



PARC Yok Don

FOREST PROTECTION DEPARTMENT (FPD),
MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT (MARD)

FINANCING STUDY

Phase III: Sustainable Financing Mechanisms for Yok Don National Park

PARC Project VIE/95/G31&031
Creating Protected Areas for Resource Conservation
using Landscape Ecology

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Acronyms

BBNP	Ba Be National Park
CPC	Commune People's Committee
DPC	District People's Committee
FPD	Forest Protection Department
GEF	Global Environment Facility
IUCN	The World Conservation Union
MARD	Ministry of Agriculture and Rural Development
MPI	Ministry of Planning and Investment
NEA	National Environment Agency
PA	Protected Area
PARC	Creating Protected Areas for Resource Conservation Using Landscape Ecology Project
PPC	Province People's Committee
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Support
VRUPs	Village Resource Use Plans
VND	Vietnamese Dong (<i>VND15,500 = US\$1 at time of study</i>)
WWF	WorldWide Fund for Nature
YDNP	Yok Don National Park

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Summary

The PARC Financing Study

- The Project “Creating Protected Areas for Resource Conservation Using Landscape Ecology” (PARC) was initiated in 1998, and will run until 2003. It aims to develop and pilot innovative methods for protecting Vietnam’s unique and highly threatened species and habitats. Using a landscape ecology approach which links a variety of land uses into a matrix of protection, buffer and forest rehabilitation areas, the project seeks to help to alleviate threats to biodiversity through integrating conservation and development objectives. Field operations focus on three Protected Areas (PAs); Ba Be National Park (BBNP) in Bac Can Province and Na Hang Nature Reserve (NHNR) in Tuyen Quang Province – both in northern Vietnam, and Yok Don National Park (YDNP) in Dac Lac Province in the Central Highlands of Vietnam.
- Output 1.6 of the PARC Project deals with “*the establishment of a mechanism to provide long-term funding for biodiversity conservation and community development in the target areas*”.
- To generate this output, a Financing Study is being carried out. The terms of reference for this study include to evaluate the current financial system for protected area management in Vietnam; to identify options to improve financial efficiency, explore funding alternatives and develop innovative funding mechanisms which enable the PARC project to establish long term financial support for protected areas management, with priorities based upon biodiversity conservation and recognition of local community development needs in the project sites; and to investigate options for the establishment of trust fund(s) for PARC PAs.
- This report presents the findings of Phase III of the Financing Study. It assesses current financial status and needs, and future opportunities for providing long-term funding, for the Yok Don National Park PARC Project.
- Reports on the overall financing status of PAs in Vietnam, and on sustainable financing strategies for BBNP and NHNR have already been produced under Phase II of the Financing Study and can be obtained from the PARC National Project Office.

Financial status of Yok Don National Park

- On an area basis, funding to YDNP is significantly lower than to other MARD-managed National Parks in Vietnam.
- To date, actual capital budget allocations to the core zone of the NP have approximated to those specified in the original Park Investment Plan.
- The Investment Plan for the expanded YDNP specifies a higher level of capital investment than in the past: overall, and on an area basis.
- The share of recurrent expenditures in total budgets to YDNP has been rising over time: from a quarter in 1997 to a third in 2002.
- In addition to MARD capital and recurrent budgets, YDNP also receives funding from the National 661 Programme and from PARC Project sources. Over the last 2 years this has accounted for between 16% and 19% of total funding to the NP.
- Tourism generates some revenues for YDNP, but accounts for a low proportion of total funding: approximately 1% over the last 2 years.

- National, Provincial and District funding to buffer zone communes is extremely low at a total of VND 10.369 billion in 2001– an average of VND 1,728 million per commune, or VND 1.3 million per household.
- An Operational Plan is in the process of being prepared for YDNP. MARD decision 4436, 20 November 2002, supports this process, and recommends that Operational Plans should be tested in Yok Don National Park. Ensuring that there is sufficient and sustainable finance available for the implementation of this plan is an urgent priority.
- For the first time, YDNP is in the process of preparing both buffer zone and core zone ecotourism investment plans for the period 2002-2010. These will require additional funding from MARD above existing budget allocations.
- A draft budget has been prepared for the YDNP Buffer Zone Investment Plan: at an average of VND 10 billion a year this has the potential to double current government spending in buffer zone communes. No budget is yet available for the YDNP Ecotourism Investment Plan.

Financial constraints to the management of YDNP

- Insufficient funding is being allocated to core zone management operations: the focus of management action is principally on infrastructure development, not all of which is compatible with biodiversity conservation.
- Insufficient funding is allocated to core zone recurrent expenditures: this budget is calculated on the basis of the number of staff, leaving insufficient funds for equipment, running costs and other maintenance.
- Insufficient National, Provincial and District funding is being allocated to biodiversity conservation in the buffer zone: the majority of current expenditures focus on infrastructure and agricultural development.
- Because of the inherent delays in the government's budgeting and approval process, actual implementation of management activities is frequently delayed and runs the risk of leading to inefficient and ineffective use of resources.
- Despite the presence of 10 year Investment Plans, it is difficult for Park Authorities to predict future allocations with any certainty beyond the annual budget planning process.
- The capacity of YDNP to mobilise additional or diverse funding sources is weak, and investment plans rely almost entirely on government budgets.
- There is a multiplicity of core and buffer zone budget planning streams (YDNP Investment Plan, YDNP Ecotourism Investment Plan, YDNP Buffer Zone Investment Plan; PARC Operational Plan, PARC Village Resource Use Plans; Provincial Socio-Economic Development Plan), which remain unintegrated and uncoordinated with each other and are sometimes overlapping and occasionally contradictory.
- There is currently no institutional arrangement for joint planning, approval and implementation of activities in the core and buffer zones. As a result, no integrated financial and management plan covering both the core and buffer zones, and the activities of different (National Park, Provincial, District, Commune and Donor) agencies has been prepared so far.
- Although the Operational Plan and YDNP Investment Plans cover a medium to long-term planning horizon of 5 to 10 years there is no strategy on financing these plans or diversifying the funding sources. Consequently, the NP is almost completely dependent upon the State budget and can only make expenditures in line with central MARD allocations.

Mechanisms for generating additional finance for YDNP

- There is a need to generate additional financial resources to fund the Investment Plan, Ecotourism Plan and Buffer Zone Development Plan over the long term, especially recurrent cost aspects.
- Both tourism and coffee production have the possibility to simultaneously raise funds for Park management as well as providing economic and financial incentives for biodiversity conservation among buffer zone communities.
- There are three main options to increase tourist-related funding to YDNP: Increasing the number of tourists; rationalising charges for YDNP tourist services; increasing the contribution of buffer zone tourism to YDNP. These are investigated in detail in this report.
- There is potential for raising funds for Park management, as well as creating incentives for biodiversity conservation, through the use of eco-labelling, fair trade and organic shade coffee production under the Yok Don brand name. A proportion of revenues raised could be earmarked as royalty payments to YDNP, and local farmers could benefit from the additional price premium paid for this green product. These arrangements are investigated in detail in this report.

Mechanisms for allocating funding to Yok Don National Park

- State budgets allocations are based on Investment Plans and Annual Budget Plans, and thus have limited potential for increase over these amounts. They are likely to remain the primary mechanism for allocating public funds to YDNP. Greater efficiency in the allocation and use of state budgets could however be achieved.
- The development of a Trust Fund may provide the best option for generating and allocating long-term additional finance for park operations, as a supplement to existing state budgets. This should be able to absorb additional revenues raised as well as other extra-budgetary contributions from various sources, and run as a multi-stakeholder entity under the YDNP Management Board. It should be earmarked for recurrent costs, and cover both core and buffer zone activities, as well as making funding available to Park, Provincial, District and Commune authorities and to park-adjacent households.

The need for integrated financial and management planning

- Financing recommendations should be seen as an integral part of the investment/operational plan of the YDNP because while it is important to identify management and financial needs, it is equally important to prepare and implement a strategy for raising the required funds to implement the plan. This approach needs to be institutionalised as part of the management or operational planning process for protected areas in Vietnam.
- All existing and additional financial resources must be clearly linked to the management needs of YDNP, both of its core and buffer zones. The identification of the management needs and priorities through the investment/operational plan preparation process must be continued, but the process must be integrated with detailed budget and financing planning. This would not only result in a clear definition of the management activities, but also in realistic estimates of the financial resources required to implement them, identification of the sources from where these funds would become available, and the timing of their actual flow over the plan period.
- All of the various investment and management plans for core and buffer zones of YDNP, including the Investment Plan, Ecotourism Investment Plan, Buffer Zone Investment Plan; Operational Plan, Village Resource Use Plans, Provincial Socio-

Economic Development Plan should be coordinated and integrated with each other. Dialogue between the agencies involved in the preparation of these different plans, and joint management planning and implementation, will form an essential component of this process.

- For the various recommendations on financing to succeed an appropriate regulatory and administrative environment must also be created, and appropriate capacity built.

1 Introduction: PARC Project and the Financing Study

1.1 The PARC Project

The Project “Creating Protected Areas for Resource Conservation Using Landscape Ecology” (PARC) was initiated in 1998, and will run until 2003. It aims to develop and pilot innovative methods for protecting Vietnam’s unique and highly threatened species and habitats. Using a landscape ecology approach which links a variety of land uses into a matrix of protection, buffer and forest rehabilitation areas, the project seeks to help to alleviate threats to biodiversity through integrating conservation and development objectives.

