



**DEVELOPING AND PILOTING AN INDICATOR
FRAMEWORK FOR MONITORING THE IMPACT OF
VPA/FLEGT ON SMALL AND MEDIUM-SIZED TIMBER
ENTERPRISES IN VIETNAM**

KEY FINDINGS AND RECOMMENDATIONS

Developing and piloting an indicator framework for monitoring the impact of VPA-FLEGT on small and medium- sized timber enterprises in Vietnam. Key findings and recommendations

Cover photo: A wood-processing enterprise surveyed by SRD (in February 2020)

Disclaimer:

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Background and objectives

The Voluntary Partnership Agreement on Forest Law Enforcement, Governance and Trade (VPA-FLEGT) between the Government of Vietnam and the European Union (EU) came into effect in June 2019, marking a significant milestone in the negotiation process between the two parties. As one of 15 countries worldwide and one of five countries in ASEAN participating in negotiating and implementing a VPA, Vietnam and the EU committed to the goal of sustainable management of all forest types by developing and implementing a legal framework to ensure all timber products exported by Vietnam to the EU market are legally produced and sourced.

In order to implement the Agreement, the two parties established a Joint Implementation Committee (JIC) co-chaired by the leaders of the Ministry of Agriculture and Rural Development (MARD) and the EU Delegation to Vietnam, whose functions are to manage, monitor and assess the implementation of the Agreement. One of the JIC's important tasks is to promote dialogue and information exchange, to consider and resolve any issue raised by either party, including from the Multi-Stakeholder Core Group on the VPA (MSCG), which represents the stakeholders in Vietnam, including the representatives of Vietnam Administration of Forestry, timber business associations, forestry social organizations, non-governmental organizations, research institutions, and development partners. A number of MSCG member organizations from the Vietnamese Non-Governmental Organization Network on Forest Law Enforcement, Governance and Trade (VNGO-FLEGT) have significant concerns about the monitoring and impact evaluation mechanism of the VPA implementation on groups believed to be severely affected by the Agreement, such as plantation households, micro, small and medium-sized timber enterprises.

The Agreement itself provides no specific guidance on impact monitoring, but the Joint Implementation Framework (JIF) indicates that the JIC is responsible for complying with Article 15 so that "Vietnam will have a mechanism for monitoring the implementation of the Agreement" and ensuring that "the monitoring will be conducted transparently with the participation of stakeholders, including non-governmental organizations, forestry associations, trade unions, local communities." According to Annex IX, the economic, social and environmental impacts of the implementation of the Agreement will have to be monitored and evaluated (M&E), and, based on that, propose appropriate measures to minimize any possible negative impacts on ethnic minorities and related local communities, households and timber industry as per the commitment in Article 16 of the Agreement.

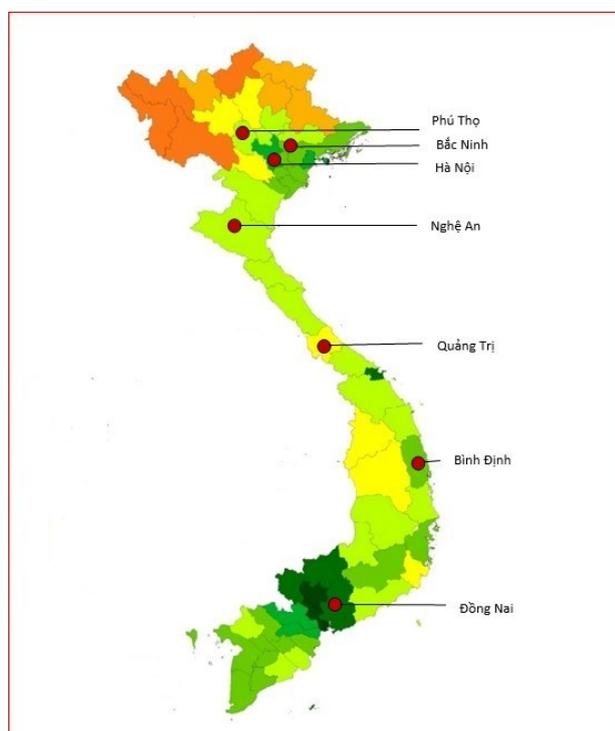
This context has led the Centre for Sustainable Rural Development (SRD), which coordinates the VNGO-FLEGT Network, to decide to develop and pilot a VPA impact-monitoring framework for small and medium-sized enterprises (SMEs) in the

Vietnamese timber industry. Undertaken within the Forest Governance, Market, and Climate (FGMC) project funded by the DFID (2018-2021), this initiative aims to build participatory capacity and regulations for civil society organizations and timber associations on VPA-FLEGT impact monitoring and assessment in Vietnam.

