

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

February 27, 2016  
Report No.: 103739

<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>	January 18, 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 appraisal 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 on development achievements will be significant unless measures are taken to build resilience and to adapt to impacts.** While 184 countries have laid a foundation for making a significant dent in global greenhouse gas (GHG) emissions growth through the submissions of nationally determined contributions (NDCs), it is clear, first, that the current trajectory from emissions to date has already set warming to increase by 1.5 to 1.75°C through 2030 and, second, that despite significant efforts, the risk is still high that further warming will reach levels that will bring larger, irreversible climate impacts. In this scenario, climate-induced impacts in Vietnam will continue to increasingly threaten the livelihoods of people, in particular 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 currently depends on natural resources and other key vulnerable assets. 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. Further loss of mangrove forests due to human activities, aggravated by sea level rise, and associated with drainage and groundwater extraction, will accelerate coastal erosion. In this context, Vietnam's high vulnerability to climate-induced impacts, in particular in coastal areas and deltas that span administrative boundaries, highlights the need for area-based and landscape approaches to climate adaptation and resilience.

**At the same time, Vietnam is in the middle of an economic transition where a greener**

**inclusive growth trajectory is needed to both avoid getting locked into unsustainable paths and serve as an opportunity to generate immediate local co-benefits, including improved domestic competitiveness.** Environmental and social stresses will further increase as the growth of incomes, urbanization, and industrialization put growing pressures on land, water, air, and sectors, starting with energy. How Vietnam handles this transition will determine whether the country is able to pursue a strong and competitive growth trajectory and move into the ranks of higher-income countries or it is mired in a vicious cycle of expanding ‘dirty’ industries, degrading natural resources, and polluting, leading to a lower quality of growth. The growth of fossil fuel energy consumption associated with coal-fired power plants in Vietnam has led, and will continue to lead, to significant increases in emissions from air pollutants and GHGs. On-the-ground measurements of particulate matter (PM) indicate that the average PM<sub>2.5</sub> reading for Hanoi is more than 60 mg/m<sup>3</sup>, with certain months having an average of 95–110 mg/m<sup>3</sup>, considerably higher than the World Health Organization (WHO)’s advocated standard of 10 mg/m<sup>3</sup>. 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 GHG emissions have almost tripled and its carbon intensity (of gross domestic product [GDP]) has increased by 48 percent from 2000 to 2010, giving it the second highest carbon intensity in the region after China. Under current trends and policies, the share of coal for power will rise from 17 percent in 2010 to nearly 60 percent by 2030, of which around 80 percent will be imported. 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 will lead to positive spillover effects with regard to economic growth, productivity, and avoided health costs.

**To bring forward implementation, building on experience and lessons discussed at the NCCC,<sup>1</sup> the government, at the request of the prime minister, has decided on the development of a post-2015 phase of the Support Program to Respond to Climate Change (SP-RCC).** The program will support strategic and operational coherence to implement policy reforms, mobilize resources, and strengthen capacity for climate change and green growth action. The multisector policy framework under the Post-2015 SP-RCC aims to directly support and facilitate the implementation of the government’s identified priorities under both the National Climate Change Strategy (NCCS) and the Vietnam Green Growth Strategy (VGGs) and related action plans. It also guides and supports reforms that attempt to unlock barriers to effective implementation of climate change and green growth action prioritized as part of the 2016–2020 SEDP,<sup>2</sup> and in support of implementing and building the enabling environment to increase the ambition of Vietnam’s NDC. The Post-2015 SP-RCC also contributes to further bring together

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<sup>1</sup> The NCCC is the highest-level inter-ministerial body on climate change and was created by Decision 43/QĐ-TTg (2012). Its mission is to lead, coordinate, harmonize, and monitor climate change and green growth program implementation, including international cooperation. The NCCC chair is the prime minister, with a deputy prime minister and the Minister of MONRE as first and second vice chairs. Members include several ministers (the MPI, the MOF, the Ministry of Agriculture and Rural Development [MARD], the Ministry of Commerce, the Ministry of Transport [MOT], and Ministry of Industry and Trade [MOIT]) and experts. Line ministries, provinces, and implementing bodies report every six months to analyze, assess, and synthesize the management and implementation of strategies and to analyze objective and subjective reasons affecting the implementation of strategies.

<sup>2</sup> The SEDP serves as Vietnam’s five-year development plan, elaborating the objectives of the 2011–2020 Socio-Economic Development Strategy (SEDS) for the 2016–2020 period and identifying specific measures and resources that are needed for its implementation.

development partners (DPs), while recognizing the importance to engage across sectors to foster convergence in the dialogue, evidencing trade-offs, and 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 will assist the government of Vietnam (GoV) to strengthen its climate change and green growth reform action as a contribution to improving sustainability and quality of growth. This operation builds on the foundations supported by the first Climate Change DPO series, the World Bank's sustained dialogue on climate change and green growth with Vietnam through coordinated lending and advisory support, and the strong government ownership of the program. The latter has been confirmed by the structured preparation process of this program carried out by the government at the request of the Office of the Prime Minister as the chair of the National Climate Change Committee (NCCC), under the leadership of the Ministry of Natural Resources and Environment (MONRE), with close engagement of the Ministry of Planning and Investment (MPI), key line ministries, and the Ministry of Finance (MOF). Recent dialogue has also confirmed an active engagement of the National Assembly and of the Central Committee of the Communist Party.