PARC is funded by the Government of Vietnam and GEF-UNDP, and is managed from a National Project Office located in the Forest Protection Department of the Ministry of Agriculture and Rural Development. Field operations are co-ordinated by Scott Wilson Asia-Pacific Ltd, and additional technical support is provided by IUCN — The World Conservation.

PARC operates in three protected areas (PAs) — Ba Be National Park (BBNP), Na Hang Nature Reserve (NHNR) and Yok Don National Park (YDNP). It is implementing tangible conservation and development programmes in these PAs through a participatory approach which involves and builds capacity among local communities as well as concerned government agencies. A variety of activities are being carried out at these field sites, grouped under four parallel supporting programmes:

- **Conservation** (PA infrastructure, PA management, biological and social monitoring).
- **Environmental awareness and ecotourism** (environmental awareness and education, ecotourism development).
- **Community development** (agricultural development in buffer areas, agricultural development inside/near core protected areas, existing and alternative income generation).
- **Land use planning and forestry** (land use planning, forestry).

1.2 Scope of the Financing Study

Output 1.6 of the PARC Project deals with “the establishment of a mechanism to provide long-term funding for biodiversity conservation and community development in the target areas”. To generate this output, a Financing Study is being carried out, which is required by its terms of reference to:

1. Evaluate the current financial system for protected area management in Vietnam with reference to the PARC project target sites;
2. Identify options to improve financial efficiency, explore funding alternatives and develop innovative funding mechanisms which enable the PARC project to establish long term financial support for protected areas management, with priorities based upon biodiversity conservation and recognition of local community development needs in the target areas.
3. Investigate options for the establishment of trust fund(s) for PARC PAs

2 Current Financial Status: Existing and planned funding to YDNP

This chapter examines the current financial status of YDNP. It analyses existing and planned funding to the core and buffer zone of the National Park.. The main conclusions of this chapter are that

- *On an area basis, funding to YDNP is significantly lower than to other MARD-managed National Parks in Vietnam.*
- *To date, actual capital budget allocations to the core zone of the NP have approximated to those specified in the original Park Investment Plan.*
- *The Investment Plan for the expanded YDNP specifies a higher level of capital investment than in the past: overall, and on an area basis.*
- *In addition to MARD capital and recurrent budgets, YDNP also receives funding from the National 661 Programme and from PARC Project sources. Over the last 2 years this has accounted for between 16% and 19% of total funding to the NP.*
- *Tourism generates some revenues for YDNP, but accounts for a low proportion of total funding: approximately 1% over the last 2 years.*
- *Funding to buffer zone communes is extremely low at a total of VND 10.369 billion in 2001– an average of VND 1,728 million per commune, or VND 1.3 million per household.*
- *For the first time, YDNP is in the process of preparing both buffer zone and core zone ecotourism investment plans for the period 2002-2010. These will require additional funding.*
- *A draft budget has been prepared for the YDNP Buffer Zone Investment Plan: at an average of VND 10 billion a year this has the potential to double current government spending in buffer zone communes.*

2.1 Financial flows to the core zone

Various projections have been made of funding needs for YDNP, together covering the period 1999-2010 (Table 1):

- The 1998 investment plan for the expanded YDNP of 115,545 ha proposes 100 staff, and requests investment budgets of VND 41.851 billion for the period 1999-2005 (MARD 1998).
- The 1999 overall investment projection for YDNP estimates that VND 38.482 billion is required from the year 2000, but does not specify the length of time to which this refers.
- The June 2001 proposal for investment for the expanded YDNP specifies that VND 82.656 billion will be required between 2002-2006, comprised of 90% state budget, 5% loan and 5% other mobilised funds.
- The August 2002 project on investment to YDNP covers the period 2002-2010, and specifies that a total of VND 133 billion will be required to fund core zone operations.
- The Operational Plan for Yok Don National Park has recently been drafted by the PARC project, and covers a five year period. It contains no budget estimates as yet.

MARD decision 4436, 20 November 2002, supports this process, and recommends that Operational Plans should be tested in Yok Don National Park.

- An ecotourism investment plan for the core zone of YDNP is currently under preparation by the Park Management Board. It is still in the early stages of development, and does not yet contain any budget estimates.

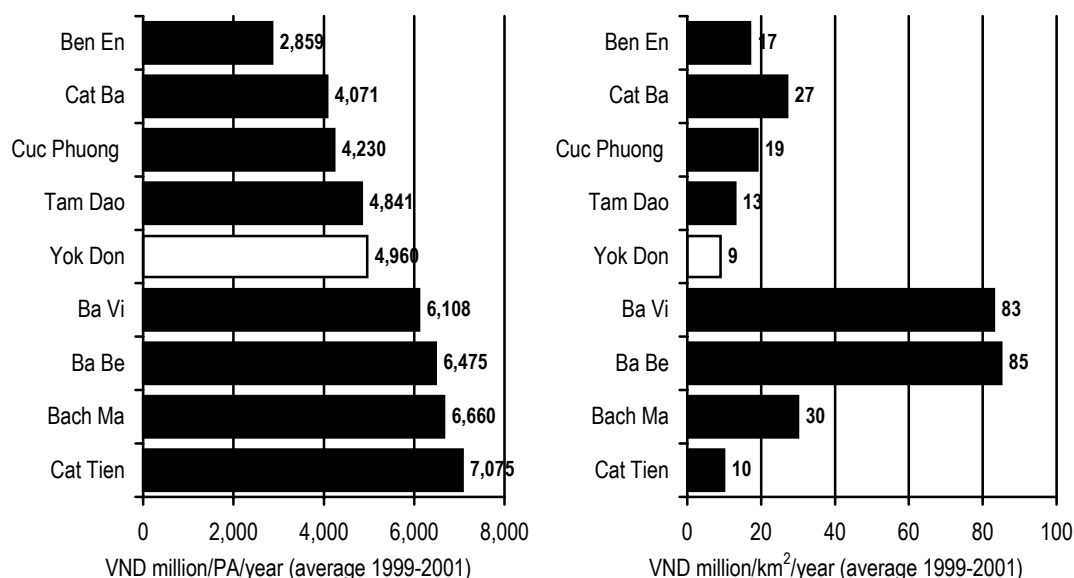
Table 1: Proposed investment and staffing plans for YDNP, 1999-2006

Year	1998 Investment Plan	2001 Investment Proposal	2002 Investment Project*
1999	6.553		
2000	6.677		
2001	9.686		
2002	8.319	22.695	5.115
2003	4.002	19.995	21.325
2004	3.422	21.225	25.076
2005	3.192	15.305	22.029
2006		3.434	18.833
2007			14.525
2008			11.105
2009			9.105
2010			6.015

All values expressed at current prices, VND billion. *Budget line for "other investments" is not specified per year, so total amount is assumed to be spread equally over period 2002-2010.

Compared to other MARD-managed National Parks, YDNP receives just over the average in terms of total budget allocations (Figure 1). When calculated on an area basis, budgets to YDNP are however the lowest of MARD-managed National Parks, at an average of only VND 9 million/km²/year between 1999-2001.

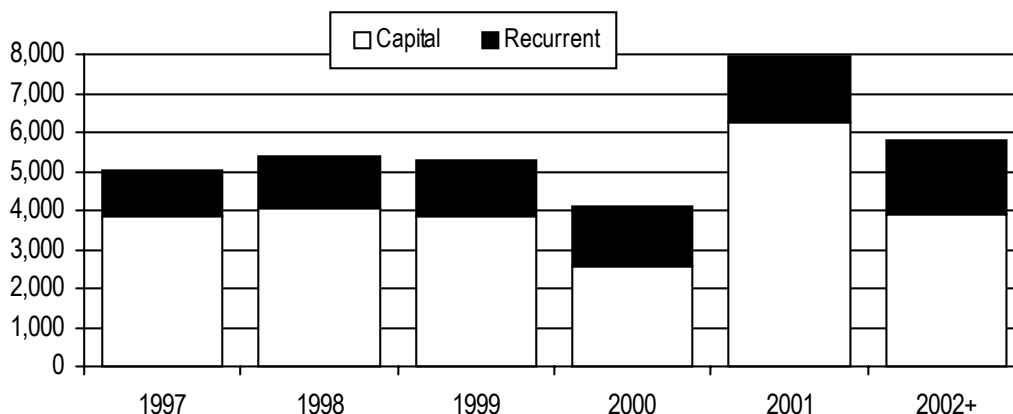
Figure 1: Government funding to core zone conservation activities in YDNP as compared to other MARD-managed PAs, 1999-2001



Note: budget and area data refers to YDNP area of 58,200 ha.

Until 1999 MARD budgets to YDNP remained relatively stable at around VND 5.0 billion per year; in 2000 MARD budget allocations dropped to just over VND 4 billion and in 2001 rose to almost VND 8 billion (Figure 2). The share of recurrent expenditures has however been increasing steadily, from 25% in 1997 to 38% in 2000 and 33% in 2002.

Figure 2: MARD funding to core zone activities in YDNP, 1997-2001



All figures VND million at current prices. Include MARD budgets only. Data for 1996-1998 from IUCN 2001a, 1999-2001 from Nguyen 2001a, +2002 from YDNP: planned.

Actual capital budget allocations to YDNP have to date been approximately equal to those specified in the Investment Plan. In 1999 117% of planned capital investments were covered, in 2000 75%, in 2001 124% and in 2002 87%¹.

