

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

November 2, 2015

Report No.: AB7798

<b>Operation Name</b>	Climate Change and Green Growth in Vietnam
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Vietnam
<b>Sector</b>	General agriculture, fishing and forestry sector (60%); Energy efficiency in Heat and Power (15%); Irrigation and drainage (15%); Other Renewable Energy (10%)
<b>Operation ID</b>	P155824
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	SOCIALIST REPUBLIC OF VIETNAM
<b>Implementing Agency</b>	Ministry of Natural Resources and Environment (MONRE)
<b>Date PID Prepared</b>	October 28, 2015
<b>Estimated Date of Appraisal</b>	February 26, 2016
<b>Estimated Date of Board Approval</b>	May 25, 2016
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

**Rapid economic growth in Vietnam in recent decades has created opportunities for people and businesses; however, the effects of climate change may slow down, halt or even reverse some development achievements unless measures are taken to build resilience and to adapt to these impacts.** Climate-induced impacts in Vietnam will continue to increasingly threaten the livelihoods of people in coastal or low-lying deltas (more than 50 percent of the total population) as well as the large percentage of the workforce and income that depends on natural resources. This is largely attributed to Vietnam's high and increasing exposure to gradual onset impacts associated with rising sea-levels, ocean warming and increasing acidification combined with sudden-onset impacts associated with tropical cyclones and rapidly increasing heat extremes. The impacts caused by this exposure are expected to be particularly felt by the poor, who are more vulnerable as they have less ability to cope and adapt. Further, rural households are exposed to substantial climate variability, including months with extreme and unusual rainfall and temperature deviations and self-reported climate events, such as storms, floods and droughts. These have a particular impact on the poorest and most vulnerable people in rural areas, as they rely on ecosystem-based incomes (i.e., crop, livestock, forestry, fisheries) for up to 50 percent of their total incomes. Further loss of mangrove forests due to sea-level rise and human activities, such as drainage and groundwater extraction, will accelerate coastal erosion. Vietnam's high vulnerability to climate-induced impacts, in particular in coastal areas and deltas that span across administrative boundaries, highlights the need for area-based approaches to climate adaptation and resilience.

**Vietnam is currently in the middle of an economic transition where a greener inclusive growth trajectory is both an opportunity and needed to avoid getting locked into unsustainable paths**

**and generate immediate local co-benefits.** Environmental and social stresses will further increase as the growth of incomes, urbanization and industrialization put growing pressures on land, water and energy resources.<sup>1</sup> How Vietnam handles this transition will determine whether the country is able to maintain a strong and competitive growth trajectory and move into the ranks of high-income countries, or whether it gets mired in a vicious cycle of expanding “dirty” industries, degrading natural resources, and polluting land, air and waterways, leading towards a lower quality of growth. The growth of fossil fuel energy consumption by industry and coal-fired power plants in Vietnam has led, and will continue to lead to significant increases in emissions from local air pollutants and greenhouse gases (GHGs). Further, with energy use growing faster than in any country in the region and the intensity of energy consumption among the highest in the world, Vietnam’s total and per capita GHG emissions have almost tripled have made Vietnam the country with the second highest level of carbon intensity in the region after China. Under current trends and policies, the share of coal for power would rise from 17 percent in 2010 to nearly 60 percent by 2030, of which around 80 percent would be imported.<sup>2</sup> This highlights the need for Vietnam to act early to avoid investment in technology and infrastructure that will “lock in” highly energy inefficient economic structures. Successfully doing so would lead to positive spillover effects in terms of economic growth, productivity and avoided health costs.

**To bring forward implementation, building on experience and lessons discussed at the NCCC, the Government, at the request of the Prime Minister, has decided on the development of a Post-2015 Climate Change and Green Growth Response Support Program.** The Program Framework aims to target policy, investment, and knowledge to support strategic and operational coherence to implement policy reforms, mobilize resources, and further capacity for climate change and green growth action. This Framework, of which the policy component has been well developed so far, is also a contribution to further bring together Development Partners’ (DPs), while recognizing the importance to engage across sectors to foster convergence in the dialogue and in taking actions.

**This Program is the first single tranche operation for a credit in the amount equivalent to USD 90 million in a series of three Development Policy Operations to the Socialist Republic of Vietnam.** The proposed operation would assist the Government of Vietnam to strengthen its climate change and green growth reform agenda, which aims to improve the longer-term sustainability and quality of some of the key drivers of growth. The operation builds on the foundations supported by the first Climate Change DPO series (the World Bank’s extensive engagement and dialogue on climate change and green growth in Vietnam) and the strong Government ownership of the Program. This is evidenced by the structured preparation process carried out by the Government at the request of the Office of the Prime Minister, as the chair of the NCCC, under the leadership of the Ministry of Natural Resources and Environment (MONRE), with close engagement of the Ministry of Planning and Investment (MPI), all key Line Ministries and the Ministry of Finance (MOF). Recent dialogue has also confirmed strong engagement of the National Assembly and of the Central Committee of the Communist Party.

