in the localities.

Criteria and indicators for monitoring the impact of VPA-FLEGT on SMEs

Expected impact	Monitoring criteria	Proposed indicator	Information to be collected	Source of information	Method of collecting information
SMEs improve adaptive capacity and are ready to comply with regulations on legal timber and timber products	1. SMEs' ability to access to information and understanding of compliance with timber legality assurance system (VNTLAS)	1.1 Leaders, managers and employees of enterprises have a basic understanding of legal timber products	Accessibility to information and communication between management and workers in the enterprise regarding regulations on legal timber supply	- Leaders/high level managers; - Local forest ranger or business partners	Questionnaire for enterprise
		1.2 Leaders and managers can easily access to and use information regarding legal timber and timber products			Consultation with local forest ranger or business partners
	2. Improving governance, organizational structure for management and operation of enterprise to fully comply with regulations on legal timber and timber products	2.1 Adjusting business strategy and/or plan of enterprise to adapt to market requirements and regulations on legal timber and timber products	Proactive and planned interventions / actions of leaders towards the organization, management, and operation to ensure the adaptability and readiness to comply with legal timber requirements (by the time of survey)	Leaders/high level managers	Questionnaire for enterprise
		2.2 Adjusting the organizational structure and/or management, production, and business functions of enterprise to meet / adapt to regulations / requirements regarding legal timber supply			Evidences provided by enterprise (report, document)
	2.3 Enterprise's progress on ensuring gender equality, in terms of policies and practices to ensure rights and enhance the role of female workers	Assessment results of leaders / trade union on the compliance with policies to ensure social safety, gender equality, and respect for the rights of workers in the enterprise according to regulations (by the time of survey)	Leaders/high level managers	Questionnaire for enterprise	
	3.1 The business data management system has been improved to ensure	Interventions / actions or results of adjusting the	Leaders or departments	Questionnaire for enterprise	

	system, data, records / reports of enterprise	the requirement of creating, verifying and checking timber records of all supply chains that the enterprise involves	system / way of managing timber data according to the supply chain of the enterprise (by the time of survey)	responsible for data management of the enterprise	Evidences provided by enterprise (report, document)
4. Ensuring cooperation and linkage with other stakeholders as an advantage for enterprise to comply with regulations on legal timber supply	4.1 Models of linkage between enterprises and plantation households or local timber purchasing and processing facilities towards long-term legal timber supply	4.2 Enterprise actively establishes or maintains cooperation with local stakeholders in order to facilitate the legal timber supply and business operation	Actions / interventions of the enterprise to local stakeholders (province, district, commune) to ensure legal timber supply from the community and facilitate the business operation (by the time of survey)	Leaders / staff in charge of material input; Local government, relevant agencies, and community that the enterprise works with	Questionnaire for enterprise; Consultation with local government, relevant agencies, and community
5. Enterprise self-assessment, enterprise classification; "no-risk" plan or strategy	5.1 Enterprise risk has been identified or confirmed		Risk awareness and results of assessing the risk of enterprise regarding compliance with regulations on legal timber supply (by the time of survey)	Leaders / staff in charge of material input; Forest ranger department	Questionnaire for enterprise; Consultation with Forest ranger department
6. Extra costs for changes to adapt and comply with requirements / regulations on legal timber supply according to the laws and markets	6.1 Actual costs incurred when enterprise adjusts and adapts	6.2 Expected costs in adjusting and adapting to the regulation of legal timber supply	Enterprise's opinion on the costs that are already incurred or expected to be incur related to the interventions / actions that the enterprise must take in order to comply with the regulations on timber supply (by the time of survey)	Leaders / accounting staff	Questionnaire for enterprise;