The most recent Investment Plans for the expanded YDNP, prepared in 2001 and 2002, however specify significantly higher capital expenditures for the park than either the 1998 Investment Plan or actual allocations to date, both overall and on an area basis. Capital budget allocations between 1999-2001 averaged VND 7.4 million/km²/year, as compared to VND 5.3 million in the 1998 Investment Plan, and between VND 12.8-14.3 million in the 2001 and 2002 Investment Plans.

Recurrent budgets to YDNP are, like other MARD-managed National Parks, calculated according to the norm of VND 16 million per staff member per year.

In addition to MARD budgets, funding is provided to core zone activities in YDNP from the National 661 Programme (approximately VND 1.5 billion in each of 2000 and 2001). These funds are mainly used for expenditures on Forest Protection Contracts – for example in 2001, almost three quarters. YDNP also receives funding associated with the PARC Project, totalling VND 69 million in 2001 and a planned allocation of VND 74 million for 2002.

An Investment Plan for Ecotourism in the core zone of YDNP is currently under preparation, covering the period 2002-2010.

¹ Current budget allocations are all converted to 1999 constant prices per km², so as to be comparable with 1999 Investment Plan.

2.2 Core zone revenues

YDNP also earns income from tourist activities, including charges made for the use of the guest house, guides, rangers, camping fees and elephant hire. Although no entry fee is currently charged, the Tourism Division runs various tours and treks in the PA. These include 1, 2 and 3-day tours, based on a combination of elephant riding, walking, camping, climbing the small mountains in the Park, and swimming in the waterfall. Charges are made, of VND 600,000 per elephant per day, VND 200,000 per guide/ranger and VND 50,000 per tent. The Park Management board also operate a guest house in YDNP. Income from these activities is collected and retained by the National Park. 2001, tourism revenues were VND 76 million, of which a net amount of just over VND 20 million was retained as profit and reinvested in tourism development. To September 2002, VND 109 million revenues from tourism, tourism expenditures VND 126 million.

2.3 Financial flows to core and buffer zone households

There are currently estimated to be some 7,900 households or 51,000 persons resident in YDNP core and buffer zones (Table 2).

Table 2: Population within and adjacent to Yok Don National Park 2002

Commune	District	Area (km ²)	Households	Persons
Krong Na (Core/Buffer)	Buon Don	1,118	756	4,912
Ea Bung (Core/Buffer)	Ea Sup	413	718	4,667
Chu M'Lanh (Core/Buffer)	Ea Sup	334	2,316	15,054
Ea Po* (Core/Buffer)	Cu Jut	508	2,847	18,507
Dak Wil* (Buffer)				
Ea Huar (Buffer)	Buon Don	44	517	3,360
Ea Wer (Buffer)	Buon Don	77	746	4,846
TOTAL		2,494	7,900	51,347

Population and population growth figures based on MARD data for 1997, assume household size of 6.5. *In 2002, Ea Po was divided into 2 communes: Ea Po and Dak Wil.

Several sources of government funding are provided to core and buffer zone households. These include funding provided under the special National Programme on Highland Development (covering construction such as roads, schools, dams and irrigation, as well as agricultural extension and tourist development), District capital and current budgets, FPD funding to Commune Forest Boards and funding for Forest Protection Contracts allocated under the National 661 Programme. In 2001, this funding provided an estimated VND 10.379 billion to YDNP core and buffer zone communes (Table 1).

Table 3: Sources of government funding to YDNP buffer zone communes, 2001

Source of funding	Number of communes	Budget (VND mill/commune)	Total budget (VND mill/year)
135 Programme	4	400.00	1,600
District investment budget	6	100.00	600
District current budget	6	400.00	2,400
Commune Forest Board salaries (from FPD)	6	4.32	26
Agricultural extension (from Province)	6	790.51	4,743
Forest protection contracts in YDNP			1,000
TOTAL			10,369

YDNP is in the process of preparing a buffer zone investment plan, for which the draft budget estimate is VND 80 billion for 2002-2010 period. This includes activities relating to the promotion of agricultural production, development of small irrigation systems and grazing areas, and infrastructure improvement.

3 Financial Constraints to Park Management

This chapter describes various funding-related issues that translate into on-the-ground management constraints to YDNP. The main findings of the chapter are that financial constraints exist in both PAs which are manifested as obstacles to effective biodiversity conservation. Analysis of current and projected financial requirements and budgets suggests that YDNP may face serious funding problems in the future. Of particular concern are low levels of expenditures on conservation-related investment and recurrent costs. There is also little co-ordination of planning, management and budgeting responsibilities, procedures and goals for YDNP core and buffer zones between PA managing authorities, the PARC project and the local government agencies. There is no significant level of income generated or retained at the PA level over government and donor contributions, and YDNP operates on an extremely limited financial base and planning horizon.

3.1 Investment budgets

On the basis of the budget allocations proposed in the 1998 investment plan, the 2001 investment proposal, and the 2002 revised investment project (Table 4) it can be seen that the focus of management action is principally on infrastructure development with 34.63%, 47.83% and 44.74% of the total budget being allocated to this component in the three plans. While this might be a desirable and legitimate investment particularly in the early years of the YDNP's development, equal emphasis should also have been placed on the protection, rehabilitation, and research components but these components together account for only 25.45% in the 1998 plan, 29.23% in the 2001 plan, and 26.03% in the 2002 plan. It is noteworthy that no allocation has been proposed for scientific research or for community development in the 2002 plan.

Table 4: Itemised budget allocation under three investment scenarios

Items	Investment plan 1999-2005 (1998)	Investment proposal 2002-2006 (June 2001)	Revised investment project 2002-2010 (August 2002)
Forest protection	3,106	8,710	24,050
Forest rehabilitation/natural regeneration	4,954	7,890	10,750
Scientific research	2,590	7,580	-
Infrastructure	14,491	39,560	59,817
Community development	3,900	5,700	-
Visits/tourism/ecotourism development	2,730	4,490	29,181
YDNP protection	10,080	-	-
Others	-	5,084	9,903
Safe fund	-	3,694	-
TOTAL	41,851	82,708	133,701

This imbalance in allocating budget to various operations in the YDNP has proved to be a constraint to its management and it has not been possible to effectively deal with the

problems of hunting, grazing, fishing, and NTFP collection, which continue to take place even within its core zone according to a recent rapid pressure assessment study conducted by the PARC project. Besides, some of the infrastructure investments, such as for the concrete pathways and trails that have been constructed in the botanical garden within the administrative zone of the YDNP are clearly avoidable, as these are not priority management activities. Therefore, inappropriate and ineffective utilisation of the investment budget is also currently a constraint to effective management.

Also noteworthy is the fact that 21.83% of the proposed investment in the 2002 revised investment plan is for ecotourism development, even while a separate ecotourism development plan is reportedly being prepared by the YDNP for submission to MARD by December 2002. This multiplicity of budgetary planning streams and the resulting lack of clarity in management intent is further commented upon below.

The investments in the buffer zone communes from various sources (a total of about VND 10 billion in 2001) are principally related to infrastructure and agriculture improvement with very tenuous links to biodiversity conservation, except in the case of the forest protection contracts under the national programme 661, which is delivered through the management board of the national park. Inability to address local community issues that negatively impact upon conservation of the YDNP is, thus, another serious constraint to management. Buffer zone investments should at least seek to supplant the villagers' dependency on the core zone resources, as mentioned above in order to effectively integrate community development and biodiversity conservation goals.

3.2 Recurrent budgets

Management of the YDNP, as with the other protected areas in Vietnam is also constrained by the limited budget for recurring expenditure. This budget is calculated on the basis of the number of staff (@ VND 16 million/staff/year) and goes to meet not only staff salaries (@ VND 12 million/staff/year) but also the cost of equipment (those not provided for in the investment plan), maintenance, operations and other recurrent costs. Besides, with the recent expansion of the YDNP the total requirement of staff was projected at 129 against which it has received approval for only 72 from MARD, thus, severely limiting recurrent budgets and constraining management implementation. Therefore, the need to diversify the funding sources to provide for sustainable and additional resources to meet the recurrent costs of managing the YDNP and its buffer zone cannot be over emphasised.

3.3 Multiplicity of planning and investment streams

This situation is further aggravated by the fact that there is currently no institutional arrangement for joint planning, approval and implementation of activities between the YDNP management board and the provincial, district and commune authorities in the buffer zone, although Article 8 (2) and (3) of Prime Minister's Decision No. 08/2001/QD-TTg of January 11, 2001 requires this coordination to take place for effective management. As a result, no integrated management and financial plan covering both the core and buffer zones has been prepared so far.

As noted above, the multiplicity of management/investment planning streams is also proving to be a constraint to effective management. Management planning is an important component of the PARC project support to the YDNP but the opportunity for a comprehensive landscape-scale planning appears to have been wasted in view of the plethora of plans that are currently being prepared by the project and the NP management board, independently of each other, as would be evident from the following:

- The PARC project is seeking to institutionalise a system of operational plans to systematically identify, plan, prioritise and implement management interventions (within the overall framework of the government investment plan) in the YDNP. However, the Operational Plan currently being developed does not look at the YDNP in its totality, i.e. including the buffer zone and the wider landscape (which is actually a crucial objective of the project). The PARC project is also separately preparing village resource use plans for the buffer and core zone communities, and a concept on ecotourism development in the national park.
- At the same time, the management board of the YDNP has prepared a revised investment plan as recently as August 2002 to account for the expansion to its area in March 2002, but there does not appear to be any links between this plan and the Operational Plan. It has also separately developed a buffer zone investment plan (BZP: 2002-2010) of its own with a projected outlay of VND 80 billion and submitted it to MARD for approval. Likewise, it is also finalizing an ecotourism development plan for the national park covering the same period.
- This disconnect in the management planning process between the PARC project and the YDNP needs to be urgently addressed so that they are complementary to and supportive of each other (not exclusive), and the products are used by the national park management board not only as plans to guide management actions but also for achieving financial sustainability and preparing annual budget submissions.