1. ***Macroeconomic policy framework.*** Vietnam’s macroeconomic prospects remain strong, albeit with significant downside risks. Owing to a combination of buoyant domestic demand

---

<sup>1</sup> Government of Vietnam and World Bank (2015) Vietnam 2035 Draft Report

<sup>2</sup>World Bank (2015). Exploring a Low Carbon Development Path for Vietnam. WB, ESMAP and DFID.

growth and strong performance of export-oriented manufacturing, Vietnam's recovery is continuing, with growth expected to accelerate to 6.5 percent this year (up from 6 percent last year). Despite the pick-up in economic activity and a weaker Dong, inflationary pressures remain subdued benefiting from low commodity prices and stable core inflation. Meanwhile, sustained high fiscal deficits have led to a sharp increase in public debt. On the external front, exports continue to expand rapidly, but a surge in imports, mainly of capital and intermediate goods, is eroding the current account, which is expected to post a small deficit this year. Even though forex reserves cover less than three months of imports, robust FDI inflows, limited exposure to volatile portfolio investments and low and largely concessional external debt contain balance of payments risks. While the baseline outlook for Vietnam is positive on balance, downside risks dominate. Key domestic risks include structural reform inertia, possible delays in the necessary fiscal consolidation and risks of renewed overheating of the credit market. Vietnam's macroeconomic prospects could also be dimmed by potential external shocks associated with volatile global financial conditions and possible slow-downs in demand in key export markets, including the US, Japan, EU and to some extent China.

2. **The overall macroeconomic policy framework remains appropriate, but will need to begin adjusting to rebuild policy buffers to safeguard against future shocks.** Against the backdrop of favorable inflationary conditions, the monetary stance remains appropriately accommodative, although with credit growth resuming, macro-prudential policies should be calibrated to mitigate risks of renewed overheating, ensure financial stability and limit systemic risks in the banking sector. Growing pressures in the currency market – related to a combination of weaker trade balance and general market volatility – were accommodated by a gradual devaluation of the reference rate and a wider trading band to provide more flexibility to respond to changing market conditions. This helped to stabilize the currency market and preserve foreign reserves, albeit at a still relatively low level (less than three months of imports). However, further strengthening of the external position would help mitigate risks associated with volatile global financial conditions. Meanwhile, countercyclical fiscal policy supported the economy during past years of slower economic growth, but resulted in sizable fiscal imbalances and fast-rising public debt. While risks of acute debt distress remain low, fiscal policy buffers are now extremely limited and a credible medium-term fiscal consolidation is crucial to ensure debt sustainability.

**Risks notwithstanding, the macroeconomic framework is considered adequate for this operation to proceed.** Provided the policy mix remains responsive to a changing environment and improving economic conditions are used to bolster resilience, the framework is expected to sustain macroeconomic stability while preserving fiscal and external sustainability.

## **II. Proposed Objective(s)**

**The Program Development Objective is to strengthen climate change and green growth action** by enhancing (i) integration and coordination to improve inter-sectoral planning and financing; (ii) the enabling environment to increase selected natural resources services; and (iii) the enabling environment to shift to selected cleaner production systems. In addition to being in line with the Government's goals, as articulated in the NCCS, VGGs, INDC, and the World Bank Country Partnership Strategy (CPS) for Vietnam, the operation responds to the Bank strategic goals of reducing poverty and boosting shared prosperity in a sustainable manner.

### III. Preliminary Description

**The proposed series of operations contains a selective and cohesive subset of policy tracks and prior actions.** These policy tracks have been identified as critical in support of the NCCS, VGGs, and the recently submitted INDC. The policy tracks and actions are grouped into three pillars that collectively aim to unlock key policy barriers to allow for a scaled-up climate change and green growth response: (i) Pillar 1 aims to enhance integrated approaches to improve inter-sectoral planning and financing; (ii) Pillar 2 aims to enhance the enabling environment to invest in selected natural resources services; and (iii) Pillar 3 aims to enhance the enabling environment to invest in selected cleaner production systems.

**The prior actions of the proposed operation were selected to deepen selected reform areas and to engage in others that are important to address climate change and green growth.** The proposed operation builds on a strong set of analytical underpinnings, ranging from technical assistance tasks, economic and sector work, capacity building programs, and specific lending operations. This includes both Bank and other development partner initiatives, alongside analytical assessments and studies from the Government and national institutes.