**Macroeconomic policy framework. Vietnam's macroeconomic prospects remain strong, albeit with significant downside risks.** Owing to a combination of buoyant domestic demand growth and strong performance of export-oriented manufacturing, Vietnam's recovery is continuing, with growth expected to accelerate to 6.5 percent in 2016. Despite the pickup in economic activity and a weaker dong, inflationary pressures remain subdued benefitting 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 foreign direct investment (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 can also be dimmed by potential external shocks associated with volatile global financial conditions and possible slowdowns in demand in key export markets, including the United States, Japan, European Union (EU), and to some extent China.

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

**Building on the priorities identified jointly by the government and DPs and in support of the SEDP 2016–2020, the proposed series supports a package of reforms pursuing a program development objective (PDO) consisting of** (a) improving inter-sectoral planning and investment finance programming; (b) developing and safeguarding selected natural resources services; and (c) promoting selected cleaner production systems. The PDO supports the enhancement of the enabling environment for climate change and green growth interventions in Vietnam. These engagement areas are consistent with priorities articulated in the Bank's Country Partnership Strategy (CPS) with Vietnam (2012–2016). The formulation of the Post-2015 SP-

RCC has benefited from Bank engagement on climate change and sector-specific engagement<sup>3</sup> with the government.

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<sup>3</sup> In particular on energy, forests, water resources, and in the Mekong on climate resilience.

### III. Preliminary Description

**The proposed series of operations contains a selective and cohesive subset of six policy tracks and ten prior actions.** These policy tracks have been identified as critical in support of Vietnam’s NDC and the implementation of the prioritized actions under the NCCS and VGGs. 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: (a) Pillar 1 aims to improve inter-sectoral planning and investment finance programming; (b) Pillar 2 aims to develop and safeguard selected natural resources services; and (c) Pillar 3 aims to promote selected cleaner production systems.

**The proposed prior actions were identified following the government’s efforts to deepen selected reform areas and to engage in sectors that are important to address climate change and green growth.** The proposed operation builds on a strong set of analytical underpinnings, such as technical assistance tasks, economic and sector work, capacity building programs, and specific lending operations. This includes both Bank and other DP initiatives, alongside analytical assessments and studies from the government and national institutes.

**Pillar 1. Improving inter-sectoral planning and investment finance programming.** The policy reforms aim to tackle both key area-based cross-sectoral obstacles that arise in development across the long low-lying coast of Vietnam in the face of climate impacts, and actions that support a better inter-sectoral mobilization of resources for climate change and green growth, with in both cases, influencing how improvement of information and approaches should improve combined outcomes of planning and financing. Policy developments that facilitate adaptation efforts and work towards building resilience in vulnerable areas on the coast are expected to contribute to enable the reduction of capital losses and as a result, contribute to sustaining growth. Enhancing the financing regime for climate change and green growth from the state budget promotes a stronger understanding of public investment programs that provide multiple co-benefits (for climate change, green growth, and development).

- Vietnam’s coastal areas play a key role in the country’s sustainable socioeconomic development and the country is amongst the most vulnerable to the effects of climate change on natural and man-made coastal systems and livelihoods. In accordance with the Law on Natural Resources and Environment of Sea and Islands, the government is now strengthening its national ICZM 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 planning and financing action that strengthens adaptation and 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, this proposed policy track 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 its NDC, NCCS and VGGs, and enhance the decision-making and spending for implementation.

**Pillar 2. Developing and safeguarding selected natural resources services.** The policy reforms aim to deliver integrated and mainstreamed climate change and green growth responses into both public and private natural resource investments in water and forest 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 greatly affected by more severe weather patterns and flooding. These challenges, which are 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 climate resilient development, and can help generate green revenue in line with Vietnam's green growth trajectory. A robust and comprehensive forest policy framework that fosters institutions, finance and delivery systems is essential to achieve an integrated approach to development in Vietnam. The DPF series will promote the sustained delivery of forest ecosystem services and enable forests to be an engine of sustainability, supporting green resilient growth.

**Pillar 3. Promoting selected cleaner production systems action.** 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 contributions to global warming, effective Air Quality Management (AQM) policies and programs are needed in support of 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 residential sectors and by promoting renewable energy technologies

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

##### **Poverty and Social Aspects**

**The Bank has prepared a Poverty and Social Impact Analysis (PSIA) to assess the distributional effects of the supported policy reforms on the well-being of different social groups, especially the poor and vulnerable.** The PSIA aims to 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 underpins the policy reforms with ex ante evidence on the expected distributional effects, using mixed methods with qualitative techniques as primary inquiries. The PSIA covers all of the policy actions under the first DPF operation and assess whether the reform has significant social impacts (either positive or negative) on stakeholders, particularly on the poor and vulnerable groups (including ethnic minority peoples). Overall, the proposed prior actions will likely lead to positive social and poverty reduction outcomes, or potential adverse effects can be managed by the existing policies and management systems of Vietnam

**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 contribute to improve the enabling conditions for income generation activities of local people, especially those who are involved in jobs such as fish processing for local and export consumption. Policy actions supported under this DPF series aim to largely bring about local co-benefits such as higher energy efficiency which can contribute 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 the adaptive capacity and resilience of the poor in Vietnam to climate-induced impacts that allow for a better quality of life.