3.4 Financial planning horizon

Although the investment plans for core, buffer and ecotourism cover a long-term planning horizon of 8 to 10 years there is no strategy on financing these plans or diversifying the funding sources. Consequently, the NP is almost completely dependent upon the State budget, with locally generated tourism revenues accounting for barely 1% of the annual funding. In addition, the park also receives some funding support from the PARC project. This narrow base of funding sources does not augur well for the long-term financial sustainability of the YDNP and various options for financing need to be explored.

Because of the inherent delays in the government's budgeting and approval process, which requires the annual budget submission to be revised several times, actual implementation of management activities is also delayed and could lead to inefficient and ineffective use of resources. For example, in 2002 the YDNP prepared an investment plan for the period 2002-2006 but it was revised first in March, then in June and again in September 2002. As a result, there is usually a significant (about 30%) reduction between the planned and actual investment. This procedure needs to be streamlined and once approved, the investment/operational plan should assure funding security over the long-term, covering the full plan period, with annual disbursements being made based on progress reporting.

4 Mechanisms for Raising and Allocating Finance to Park Management

There is a need to generate additional financial resources to fund the Investment Plan, Ecotourism Plan and Buffer Zone Development Plan over the long term, especially recurrent cost aspects. Opportunities for generating additional funding for YDNP are limited. Two potential funding sources are identified below: tourism and coffee royalties. These both have the possibility to simultaneously raise funds for Park management as well as providing economic and financial incentives for biodiversity conservation among buffer zone communities. There are few other obvious opportunities for capturing (sustainably) other benefits from the use of goods and services provided by the National Park. The development of a Trust Fund may provide the best option for generating and allocating long-term additional finance for park operations, as a supplement to existing state budgets. There are also considerable needs for better integration of management and financial aspects of core and buffer zone planning, and potential for greater efficiency of the use of existing state budgets to YDNP.

4.1 Tourist activities

4.1.1 Tourism in Dak Lak Province and YDNP

Tourism makes a modest contribution to the Dak Lak Provincial economy. In 2000 approximately 98,000 tourists came to the Province, of which 6,500 or 6.6% were foreign. Generating gross turnover of some VND 40 billion and government revenues of just under VND 4 billion, tourism accounts for about 1.25% of the total retail value of goods and services in the Province² and just under 1% of total Provincial revenues³. The tourist sector is however targeted as an important area of future economic growth for Dak Lak, and a Tourism Masterplan for the period 2001-2010 is currently under development. Annual growth rates are projected at 10.5%, visitor numbers are planned to increase to 212,000 by the year 2005 and gross earnings to almost double over the same period.

A separate Ecotourism Masterplan and Investment Plan covering the core zone of YDNP is being prepared by the National Park authorities, and is expected to be operational from next year. Just over 2,500 tourists (75 of whom were foreign) visited the core zone of YDNP in 2001. The State-owned Dak Lak Tourism Company accounted for the majority of organised visits to the National Park, bringing 100 tourists (all foreign) in 2001, which accounted for just 3% of their total clientele.

At the moment tourism is focused in the buffer, not the core zone, of YDNP. Three tour operators, Dak Lak Tourism Ban Meco and Thang Ha, dominate the market, and own and manage most of the visitor sites around YDNP. Buon Tri Tourist Village in Krong Na commune is operated by Ban Meco, Lak Lake in Lak District and Trinh Nu waterfall in Cu Jut District have been developed by Dak Lak Tourist Company, and Bay Thac Tourist Site in Buon Don District is run by Thang Ha Tourist Company. A similar range of services are offered at these different sites, including elevated walkways, scenic viewpoints, elephant rides, accommodation in "ethnic" houses, restaurants, bars and souvenir shops.

Both the Provincial government and private tour operators have plans for further investment in the buffer zone of YDNP. Dak Minh Lake in Krong Na commune is in the early stages of being developed as a tourist site, involving an investment of VND 51 billion to be made by

² Estimated at VND 3,249 billion in 1999.

³ Estimated at VND 450 billion in 2001.

various foreign and domestic operators. Ban Meco plans to invest an additional VND 1 billion in Buon Tri Tourist Village, and the Province will upgrade the access road to the site. Thang Ha Tourist Company aims to invest VND 4 billion and the Province 1.2-1.5 billion in the development of ethnic houses, bridge, trekking paths and cultural tourism amenities within Ea Huar commune.

4.1.2 Potential for raising additional finance for YDNP from tourism

Nature-based tourism offers considerable potential to provide an economic incentive for buffer zone communities to support biodiversity conservation and the National Park. It can also act as a source of additional finance for YDNP.

There are three main options to increase tourist-related funding to YDNP:

- ***Increasing the number of tourists to the core zone of YDNP.***

Currently only a small proportion of visitors to Dak Lak Province enter YDNP: 3% of total, and just under 1% of foreign tourists. At current visitation rates and according to the optimistic current growth rates outlined in the Provincial Tourism Masterplan, this number may increase to 5,500 by the year 2005.

If this rise in numbers is to be realised, or if a greater share of visitors to Dak Lak Province are to be attracted to YDNP, then efforts must be made both to increase tourist interest in the National Park as well as to improve the level and range of activities and services provided. Existing park infrastructure, including the guest house, has limited capacity to cope with increased tourist numbers. The range of services offered: trekking, camping and elephant rides, are similar or identical to those provided at tourist sites outside the National Park core zone.

Both the Operational Plan and the emerging YDNP Ecotourism Investment Plan specify investments in the development of tourist activities and services. It is recommended that these activities are accompanied by efforts to improve the marketing of YDNP as a tourist destination, including liaison with the private tour operators who are currently operating in the buffer zone of the park as well as engaging in communication with tour operators based in Da Nang and Ho Chi Minh City who sell tour packages which include Dak Lak Province.

- ***Rationalising charges for YDNP core zone tourist services.***

Although charges for tourist services are currently low, YDNP finds it difficult to compete on price grounds with other destinations in Dak Lak Province. The main reason given for the apparent low interest in YDNP among package tourists is the relatively high prices charged: a rate of \$35 per person night, as compared to \$25⁴ or less for other destinations in the buffer zone. It is also worth noting that tour operator profit margins on YDNP visits are much also lower than those for other destinations in Dak Lak Province, which may also account for the relatively low number of tourists brought to the Park. Whereas almost three quarters of the price charged for YDNP visits is paid to National Park authorities as various fees, the majority of the charges made for day trips and visits to other sites in the Province accrues to the tour operators themselves because they tend to take tourists to destinations that they own and have developed.

There is undoubtedly some potential to rationalise and extend existing charges for YDNP services, including re-introduction of a park entry fee as well as fees for additional tourist experiences and services within the Park. If these revenues are to be

⁴ Including overnight accommodation, food, entertainment.

realised, it may however be necessary to rethink both the segment of the tourist market that is targeted as well as the way in which tourist services are marketed. Most visitors to Dak Lak are domestic tourists, and the main proportion of foreign tourists who visit the Province do so as part of a package tour originating in Ho Chi Minh City, Da Nang and Nha Trang. As YDNP is already price uncompetitive compared to other low cost or package destinations in Dak Lak, there may be far more potential to realise a greater range of charges through targeting the upper or higher-cost sector of the tourist market, or attracting special interest nature, bird watching or ecotourism visitors.

- ***Increasing the contribution of buffer zone tourism to YDNP.***

Buffer zone tourism, although a potentially important economic incentive for local communities, has few financial links to the core zone of YDNP. In addition to attracting new segments of the tourist market, it may however be feasible to attract existing tourists to YDNP as part of their package or experience. On price grounds (see above), this potential may lie primarily in day visitors to the National Park.

Existing tours and packages in YDNP buffer zone are remarkably undifferentiated, and new and emerging sites continue to be developed along the same lines, offering almost identical services and activities. The demand for these experiences is not limitless. As operators find it necessary to diversify the experiences they offer in order to maintain their share of the tourist market, YDNP could prove to be an attractive addition to existing packages. YDNP is a Protected Area, and this will remain its primary interest and marketing tool. As tourist services and infrastructure within the National Park are developed as part of the Operational Plan and Ecotourism Investment Plan, day experiences such as bird watching, trekking, visits to the botanical garden and boat trips could all be offered as additional components to existing packages in the buffer zone.

Many of the tourist packages currently offered in Dak Lak Province operate in YDNP buffer zone, and sell themselves as ecotourism or nature tourism experiences. They are marketed on the basis of their proximity to YDNP, even when they do not enter the core zone itself. In co-operation with Province, District and Commune authorities, there may be possibilities to ensure that a return on the use of the YDNP name is achieved through charging some form of conservation levy, bednight fee or reallocation of existing taxes and fees to National Park management.