**Pillar 1. Enhancing integrated and coordination to improve inter-sectoral planning and financing for climate change and green growth action.** The policy reforms aim to tackle both the key area-based cross-sectoral obstacles that arise in development across the long low-lying coast in Vietnam in the face of climate impacts and actions that support a better inter-sectoral mobilization of resources (in terms of both quality and quantity) for climate change and green growth.

- Vietnam's coastal areas play a key role in the country's sustainable socioeconomic development and green growth and the country is amongst the most vulnerable to the effects of climate change on natural and man-made coastal systems and livelihoods, where vulnerability is measured as a function of exposure, sensitivity, and adaptation capacity. In accordance with the Law on Natural Resources and Environment of Sea and Islands, the Government is now strengthening its national Integrated Coastal Zone Management policy and institutional capacity through a series of legislative and administrative steps, which are directly supported by this DPF series.
- As climate change intensifies, Vietnam is faced with the increasing challenge of financing action that strengthens the country's climate resilience and promotes a low-carbon development path while avoiding technology and infrastructure that will "lock in" high carbon and inefficient economic structures. Mobilizing resources for climate change and green growth to address these increasing demands will require a continued proactive engagement from the Government to improve the scale and quality of financing. Recognizing these challenges, the proposed DPF aims to support Government reforms that improve the mobilization of the State Budget towards Vietnam's climate change and green growth objectives, as articulated in the NCCS and VGGs, and enhance the decision-making and spending for implementation

**Pillar 2. Enhancing the enabling environment to increase selected natural resources services for climate change and green growth action.** The policy reforms aim to deliver integrated and mainstreamed climate change and green growth responses into both public and private natural resource investments across the water and forestry sectors.

- Water is vital for sustaining Vietnam’s growth while improving public health and the environment. Although Vietnam uses only about 10 percent of available water on a national basis, regional and especially seasonal shortages are major limiting factors to industrial and agricultural development. Furthermore, the delicate balance of upland ecosystems and crops is being greatly affected by more severe weather patterns and flooding. These challenges, which are being exacerbated by a changing climate, have already had detrimental impacts for sustainable socioeconomic development and poverty reduction. To further support the implementation of this agenda, this DPF series will address priority water policies by improving the protection of water resources and fostering water use efficiency.
- It is key for Vietnam to develop and leverage the significant potential of forests to contribute to sustainable development and growth at national and sub-national levels. Productive and sustainably managed forests provide essential services that underpin green and resilient development and can help leverage finance. A robust and comprehensive forest policy framework that fosters institutions, finance and delivery systems is essential to achieve an integrated approach to green and resilient development in Vietnam. The DPF series will promote the sustained delivery of forest ecosystem services and enable forests to be an engine of sustainability by supporting green resilient growth.

**Pillar 3. Enhancing the enabling environment to shift to selected cleaner production systems for climate change and green growth action.** In particular, the reforms supported aim to support innovation, convergence and integrated air quality management policies in Vietnam by acting on no-regret priorities in selected sectors, generating co-benefits between initiatives that address local air pollution and greenhouse gas emissions, as well as moving to scale and removing the barriers for the up-take of sustainable energy.

- Vietnam’s poor air quality is causing both significant environmental degradation, including GHG emissions contributing to climate change, and public health problems, undermining the potential for sustainable socioeconomic development of the country and impacting the poor. To improve public health and reduce negative impacts on the environment, including contribution to global warming, effective Air Quality Management (AQM) policies and programs are needed in support of a green, inclusive growth. To address gaps in emissions data and continue building on recent AQM policies adopted, the DPF will support the Government with a series of sequential ‘no-regret’ policy actions including within the transport sector.
- Current consumption and production patterns, accompanied by urbanization at an unprecedented pace, are placing enormous pressure on domestic energy supply which has the potential to undermine human productivity, limit the country’s future growth potential while resulting in further environmental deterioration. To address this challenge, Vietnam has recognized the need to make aggressive efforts to improve demand-side energy efficiency across sectors while creating the enabling environment for investment in renewable energy. The proposed DPF series thus aims to further the implementation of this agenda by supporting reforms that scale up energy efficient measures in the industrial and household sectors and by promoting renewable energy technologies

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### **Poverty and Social Impacts**