The experts have developed a framework with 10 criteria and 25 indicators categorized into the three following 'impact groups':

- ✓ SMEs' access to information, responsiveness, and readiness to comply with the regulations on legal timber supply, including six criteria and eleven indicators;
- ✓ SMEs' changes in production, market and business performance, including three criteria and seven indicators;
- ✓ Changes in local forest governance and policies to promote legal timber trade, including one criterion and seven indicators.

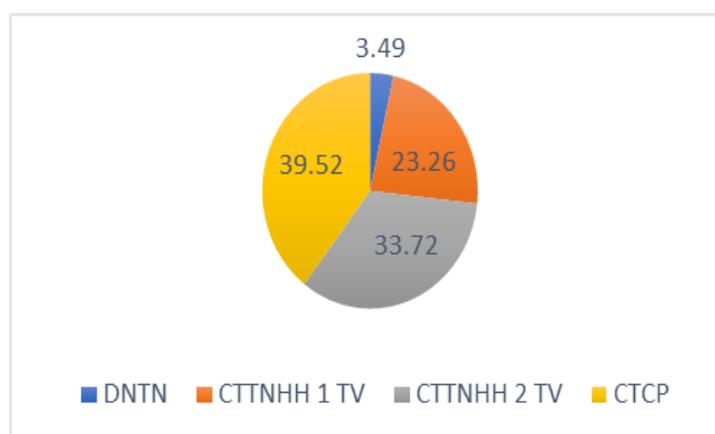
Eighty-six small- and medium-sized enterprises participated in piloting the monitoring Framework, from five geographical regions nationwide: Hanoi and Bac Ninh province in the Red River Delta, Bac Ninh province in the North East, Nghe An and Quang Tri provinces in the North Central region, Binh Dinh province in the South Central region, and Dong Nai province in the South East. This report presents some key findings based on information collected from these SMEs.



Some key results and initial findings from the trial monitoring results

1. The majority of small and medium enterprises in Vietnam's timber industry are limited liability companies.

Fifty-seven percent of the 86 small and medium-sized enterprises surveyed are limited liability companies, including 20 one-member limited liability companies, 29 two-member limited liability companies, 34 joint-stock companies, and a small number of private businesses.



2. Nearly 70% of interviewed SMEs whose business leaders have received information about legal timber, legal timber supply through events or documents related to VPA-FLEGT that they have accessed at least once.

However, of these, 75% rated themselves as very poor to moderate in their current VPA level of knowledge. In other words, more than 30% of SMEs surveyed said that their leaders or core staff had never learned or been informed about the contents of the VPA-FLEGT Agreement. The number of businesses with access to information about VPA-FLEGT in Bac Ninh, Binh Dinh, and Quang Tri is usually higher than in other provinces. This result is entirely consistent with the role and active participation in of wood associations, such as VIFOREST, FPA-Binh Dinh, Dong Ky Fine Arts Furniture Association (Bac Ninh) in efforts to connect and promote businesses and other trade villages participating in events during VPA-FLEGT negotiation.

3. Nearly 50% of interviewed SME leaders do not know [or have not yet known] to ask for the risk assessment and organisation classification;

Meanwhile, a number of enterprises in Dong Nai, Binh Dinh, Nghe An, and Quang Tri conducted a risk assessment, while other enterprises did not. Of those that performed the risk assessment, more than 40% showed up as "still risky" with the primary risks associated with non-compliance or not being aware of the requirement about complying with the dynamic evidence of supply chain control. The results revealed that SMEs in Dong Nai, Binh Dinh, and Quang Tri carried out the risk assessments earlier than other enterprises, indicating that access to VPA-FLEGT information is one of the critical factors in helping SMEs proactively conduct the risk assessment.

4. By the end of 2019, more than 50% of interviewed SMEs proactively adjust their input materials to avoid risks from illegal timber sources.

Most of the enterprises in Binh Dinh and Dong Nai, located in wood processing centres, showed a higher proportion of SME leaders who consider themselves to have good knowledge of VPA-FLEGT compared with other areas. Hence, these enterprises often make adjustments in relation to the source, type, and availability of the timber. These adjustments are considered a result of compliance with the provisions of Circular 27/2018 / TT-BNNPTNT on traceability management and forest product traceability.

5. Nearly 60% of interviewed SMEs have made adjustments or reorganized management structures or functions of production and business departments.

To comply with legal timber supply regulations and practices, a large number of businesses have adjusted their supply of raw materials, followed by quality monitoring, administrative management, and labour safety. The proportion of private enterprises that are making adjustments is higher than that of other enterprises.

6. The majority of interviewed SMEs consider themselves to have well-implemented laws and policies for female workers.

In particular, most of the surveyed enterprise assessed themselves as complying well with the regulation and policy on gender-related issues, such as payment, working time, maternity benefits, insurance regimes, and labour safety assurance. However, some other issues need to be improved to ensure gender balance due to the relatively low ranking status by interviewed SMEs (from low to medium). These issues included annual health check, learning to improve skills, paying unemployment insurance premiums, occupational diseases, social insurance, and ensure occupational safety and health for female labour.