4.2 Eco-labelling of coffee

4.2.1 Coffee production in Vietnam and Dak Lak Province

It is estimated that some 254,000 ha of land are under coffee in Dak Lak Province, of which two thirds can be classified as having extremely high potential for coffee. Coffee is produced under a smallholder system, with most growers planting about 2 ha to coffee. Yields are in the range of 1–1.5 tonnes/ha and the average price received by farmers is VND 7000/kg.

Currently, the bulk of coffee production in Dak Lak Province is marketed to middlemen and to buyers from Trung Nguyen coffee company. In recent years the area under coffee has decreased by about 25%, largely due to a fall in producer prices. Low producer prices act as a major constraint to production. Given the costs of production, the current coffee market price of US\$ 0.55 per pound, and the relatively higher returns to other crops, there is little incentive to expand the farming of traditionally grown coffee in Dak Lak Province.

There is also concern about the negative environmental impacts of coffee production in Dak Lak Province. Although few pesticides are currently used, coffee production relies on the use of chemical fertilisers. The development of coffee plantations also involves the deforestation of large areas of land. Yet, although coffee tends to grow faster with more sun, this also requires more pesticides. Pesticides and fertilisers affect the farmers more severely than the consumers since processing removes most of the chemicals. In addition, the processing of coffee beans can require the use of large quantities of water into which organic coffee waste is dumped.

4.2.2 Potential for raising additional finance for YDNP from coffee production

Green coffee production offers considerable potential to provide an economic incentive for buffer zone communities to support biodiversity conservation and the National Park. It can also act as a source of additional finance for YDNP.

In order to maintain coffee as an important source of cash income for farmers in Dak Lak Province, new ways of developing an industry that produces a higher value product is required. At the same time, it is also necessary to minimise the negative environmental impacts of the coffee industry. Three initiatives can protect both the farmers who grow coffee and the environment in which coffee is grown:

- **Fair Trade coffee**

The fair trade initiative seeks to guarantee that coffee is purchased directly from small farmers and that they are guaranteed a minimum contract price. It fosters long term relationships between importers, roasters, retailers, and the producing co-operatives.

- **Organic coffee**

Under this certification system, coffee is produced with methods that preserve soil and prohibits the use of synthetic materials. Organic production and processing is based on a number of principles and ideas that are listed below. The list does not seek to establish any priority of importance.

- **Shade grown coffee**

Here the coffee is grown in shaded forest settings and therefore supports biodiversity. Originally, migratory songbirds were the motivational factor behind this sustainable coffee initiative. Furthermore, because the cherries need a longer time to mature under this system, that shade grown coffee typically grown at higher elevations tends to have a higher sugar content, which in turn leads to a smoother, richer, better taste. Also in addition to its environmental and taste benefits, shade grown coffee is healthier both for producers and consumers as this type of production usually requires less use of pesticides.

These types of initiatives have shown demonstrable success in other parts of the world, both as a way of raising farmer income as well as through the support they provide to biodiversity conservation. Several international NGOs have considerable expertise in the promotion of organic and fair trade coffee production, and have had successful experiences in its promotion as a community economic incentive for biodiversity conservation in other parts of the world. For example Conservation International is working to promote shade and organic coffee in Latin America, Oxfam is already active in fair trade and organic agricultural production in Vietnam and other parts of the world. Several international coffee retailers (for example Starbucks, Costa Coffee, numerous European and N. American supermarket chains) include fair trade/organic coffee in their products. Producing countries that have benefited from branding their coffee and thereby creating a niche for their product include: Jamaica with its Blue Mountain coffee and India with its Monsooned Malabar coffee.

For Dak Lak Province and YDNP, the greatest potential lies in a combined fair trade, organic and shade grown coffee initiative. The coffee should where possible be grown under the canopy of the forest without the use of pesticides and should be sold according to the fair trade guidelines. By implementing sustainable certification systems and fair trade agreements it is possible for farmers to earn an extra price premium above existing market prices of about US\$ 0,30 per kg of coffee beans.

Possibilities to use this initiative as a way of raising additional finance for YDNP lie in the use of the Yok Don name as an eco-labelling tool that links Dak Lak coffee to biodiversity conservation. Marketing the coffee under a YDNP brand name should hold the opportunity of creating a sustainable coffee production with a global export market. In lines of creating funding for YDNP a coffee royalty should be paid to the NP. The royalty is seen as a sort of levy included in the price but forwarded to the National Park.

There is potential for introducing this type of eco-labelled coffee production both within and outside the buffer zone of YDNP in Dak Lak District. In principal, coffee grown in any area of Dak Lak Province could be branded as Yok Don coffee and used as a funding mechanism for YDNP. Only certain areas of the buffer zone are suitable for growing coffee, including parts of Buon Don and Ea Sup Districts. In the buffer zone, the production of differentiated coffee can additionally be seen as a market incentive for farmers to engage in environmentally friendly-agriculture. The production of shade coffee may also act as a stimulus for on-farm forest conservation: much of the land suitable for coffee (and other crop) production in the Province is currently under forest.

4.3 Establishment of a Trust Fund

4.3.1 Environmental Trust Funds in Vietnam

In terms of financial structure, three types of trust funds are possible. The endowment trust fund allocates only the income while maintaining the capital secure; the sinking trust fund spends an assigned amount of money within a specified period of time; and the revolving trust fund receives regular replenishments and acts as a holding facility for various sources of funds. Of these, only the first is truly a long-term sustainable financing mechanism: sinking funds and revolving funds usually have a finite lifetime, and are based around drawing down a fixed amount of capital. It is now generally agreed that the most effective trust funds contain a combination of more than one funding mechanism.

Several Trust Funds already exist, or are under development, in Vietnam, although there is as yet no regulatory framework that relates specifically to their establishment and operation. Protected Areas that are in the process of setting up Trust Funds include Cat Tien National Park, in order to establish permanent sources of income to be generated and earmarked for conservation activities. Under the Forest Sector Development Project, the World Bank is working with the Government of Vietnam to establish a national level Conservation Fund for Management Effectiveness of Protected Areas. The fund, which would be capitalised by a GEF grant, would be a sinking fund with small grants awarded to biologically important areas. Trust Funds have also been established for Thuong Dinh Industrial Zone, and for minimising pollution in Ho Chi Minh City; and a National Environment Protection Fund has recently been approved. Most of these trust funds would be capitalised through state and donor contributions.

4.3.2A Trust Fund for YDNP

A Trust Fund can act both as a financing mechanism for YDNP and as a mechanism for allocating funding to protected area conservation activities. A Trust Fund has a number of financial and management planning advantages for YDNP. It has the capacity to absorb

additional revenue streams (e.g. tourism, coffee) and retain these at the park level. It can also diversify the funding targets and beneficiaries: as well as the Park Management Board, it could include disbursements at Provincial, District, Commune and household levels. A Trust Fund therefore has the potential to (a) generate sustainable financing that is additional to government budgets; (b) provide a mechanism for absorbing and managing additional revenue streams; (c) support a multi-stakeholder approach to financial planning, budgeting and management; (d) support a landscape approach to park management which includes and integrates both core and buffer zone activities.

Several considerations enter into the establishment of a Trust Fund for YDNP:

- ***Capitalisation and income***

The establishment of a Trust Fund will require capital contributions by central government, donors and foreign investors, and a commitment by government to allow it to be used for retaining and allocating funding at the park level in addition to existing state budgets. It may also be able to receive funds that might become available from the proposed GEF funded national level financing mechanism or conservation fund for protected areas under the Forest Sector Development Project.

Income would be earned from interest raised from the capital, as well as from additional sources of revenues added to the Trust Fund. This income would then be available as funding for the management of YDNP.

- ***Management and oversight***

The function of the management board is to provide overall fund management, financial advice, general direction and policy decisions. It has the ultimate fiduciary responsibilities, defines and approves investments and disbursements and decides on key policy and other issues facing the fund. Headed by a chairperson appointed by MARD, the management board would also be comprised of relevant central and local government sectoral agencies.

Operational regulations will need to be developed which will cover the fund's objectives, capital sources, activities for which funds would be disbursed, investment of idle capital, management structure (ensuring key stakeholder representation), accounting and auditing procedures, etc.

The function of the control board are to monitor and observe the implementation of the policies and activities of the draft trust funds in order to ensure the safety of their asset management, to draft annual plans and reports to submit to the management board, and to appraise reports on statement of accounts. The head and members of the control board would be appointed by the management board.

- ***Operation***

The functions of the operations unit are to administer, utilise and allocate trust fund income on a day-to-day basis, and should comprise the existing YDNP Management Board.

- ***Allocation of funding***

Income can be administered as grants, credit and budget support to the various groups and management activities that support biodiversity conservation in and around YDNP.

Funding for both core and buffer zone communities from the Trust Fund should be targeted explicitly to activities that contribute to biodiversity conservation. These should include grant and credit funding to the Park Management Board, other government agencies and communities in the buffer zone.

Trust Fund income should be earmarked specifically for recurrent expenditures. While it is expected that existing Investment Plans for park management, ecotourism and buffer zone activities will provide sufficient capital budgets, there is a large gap in budgets to meet non-staff recurrent needs.

4.4 Mechanisms for coordinating budgeting and Park planning processes

Existing sources of funding to the YDNP currently include the annual government investment budget, national programme 661, PARC project support, and some revenues from tourism. Additional funding that the management board is targeting is also largely from the government for its buffer zone investment plan and the ecotourism development plan, with the latter also proposing some investment from joint ventures and other institutions.