SMEs improve production, market access, and business efficiency from adapting and complying with regulations on legal timber supply	7. Changing the supply of material input to ensure legal timber / timber product supply	7.1 Changing the purchase / sale / use of timber materials (input) from imported sources in accordance with regulations on risky species and geographic origin	Countries of origin and timber species that the enterprise uses (in production), which are either previously imported or directly imported by the enterprise (by the time of survey)	Leaders / accounting staff Forest ranger department	Questionnaire for enterprise; Evidences provided by enterprise, forest ranger, custom (report, data if available)
		7.2 Changing the purchase / sale / use of timber materials (input) from planted forests (production forests) and natural forests permitted for domestic exploitation	Record of changes in volume of timber from planted forests compared to one from natural forests that the enterprise trades and uses until end of 2018	Leaders / accounting staff	Questionnaire for enterprise;
		7.3 Compliance with regulations on legal timber supply	Assessment / opinion of forest ranger on the trade and use of illegal timber in the province (by the time of survey)	Forest ranger department	Consultation and gathering of data/report on the use of planted forest; combatting illegal timber in the province
8. The legal furniture market promotes SMEs to change their product structure when VPA-FLEGT and corresponding regulations take effect	8.1 Changing production structure, supplying products to the regulated markets	8.2 Increasing orders or contracts to export furniture to the regulated markets	Acknowledgement of the trade connection and transfer to the legal furniture export market by the enterprise, in terms of orders and products (by the time of survey)	Leaders / staff in charge of export-import;	Questionnaire for enterprise;
	Provincial bureau of statistics			Annual statistics on timber export-import in the province in 2018	
9. Changing costs of legal timber and prices of legal timber products	9.1 Changing the cost of timber material input to produce legal timber products	Enterprise's feedback / assessment of price fluctuations of legal timber that the enterprise imports or buys as material input for	Leaders / staff in charge of material input; Vietnam Timber	Questionnaire for enterprise; Information on price	

			production and processing (in 2019)	Association	of timber material input
		9.2 Changing production cost of main timber products of the enterprise	Enterprise's feedback / assessment of price changes of main timber products and the reasons (by the time of survey)	Leaders / accounting staff	Questionnaire for enterprise;
Improving local forest governance in order to facilitate SMEs' full compliance with legal timber supply requirements	10. Local forest management system supports or facilitates enterprises' compliance with legal timber supply regulations	10.1 Publicly available information, accountability, ensuring enterprises' easily access to regulations and procedures on forest product management	Publicly available information and interaction between forest ranger and enterprise in the locality regarding policies on management and use of timber and forest products (by the time of survey)	Forest ranger; Leaders of enterprise	Consultation, information Questionnaire for enterprise
		10.2 Enterprise is ready to disclose information regarding production and trade, contributing to promoting transparency and monitoring of VPA FLEGT implementation	Types of information regarding the enterprise's production and trade that can be accessed through different channels; level of information availability of enterprise (by the time of survey)	Leaders / marketing - communication officer	Questionnaire for enterprise
		10.3 Strengthening capacity of local administrative agencies on enterprise information management in the timber industry	Periodic reporting by enterprises to local administrative agencies (by the time of survey)	Leaders / staff in charge	Questionnaire for enterprise
		10.4 Ensuring the participation of enterprises and equity in access to information and opportunities / improving business environment	Enterprises' assessment about equal treatment by the state in information sharing and business opportunities (by the time of survey)	Leaders / staff in charge	Questionnaire for enterprise

		10.5 Local government issues mechanisms or provides support or encourage SMEs to invest, develop, produce and trade legal timber	Enterprises' assessment / acknowledgement of local policy (province) facilitating or hindering SMEs from legal timber trade and processing (by the time of survey)	Leaders / staff in charge Forest ranger	Questionnaire for enterprise Policy consultation
		10.6 Local enterprises and stakeholders support and comply with the legal timber supply and market	Acknowledgement / assessment by the government or forest ranger on land use right approval (for afforestation), expanding areas of forest protection and management, and preventing illegal timber and forestry law violations by enterprises in the locality (province) (by the time of survey)	Forest ranger department (province / district)	Consultation Evidences / data provided by forest ranger
		10.7 Enterprises are subject to stricter management and monitoring by authorities and / or specialized agencies in order to ensure compliance with regulations on production, trading and supply of legal timber	Enterprises' acknowledgement on the extent and scope of the inspection by the authority in 2018 regarding compliance with regulations on legal timber supply	Leaders / staff in charge	Questionnaire for enterprise