**The Bank is preparing a Poverty and Social Impact Analysis (PSIA) to assess the distributional**

**impacts of the supported policy reforms on the well-being of different social groups, especially the poor and vulnerable.** The PSIA will inform the Government in the development and final adjustment of the policy reforms as well as reforms covered in subsequent DPF operations. As such, the PSIA will underpin the policy reforms with *ex ante* evidence on the expected distributional impacts, using mixed methods with qualitative techniques as primary inquiries. The PSIA will cover all of the proposed policy actions under the first proposed DPF operation and assess whether the reform has significant social impacts (either positive or negative) on stakeholders, particularly on the poor and vulnerable groups. The PSIA will also attempt to look into the identified potential impact from a gender perspective. This will be conducted through consultation with people at community level with a view to understand the potential impact on such groups. In the case that adverse impacts are identified, the PSIA will suggest approaches and measures to avoid these impacts. Where the avoidance of such impacts are not likely, the PSIA will propose measures with an aim to minimize, mitigate, or compensate to ensure the livelihoods of the affected groups are not worse off. The PSIA will also attempt to suggest additional studies that may need to be taken in case the impact could not be clearly identified, or in the event the proposed policies are slow in being applied at the grassroots level.

**Given the strong linkages between the impacts of climate change and poverty, the policy reforms designed by the Government and supported by the DPF series are expected to increase the resilience of the poor and vulnerable in the face of climate-related shocks and stresses in Vietnam.** Improvements in climate change adaptation and green growth are expected to benefit the poor who are potentially disproportionately affected by climate change and environmental degradation. For instance, when improving coastal zone management, particularly the coastal land area, land use planning will improve the income generation activities of local people, especially those who are involved in fisheries-related jobs such as fish processing for local and export consumption. Mitigation policies supported under this DPF series aim to largely bring about local co-benefits such as higher energy efficiency which is likely to lead to a reduction in electricity bills and reduced air pollution in communities. In short, it is expected that the reforms supported will enhance both the resilience of the poor in Vietnam to climate-induced impacts as well as the environmental conditions that allow for a better quality of life.

### **Environmental Aspects**

**In line with O.P. 8.60, the Bank is preparing a policy strategic environmental analysis to evaluate the effects of the supported policy reforms on Vietnam's environment, forests and other natural resources.** Following state-of-the-art methodologies developed by the Bank and the global development community, the policy SEA will strengthen policy formulation by (a) identifying environmental priorities that are most closely associated with poverty reduction and economic growth, particularly those that have linkages with the policy reforms supported by the DPO; (b) assessing the Vietnam's systems for managing these priorities in the context of the policy reform; and, (c) enhancing the environmental sustainability of the policies supported by this operation.

**The proposed operation is expected to have positive effects on Vietnam's environment, forests and natural resources.** It is not expected that the policy reform will have adverse effects on the environment, but rather it would bring positive outcomes, including improvement in forest management and development, sustainable development of riparian zones along rivers and reservoirs, protection of drinking water intakes, and greater water productivity and energy efficiency. The engagement of the Bank and other DPs in policy discussion and development, together with TA to

enable broader consultation and sharing knowledge, has already contributed to integrate environmental considerations in the policy reform.

**Key positive environmental aspects of the policy actions supported by the operation are highlighted below:**

- In implementing the newly adopted Law on Marine Resources and Environment 2015, the ICZM NAP aims to strengthen the legal and institutional foundation for sustainable use and protection of the coastal environment, forests and natural resources. The enhanced integrated coordination of institutional responsibilities and wider stakeholder participations in management of the coast is expected to bring positive environmental effects.
- The expected increase of coastal forest areas encouraged by the policy will address sea erosion issues, protect sea dykes, and sequester carbon. This, together with forest carbon activities, will contribute to maintain biodiversity and other ecosystem goods and services, thereby increasing adaptive capacity to climate change.
- The protection of water source corridor will result in improved protection of water resources which are expected to have positive environmental effects.
- Implementation of the AQM NAP will have significant positive environmental effects through the strengthened policy framework and measures to reduce air pollution and carbon emissions.
- The policies and institutional framework to foster energy efficiency and alternative energy will lead to positive environmental effects by reducing GHGs and pollutants, increasing energy savings and promoting environmentally good practices in electronic industries.

**The legal framework for environmental impact assessment has recently been significantly strengthened following the new Environmental Protection Law having effect in January 2015.**

**V. Tentative financing**

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	90
Borrower/Recipient	
IBRD	
Others (specify)	
	Total

**VI. Contact point**

**World Bank**

Contact: Christophe Crepin

Title: Sector Leader

Tel: (202) 473-9727

Fax: (202) 614-0893

Email: ccrepin@worldbank.org

**Borrower**

Contact: Mr. Tran Hong Ha

Title: Vice Minister

Tel: 84-4-38343005

Email: [webmaster@monre.gov.vn](mailto:webmaster@monre.gov.vn)

**VII. For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>