This study is recommending some additional financing mechanisms as outlined in the previous section. The mechanisms for coordinating budgeting and management planning processes could be as follows:

1. The annual investment budget, both the existing and the new and additional resources that are raised as a result of the suggested financing mechanisms, needs to be allocated to various management activities of the YDNP in accordance with the needs and priorities that are being identified through the detailed operational plan preparation process. Similarly, the BZP prepared by the YDNP should be matched with the conservation-linked community development activities that are being identified under the village resource-use plans (VRUPs) by the PARC project through an extensive consultative and participatory process. Funding for both core and buffer zone communities from the budgets received by the YDNP or from additional revenues raised by should be explicitly for activities that contribute to overall biodiversity conservation.
2. A mechanism needs to be put in place for integrated planning and implementation of the buffer zone development programme as mandated by Article 8 of the Prime Minister's Decision No 08/2001/QD-TTg on management of special use forests and other natural forests. This would allow for a comprehensive core-buffer zone investment planning, approval and implementation. It is imperative that this fundamental change is effected as soon as possible to enable management of the YDNP in the context of its wider landscape. The trust fund proposed above offers a possible platform for integrating the planning and management of the protected area landscape as a whole under one common framework. However, in order for all the disparate planning and implementation frameworks (national, provincial, district, PARC project, etc) to be integrated through this mechanism it is imperative that the key stakeholders should be represented on the trust fund's management body.
3. There should also be similar integration in the planning and implementation of ecotourism activities in the core-buffer complex of the YDNP. While the management board itself might not make any major investments to create and operate tourism related facilities, it should provide the investment opportunities and incentives for the private sector and community based ecotourism operators. The management board should then also be in a position to benefit financially from the operation of such facilities, even when they are undertaken in the buffer zone of the national park.
4. Greater clarity needs to be introduced in the related policy for such integrated planning to become operationalised and institutionalised. Although Article 8 (2) of the Decision

08/2001 does call for such integration between core-buffer zone investment plans and approval processes it will have to be ensured that the management board of YDNP has the authority and resources to prepare such integrated core- buffer investment projects by drawing in and coordinating inputs from the key sectors and levels of government. This will require new skills, technical support and guidance to help them take on such a responsibility. They will also require funds to provide key incentives to engage local communities and enterprises in buffer zones in conservation and sustainable use activities. The PARC project could play a facilitative role in catalysing and introducing this system, which has the potential of becoming a model for other protected areas in Vietnam.

5. An enabling change that needs to be introduced for the integrated planning as recommended above to take place is the requirement of preparing separate investment plans for accessing funding from government sources and from all other additional sources. Although Article 11 of the Decision 08/2001 enables the protected area management boards to function as revenue generating public service units, detailed guidance developed for such units in January 2002 with the Prime Minister's Decision 10/2002 introduces a dual financial system requiring separate investment plans to be prepared. This system needs to be reviewed and simplified as it is crucial for operationalising the suggested financing mechanisms as well.
6. All existing and additional financial resources must be clearly linked to the management needs of YDNP, both of its core and buffer zones. The identification of the management needs and priorities through the investment/operational plan preparation process must be continued, but the process must be integrated with detailed budget and financing planning. This would not only result in a clear definition of the management activities, but also in realistic estimates of the financial resources required to implement them, identification of the sources from where these funds would become available, and the timing of their actual flow over the plan period. Such a system would allow for more appropriate, efficient and effective utilisation of the government budget. An essential prerequisite for this is that the government must make a long-term commitment to supporting the management board in implementing the approved investment /management plan for the whole core-buffer zone landscape. This would eliminate the vagaries resulting from the current annual budgeting and approval cycles, both in relation to the investment levels from year to year as well as in the types of activities to be implemented.

For the various recommendations on financing to succeed an appropriate regulatory and administrative environment must also be created. The current budgetary system and regulatory framework relating to protected areas financing in Vietnam is complex and there is need to simplify it and promote innovation. The financing study has made several important recommendations in this connection, as part of its Phase II outputs and they need to be acted upon to reform the prevailing system.

5 Recommendations: Sustainable Financing Needs for Yok Don National Park

This chapter summarises the findings of this report, and presents a series of recommendations for setting in place sustainable financing mechanisms for Yok Don National Park.

5.1 Existing state budgets to YDNP

- MARD should commit sufficient and assured long-term funding to cover the capital costs specified in the YDNP Investment Plan, Ecotourism Plan and Buffer Zone Plan.
- Future government budgets should be sufficient to cover the costs specified in YDNP Investment, Ecotourism and Buffer Zone Plans.
- Annual budget plans, and allocations released, should be in line with the priorities and needs for biodiversity conservation specified in the Operational Plan.
- State budgets should allow for one-off or irregular disbursements for special expenditures, for example the establishment of a Trust Fund.
- State budget allocations to YDNP should be calculated separately from, and not offset against, any revenues earned at the National Park level.

5.2 Generating additional finance for YDNP

- YDNP should diversify its funding beyond the single source of state budget allocations. Tourism and coffee royalties provide two potential sources of revenues (they also have the potential to act as financial/economic incentives for biodiversity conservation in the buffer zone).
- In order to plan for raising additional revenues for YDNP from tourism, the following short-term actions are necessary:
 - Specific consideration of financing strategies for tourism development, and maximising tourism revenues for YDNP, should be included in the emerging Ecotourism Investment Plan for YDNP.
 - Efforts should be made to increase tourist interest in YDNP through better marketing and publicity, and through the development of a more diversified range of tourist services offered by the National Park (e.g. bird watching, trekking, visits to the botanical garden and boat trips).
 - Increased dialogue on including YDNP in existing and new tour packages should be undertaken with private tour operators who are currently operating in the buffer zone of the park as well as engaging in communication with tour operators based in Da Nang and Ho Chi Minh City who sell tour packages which include Dak Lak Province.
 - A coherent system of fees and user charges for YDNP tourism services should be worked out, and informed by both the cost of service provision as well as the price of other tourism services in Dak Lak Province.

- The possibility of targeting the upper or higher-cost sector of the tourist market, or attracting special interest nature, bird watching or ecotourism visitors should be investigated, including identifying investment needs for the provision of a quality and range of services that would attract these groups.
- On the basis of the important role of the YDNP name in attracting tourists to Dak Lak Province and the buffer zone, and in co-operation with Province, District and Commune authorities and with private operators, the possibility of charging some form of conservation levy, bednight fee or reallocation of existing taxes and fees to National Park management should be investigated.
- In order to plan for raising additional revenues for YDNP from coffee, the following short-term actions are necessary:
 - Only certain parts of the buffer zone are suitable for coffee production. Plans for developing the farming areas need to exist.
 - Issues related to the certifications methods should be disseminated not only to managers but also to the public with a view to encourage production and consumption of environmental protection awareness and relate this to economic benefits of enterprises.
 - A strong marketing strategy mainly focusing on potential export markets should be developed. Several international NGOs have considerable expertise in the promotion of organic and fair trade coffee production, and have had successful experiences in its promotion as a community economic incentive for biodiversity conservation in other parts of the world. For example Conservation International is working to promote shade and organic coffee in Latin America, Oxfam is already active in fair trade and organic agricultural production in Vietnam and other parts of the world. Several international coffee retailers (for example Starbucks, Costa Coffee, numerous European and N. American supermarket chains) include fair trade/organic coffee in their products.
 - An appealing brand name based on Yok Don National Park should be thought up and patented.
 - An appropriate royalty fee for the NP should be identified and negotiated.
 - The possibility of linking the proposed trust fund for the NP with supplying micro credits for farmers willing to enter the business, should be considered.
 - A reliable product quality control system should be implemented so that, problems meeting the standards of importing countries can be avoided.
- Any additional revenues generated by YDNP in the future should be permitted to be wholly retained at the park level, and reinvested in park management and biodiversity conservation activities in core and buffer zones.

5.3 Allocating finance to YDNP

- A Trust Fund should be established, capitalised from state and donor sources.
- The possibility of the Trust Fund to receive funds that might become available from the proposed GEF funded national level financing mechanism or conservation fund for protected areas under the Forest Sector Development Project should also be explored.
- The Trust Fund should be permitted to absorb additional revenue generated. It would be managed as a multi-stakeholder entity, and provide funding for biodiversity conservation in the entire YDNP landscape (core, buffer, to Management Board, Provincial/ District/ Commune authorities, to local households).