7. More than 55% of interviewed SMEs reported that they decided or planned to review management, information storage, and timber records.

For those enterprises that have implemented necessary adjustments or changes, mainly are: standardizing the process of managing timber information/records per each supply chain; supply forms and procedures as required for completeness to facilitate verification and inspection; consolidating the system of update/reporting information; and allocating and reassigning personnel related to information management/wood records. The survey also showed that 43% of SMEs have taken action or plan to apply technology to manage information and supply chain data, such as product and wood data management software or online forms, but no companies have applied technology on mobile devices.



8. Increased costs associated with the improvement and enhancement of the enterprises in adapting and complying with legal timber supply requirements and practices.

Those increasing costs are mainly related to market access/customers who provide or consume legal timber products (57%); improving fire prevention equipment (52%); increasing management, production and supervision personnel (51%); improving environmental protection, management and treatment of scrap and waste (48%); investment in innovation, production technology transfer (45%), transportation costs (39%); and providing records-data management (37%);

9. There are still risks from imported timber due to SMEs mainly using raw wood from two main sources.

Most of the timber for processing originated from forest plantations inside the country (55%) and imported wood (wood, industrial planks; 38%). The percentage of timber from confiscation used by enterprises is very small (0.06%), showing that the association between SMEs and timber sources from these illegal sources is very low. The imported timber used by SMEs comes mainly from the Brazil, Malaysia, South Africa, United States, and Uruguay; also, a small amount of imported timber comes from countries that are considered 'high risk of illegality', such as the Cameroon, Congo, Laos, and Solomon Islands.

10. Only a small percentage of interviewed SMEs (nearly 13%) have established and operated cooperative links between enterprises and plantation households.

Therefore, local communities or 'afforestation households' have few opportunities to access information on practice in forest management, forest certification, or legal timber. This situation can increase the risk of illegal supply due to a significant proportion of SMEs (about 30%) purchasing raw materials from local intermediaries;

11. Information on SMEs is accessible from a variety of sources, but there is no guarantee of reliability, completeness, and legitimacy, except for periodic reports that enterprises must submit to authorities, making the access of interested parties more difficult.

The accessible information is primarily general information; less than 20% of enterprises have a mechanism to disclose information in support of supervision, verification, and inspection such as production and business results, fulfilment of tax and fee obligations to the State, social-environmental responsibility, and the number of violations.

Conclusions and recommendations

The level of access to information related to the regulations outlined in the VPA-FLEGT varies greatly among businesses in different provinces. Business leaders accessing, and fully understanding the requirements of VPA-FLEGT will make important adjustments to enhance the adaptability and compliance of businesses with legal timber supply requirements and practices. The adjustment to ensure legal timber supply also leads to some costs incurred for businesses. In order to monitor the impact of VPA-FLEGT on businesses as well as promote SMEs to participate and implement VPA-FLEGT, we propose some recommendations as follows:

1. Institutionalize the stakeholder collaboration mechanism to monitor VPA.

✓ ✓ Framework for monitoring the impact of VPA-FLEGT on SMEs in the wood processing industry, together with the initial survey results, are the first pilot products of SRD, VNGO-FLEGT and the FGMC project aiming to implement Article 15 of Agreement. Therefore, FGMC project should introduce and share this result to the Multi-stakeholder Core Group on VPA-FLEGT of Vietnam, JIC, wood-forest product processing associations and other interested parties;

✓ The VNGO-FLEGT network should continue to consult stakeholders to regularly improve and update the Impact Monitoring Indicator Framework, develop and provide information collection forms to other target groups, such as communities and local authorities. Moreover, consider and select the options and mechanisms to implement VPA-FLEGT's impact monitoring independently by organisations of the VNGO-FLEGT network or collaborate with timber business associations.

✓ JEM/JIC and relevant Vietnamese agencies responsible for developing a monitoring mechanism for implementing the VPA-FLEGT Agreement should have a monitoring mechanism and framework in place to ensure the participation of social organizations.

2. Promote SMEs to effectively participate and meet the objectives of VPA.

✓ Information, communication, publishing, and training should be promoted to ensure that SMEs are supported with learning and dialogue, to gain sufficient understanding and improve their compliance with the legal timber regulatory system and the implementation requirements of VPA and Vietnamese laws;

✓ Projects such as FGMC need to promote the publication of small and simple tools (leaflets, manuals or references) to introduce the significance or necessity of VPA-FLEGT impact monitoring for SMEs and afforestation households, local communities, timber dealers, trade villages, as well as providing monitoring content for businesses to get acquainted, improve understanding, and gradually take care, support and participate in this activity in the future;

✓ Monitoring the impact of the VPA on SMEs requires close cooperation between social organizations with timber associations and related government agencies to ensure that the monitoring mechanism is transparent and effective.

Wood products of surveyed enterprises. Photo: SRD



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