- Trust Fund income should be earmarked specifically for recurrent expenditures. While it is expected that existing Investment Plans for park management, ecotourism and buffer zone activities will provide sufficient capital budgets, there is a large gap in budgets to meet non-staff recurrent needs.
- Funding for both core and buffer zone communities from the Trust Fund should be targeted explicitly to activities that contribute to biodiversity conservation. These should include grant and credit funding to the Park Management Board, other government agencies and communities in the buffer zone.
- Detailed assessment of the options and mechanisms for setting up a National Park Trust Fund are presented in the Financing Study Phase II report. Short-term actions include:
 - A detailed feasibility assessment and design phase will be required, involving Central, YDNP and Provincial authorities.
 - Agreement would have to be reached with the concerned agencies like the Ministry of Finance, MPI, Office of Government, etc on the concept and the about government's contribution to capitalise the fund.
 - The YDNP management board could seek additional technical assistance from international organisations that have experience of setting up conservation trust funds, such as WWF and IUCN. These organisations could also help the government in discussions with other donors, including foundations that could be important sources of capital for the fund.
 - The design phase of the fund would entail drafting of the detailed regulations and the related implementation decision of the government. Several precedents are available already that can provide guidance to the drafting of such regulations, such as the Environment Fund for the Thuong Dinh Industrial Zone, and the recently approved National Environment Protection Fund. The presence of these other trust funds also establishes the fact that the enabling legal and regulatory framework is not lacking in Vietnam.
 - An important provision to ensure in the government's decision establishing the fund is that it should be exempt from payment of taxes. The operational regulations should cover the fund's objectives, capital sources, activities for which funds would be disbursed, investment of idle capital, management structure (ensuring key stakeholder representation), accounting and auditing procedures, etc.
 - Capacity development of the staff assigned to work on the conservation fund should be an important component of the proposal. This would have to be facilitated through a special input, possibly the PARC project, through technical assistance from other international organisations or through a government grant for supporting the design and establishment of the fund.
 - Once the start up capital is received, the fund could be made operational and should be closely monitored in the short term to ensure its proper functioning and, if necessary, appropriate changes should be incorporated.

5.4 Financial planning for YDNP

- Financing recommendations should be seen as an integral part of the investment/operational plan of the YDNP because while it is important to identify management and financial needs, it is equally important to prepare and implement a strategy for raising the required funds to implement the plan. This approach needs to be

institutionalised as part of the management or operational planning process for protected areas in Vietnam, through:

- Developing sections outlining a specific financing strategy for operations which extends beyond central government funding as part of existing Investment Plans and Operational Plans. Management plans and budgets prepared for YDNP should be used not only as plans to guide management actions but also for achieving financial sustainability and preparing annual budget submissions.
- All existing and additional financial resources must be clearly linked to the management needs of YDNP, both of its core and buffer zones. The identification of the management needs and priorities through the investment/operational plan preparation process must be continued, but the process must be integrated with detailed budget and financing planning. This would not only result in a clear definition of the management activities, but also in realistic estimates of the financial resources required to implement them, identification of the sources from where these funds would become available, and the timing of their actual flow over the plan period.
 - The disconnect in the management planning process between the PARC project and the YDNP, and between National Park and Provincial/District/Commune authorities needs to be urgently addressed so that they are complementary to and supportive of each other. Specifically:
 - A mechanism for integrated planning and implementation of the buffer zone development programme as mandated by Article 8 of the Prime Minister's Decision No 08/2001/QD-TTg on management of special use forests and other natural forests. It is imperative that this fundamental change is effected as soon as possible to enable effective management of the YDNP in the context of its wider landscape.
 - Investment Plans prepared by YDNP, and Operational and Village Resource Use Plans prepared by the PARC project, should be fully integrated with each other. They should also take into account existing Provincial Socio-Economic Development Plans and attempts to supplement, not replicate these, by focusing on additional activities that are specifically concerned with biodiversity conservation.
 - The Operational Plan prepared by the PARC project should act as a mechanism for guiding the medium-term disbursement of funding provided in accordance with the Investment and Ecotourism Plans, and additional funding raised and disbursed through the Trust Fund. Annual investment budgets should follow the management activities and priorities identified in the Operational Plan. The two sets of documents should be developed together.
 - Similarly, Village Resource Use Plans prepared by the PARC project should act as mechanisms for the implementation and disbursement of funding from the Buffer Zone Investment Plan and from buffer zone allocations made from the proposed Trust Fund. The two sets of documents should be developed together.
- For the various recommendations on financing to succeed an appropriate regulatory and administrative environment must also be created, and appropriate capacity built. The current budgetary system and regulatory framework relating to protected areas financing in Vietnam is complex and there is need to simplify it and promote innovation. The financing study has made several important recommendations in this connection, as part of its Phase II outputs and they need to be acted upon to reform the prevailing system.

6 Annex: Background Paper on Sustainable Coffee Production

One of the activities that has been identified by the PARC financing team, as a way of generating income for the area surrounding Yok Don National Park (YDNP) and the Park itself, is a differentiated coffee production. Different ways of differentiation and its ability to create a price premium will be presented in the following along with some background information on the growing of coffee in Vietnam. The current status of the world coffee market will also be briefly touched upon.

6.1 Coffee in Vietnam and Dak Lak province

Between 1990 and 2001 coffee production in Vietnam shot up from 1% of world production to 18% thereby making Vietnam the second largest coffee producer in the world after Brazil. All though arabica beans represent about 70% of world production, robusta is the predominant choice in Vietnam, with most of the production located in the central highlands. Robusta trees tend to have higher yields and are more resistant to disease. Every 3-4 years both arabica and robusta trees are ready for harvest, and they are viable for 20 to 30 years.

The rapid expansion in the Vietnamese coffee production is often blamed for the crisis that the world coffee industry is currently facing. Vietnam is perceived to have flooded the market with a cheap and low quality product thereby reducing prices. Current prices are now lower than production costs and in many parts of the world there is little expectation that this will change in the short run, as there is still an oversupply of about 15 percent. In 2001, the New York Board of Trade C-market price dropped from US\$ 0,60 per pound in December 2000, to US\$ 0,44 per pound in the fall of 2001. Coffee farmers typically earn between US\$ 0,15 and US\$ 0,25 per pound of coffee cherries.

It is estimated that some 254,000 ha of land are under coffee in Dak Lak Province, of which two thirds can be classified as having extremely high potential for coffee. Coffee is produced under a smallholder system, with most growers planting about 2 ha to coffee. Yields are in the range of 1–1.5 tonnes/ha, and the average price received by farmers matches the above range (VND 7000/kg; US\$ 0,23 per pound). Although few pesticides are used, coffee production relies on the use of chemical fertilisers. Currently, the bulk of production is marketed to middlemen and to buyers from Trung Nguyen coffee company. In recent years the area under coffee in the Province has decreased by about 25%, largely due to a fall in producer prices. Low producer prices act as a major constraint to production.

Given the costs of production, the current coffee market price of US\$ 0,55 per pound, and the relatively higher returns to other crops, there is little incentive to expand the farming of traditionally grown coffee, and therefore new ways of developing an industry that produces a higher value product is necessary. In the following suggestions will be listed as to how coffee as a product can be differentiated and in turn led to a higher price.

6.2 Facts about the coffee industry

It is widely appreciated that growing coffee is usually associated with negative environmental impacts, since the development of most large coffee plantations typically involves the deforestation of large areas of land. In addition, the processing of coffee beans can require the use of large quantities of water into which organic coffee waste is dumped. Deforestation can cause soil erosion, lower biodiversity by destroying the habitat of countless living

species, and significantly limit carbon sequestration due to the loss of dense forest that tends to absorb large quantities of carbon. While there is little research about the direct effect increased coffee production in Vietnam is having on the environment, many lessons can be learned from research conducted in Latin America. Tropical rainforest destruction continues throughout Central and South America as farmers clear-cut hillsides and fields to grow coffee with greater sun exposure. Coffee tends to grow faster with more sun but also requires more pesticides. The pesticides affect the farmers more severely than the consumers since processing removes most of the chemicals. However, the end result is that the prevalence of pesticide use on large plantations worsens the social implications in producing countries.

As mentioned the coffee industry is in crisis and throughout the years, greater price stability was sought through many techniques. These include concerted efforts by producing countries to withhold low-grade or triage beans, burn such stock or use it for compost, fodder or fuel and to develop international commodity risk measures such as price insurance. For example the World Bank has set up an international task force working with commodity risk management measures. They are proposing a price stabilisation plan that would involve price insurance negotiated through local institutions from banks to local co-operatives. The primary objective of the scheme is to bridge the market gap between providers of risk management instruments and small farmers in developing countries.

However, given the negative environmental impacts accompanying traditional coffee farming methods the world price status is not the only concern that will determine the *coffee financing mechanism* proposed in this study. Creating a sustainable production method involves a strategy which aim is twofold. Firstly the ways of production must be environmentally friendly and secondly the product must be able to render a high value product.

6.3 Economic and environmental sustainable production methods

In order to protect both the farmers who grow coffee and the environment in which coffee is grown three initiatives have been developed. The so-called sustainable coffees, which include certification under the headings of fair trade, organic and shade grown coffee. The certification ensures that coffee is grown under socially just conditions, free of chemicals or grown under a canopy of trees that sustains biodiversity. Each certification system has a label indicating to consumers that the coffee is grown under socially responsible and environmentally sustainable conditions.

The certification systems are a decentralised means of monitoring the production of coffee internationally. They conform to the stipulations of the World Trade Organisation's Sanitary and Phytosanitary Measures Agreement, which state that:

Member countries are encouraged to use international standards, guidelines and recommendations where they exist. However, members may use measures, which result in higher standards if there is scientific justification. They can also set higher standards based on appropriate assessment of risks so long as the approach is consistent, not arbitrary.

(WTO, 11/23/010)

Fair trade, organic and shade grown certification initiatives set international standards and guidelines by which coffee is grown more equitably and with fewer pesticides that have been shown to have negative effects on the food chain, the natural functioning of biomes, and thus on human health. They are most effective for coffee production in areas where plantations are small, which is the case around YDNP. However, to date these initiatives have focused on coffee production in Latin America and on a limited basis in Africa. Organic, shade grown, and fair trade coffee production have not yet reached much of Africa nor Southeast Asia, and their dissemination may be hampered by the political situation in the producing country. An

essentially command and control economy like Vietnam, may not be conducive to farmer owned co-operatives that sustainable coffee initiatives seek. Nevertheless, they provide models for a more equitable and holistic trading system toward which global trading systems should strive.

In the following a brief description of the main characteristics of each certification system will be presented.

6.3.1 Fair Trade coffee

The fair trade initiative seeks to guarantee that coffee is purchased directly from small farmers and that they are guaranteed a minimum contract price. It fosters long term relationships between importers, roasters, retailers, and the producing co-operatives. Producing countries that have benefited from branding their coffee and thereby creating a niche for their product include: Jamaica with its Blue Mountain coffee and India with its Monsooned Malabar coffee.

On the US market, only organisations of small coffee producers (under 10ha) inscribed in the Transfair USA Producers Register are entitled to sell green or processed coffee to be marketed under the Transfair USA trademark and can claim the rights derived from that inscription. Importers and producers agree to establish long term and stable relationships in which the rights and interests of both are mutually respected. Any long-term agreement should be confirmed by means of exchange of letters of intent, in which volume, quality, price-fixing procedures and shipment schedule if applicable, are mutually confirmed. Parties should agree on the letter of intent before the harvest season for that specific origin has started. Regarding the *fair price* some overall guidelines are outlined below.

- The fair trade price for conventional coffee is equivalent to a fixed premium of US\$0.05 per pound above the prevailing market price for the relevant quality of each coffee.
- For certified organic coffee that will be sold as such under the Transfair USA trademark, an additional premium of US\$0.15 per pound of green coffee must be paid, in addition to the US\$0.05 fixed premium for conventional coffee.
- For arabica beans, the New York "C" market shall be the basis of calculation. The price shall be established in US\$-cents per pound, plus or minus the prevailing differential for the relevant quality, basis F.O.B. origin, net shipped weight.
- For robusta beans, the London "LCE" market shall be the basis of calculation. The price shall be established in US\$-dollars per metric ton, plus or minus the prevailing differential for the relevant quality, basis F.O.B. origin, net shipped weight.

To protect the producers extreme price volatility, minimum prices have been established which overrule the Transfair USA prices as defined above when these are lower than the relevant minimum price. The minimum prices vary according to the type and origin of the coffee. The following table summarises minimum prices, including quality differentials, the fixed Transfair USA premium of US\$0.05 per pound and the organic premium of US\$0.15 per pound.

Oxfam is calling for a coffee rescue plan which within the first year should result in:

- Roaster companies paying decent prices to farmers
- Positively influencing the price by reducing supply (partly by destroying 5 million bags of coffee)
- The creation of a fund to help poor farmers shift to alternative livelihoods

Roaster companies committing to buy more coffee under fair trade conditions (target 2% of their volume)

Table 5: Fair Trade Price Premiums (all prices in US\$--cents per pound, F.O.B., port of origin)

Type of Coffee	Conventional		Organic	
	Central & S. America	Central & S. America	Mexico, Africa, Caribbean	Mexico, Africa, Caribbean
Washed Arabica	126	124	141	139
Unwashed Arabica	120	120	135	135
Washed Robusta	110	110	125	125
Unwashed Robusta	106	106	121	121

6.3.2 Organic coffee

Under this certification system, coffee is produced with methods that preserve soil and prohibits the use of synthetic materials. Organic production and processing is based on a number of principles and ideas that are listed below. The list does not seek to establish any priority of importance.

- To produce sufficient quantities of nutritious wholesome, high quality food.
- To work compatibly with natural cycles and living systems.
- To include the wider social and ecological impact within the organic production and processing system.
- To enhance biological cycles by involving micro-organisms, soil flora and fauna, plants and animals within the farming system
- To encourage development of an ecologically valuable and sustainable aquatic ecosystem.
- To maintain and increase long-term fertility and sustainability of soils
- To maintain, promote and increase agro-biological diversity through sustainable production systems and protection of their ecological context.
- To maintain and promote genetic diversity by increasing the number of crop and plant varieties and animal breeds in the farming system; including specific attention to on-farm management of genetic resources.
- To promote the responsible use and conservation of water and water resources.
- To use, as far as possible, renewable resources in production and processing systems
- To foster local and regional production and supply chains
- To create a harmonious balance between crop production and animal husbandry
- To provide living conditions that allow animals to express the basic aspects of their innate behaviour
- To minimise all forms of pollution
- To utilise biodegradable and recycled packaging materials.
- To produce durable, high quality textiles utilising ecologically sustainable production and processing

- To allow and provide everyone involved with a quality of life to that satisfies their basic needs, and furnishes an adequate return, within a safe, secure and healthy working environment
- To support the establishment of an entire production, processing and distribution chain which is both socially just and ecologically responsible
- To recognise the importance of, protect and learn from, indigenous knowledge and traditional farming systems.

6.3.3 Shade grown coffee

Here the coffee is grown in shaded forest settings and therefore supports biodiversity. Originally, migratory songbirds were the motivational factor behind this sustainable coffee initiative. For example, by preserving the tree canopy in the Mesoamerican Biological Corridor, the survival of nearly 150 songbirds is more secure. Furthermore, a study conducted by the Commission for Environmental Cooperation outlines the fact that because the cherries need a longer time to mature under this system, that shade grown coffee typically grown at higher elevations tends to have a higher sugar content, which in turn leads to a smoother, richer, better taste. Also in addition to its environmental and taste benefits, shade grown coffee is healthier both for producers and consumers as this type of production usually requires less use of pesticides.

Throughout the world the three sustainable concepts can either be found as stand-alone initiatives or as combinations. However, fair trade coffee frequently tends to be organic, but organic is not necessarily grown under fair trade conditions. Arguments have been made that organic and shaded coffee may be more sustainable as cause coffees, because consumers in the long run are expected be more tolerant towards paying a higher price if the price is based on a higher quality product as a result of being chemical free or grown under a canopy, rather than pitying farmers based on prices received. In many cases, the sustainable coffees are not mutually exclusive and by all accounts they set a precedent for a more equitable and sustainable coffee market.

6.4 Proposed set-up for Yok Don National Park

As mentioned earlier one of the activities that has been identified by the PARC financing team, as a way of generating income for the area surrounding YDNP and the Park itself, is a differentiated coffee production. More specifically, the certification system that is recommended to be implemented by producers and YDNP is a combination of all three (fair trade, organic and shade grown). The coffee should where possible be grown under the canopy of the forest without the use of pesticides and should be sold according to the fair trade guidelines. Doing this and marketing the coffee under a YDNP brand name should hold the opportunity of creating a sustainable coffee production.

In lines of creating funding for YDNP a coffee royalty should be paid to the NP. The royalty is seen as a sort of levy included in the price but forwarded to the NP, and maybe even going into the trust fund.

This kind of set-up is believed not only to benefit the buffer zone but also the NP itself. Below conclusions and recommendations for the proposed scheme are set out.

6.5 Conclusions

- Coffee production currently covers some 254,000 ha of land in Dak Lak Province, including parts of Buon Don and Ea Sup Districts in the YDNP buffer zone.
- At present growing coffee in Dak Lak Province is not a very profitable business since prices if at all hardly cover production costs. Low producer prices act as a major constraint to production, and to rural income generation.
- By implementing sustainable certification systems and fair trade agreements it is possible for farmers to earn an extra price premium above existing market prices of about US\$ 0,30 per kg of coffee beans.
- Given the right conditions, coffee production can be both economically and ecologically beneficial, and coffee production can be aligned with biodiversity conservation.
- There is potential for introducing differentiated coffee production both within and outside the buffer zone of YDNP in Dak Lak District. In principal, coffee grown in any area of Dak Lak Province could be branded as Yok Don coffee and used as a funding mechanism for YDNP. Only certain areas of the buffer zone are suitable for growing coffee, including parts of Buon Don and Ea Sup Districts.
- In the buffer zone, the production of differentiated coffee can additionally be seen as a market incentive for farmers to engage in environmentally friendly-agriculture. The production of shade coffee may also act as a stimulus for on-farm forest conservation: much of the land suitable for coffee (and other crop) production in the Province is currently under forest.

6.6 Recommendations

- Only certain parts of the buffer zone are suitable for coffee production. Plans for developing the farming areas need to exist.
- Issues related to the certifications methods should be disseminated not only to managers but also to the public with a view to encourage production and consumption of environmental protection awareness and relate this to economic benefits of enterprises.
- A strong marketing strategy mainly focusing on potential export markets should be developed. Several international NGOs have considerable expertise in the promotion of organic and fair trade coffee production, and have had successful experiences in its promotion as a community economic incentive for biodiversity conservation in other parts of the world. For example Conservation International is working to promote shade and organic coffee in Latin America, Oxfam is already active in fair trade and organic agricultural production in Vietnam and other parts of the world. Several international coffee retailers (for example Starbucks, Costa Coffee, numerous European and N. American supermarket chains) include fair trade/organic coffee in their products.
- An appealing brand name based on Yok Don National Park should be thought up and patented.
- An appropriate royalty fee for the NP should be identified and negotiated.
- The possibility of linking the proposed trust fund for the NP with supplying micro credits for farmers willing to enter the business, should be considered.
- A reliable product quality control system should be implemented so that, problems meeting the standards of importing countries can be avoided.