**It is found that most of the policies analyzed in the PSIA will have an overall positive effects on the target groups, including the poor and vulnerable groups.** There is no significant negative effects on the poor and vulnerable populations albeit some minor effects that might happen if no interventions are devised to address the potential effect beforehand. The magnitude of potential adverse effects will depend significantly on how these policies are implemented—for specific groups, at specific geographical areas, and if consultation with the potential affected group is done timely and appropriately to adjust the policies implementation process and approaches. For some policies subject to the analysis, potential adverse effects are anticipated for specific groups of poor/vulnerable peoples. Of the four channels being analyzed (assets, prices, productivity, and opportunities), it is found that prices and opportunities would be the two key potential adverse effects. Both prices (such as for energy) and opportunities (for access to resources and development) have a potential adverse effects on peoples, particularly the poor/vulnerable group. It is important to note that the Government has in place key policies that

serve as both development opportunities and mitigations measures for poor peoples. With regards to potential adverse effects related to land acquisition and resettlement, Land Law 2013<sup>4</sup> (and its Decrees) is designed to support the resettlement of peoples. For potential adverse effects related to prices and opportunities, recent Decrees<sup>5</sup> are already in place to support poor people in need. These policies provide poor people with access to loans for their livelihoods development and access to job training to sustain and improve local livelihoods. During policy implementation, local governments are required to follow the GoV mechanisms to avoid and mitigate potential adverse effects and ensure compensation and schemes be worked out in consultation with the potential affected groups to ensure livelihoods are not worsened as a result of the implementation of the new policies as per the GoV regulations.

The PSIA also attempted to look into the identified potential effects from a gender perspective. Where potential adverse effect are identified, the PSIA suggests related approaches and measures as guided by the National Strategy for Gender Equality - 2011-2020 (Decision 2351/QĐ-TTg dated 24 December 2010) to promote gender equality in various development sectors. The Ministry of Labour, Invalid and Social Affairs has been tasked by the GoV to coordinate with other Line Ministries and Central Women's Union to provide guidance for gender mainstreaming at central and local level. Thus, all policies under this DPF series will benefit from the gender mainstreaming support from the central and provincial levels.

## **Environmental Aspects**

**The Bank has conducted a policy strategic environmental analysis to assess the effects of the supported policy reforms on Vietnam's environment, forests and other natural resources.** Overall, the prior actions will likely lead to positive environmental outcomes, or potential adverse effects can be managed by the existing environmental policies and management systems of Vietnam. The net effect of the DPF reforms is expected to be positive. Implementing these policy reforms would translate into enhanced natural disasters risk management in the coastal zone; enabling conditions for climate change and green growth investments; improved protection of water source corridors; more efficient use of water for upland agriculture; better planning of forest carbon sequestration; cleaner urban air; improved energy efficiency in

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<sup>4</sup> Decree No.43/2014/ND-CP guiding in detail some articles of Land Law 2013, Decree No.44/2014/ND-CP providing methods for land pricing; adjustment to land price brackets, land price lists; specific land pricing and land price consultancy activities. Decree No. 47/2014/ND-CP providing compensation, support, resettlement when land is acquired by the State. Decree No. 38/2013/ND-CP of 23 April 2013, on management and use of official development assistance (ODA) and concessional loans of donors. Circular No. 36/2014 / TT-BTNMT dated 30 June 2014, regulating method of valuation of land; construction, land price adjustment; specific land valuation and land valuation advisory. Circular No. 37/2014/TT-BTNMT dated 30 June 2014, regulating compensation, assistance and resettlement when the State acquires land, etc.

<sup>5</sup> Decree 55/2015/NĐ-CP on credit for agricultural and rural development, issued August 1, 2015. Decision No. 1956/2009/QĐ-TTg, dated November 17 2009, by the Prime Minister approving the Master Plan on vocational training for rural labors by 2020; Decision No. 52/2012/QĐ-TTg, dated November 16 2012, on the support policies on employment and vocational training to farmers whose agricultural land has been acquired by the State



appliances; and, purchase agreements for energy generated from biomass and waste. Moreover, the DPF should play an important role in continuing to mainstream environmental considerations in key sectors such as agriculture, waste management, land use planning and energy.

**An assessment of Vietnam’s country systems was undertaken to determine whether there is appropriate environmental management capacity to address potential adverse environmental effects or enhance positive environmental effects.** With regard to the possible environmental consequences of the Action Plans emanating from DPF 1 Prior Actions, the majority will not be subject to Strategic Environmental Assessment (SEA), as they are not prescribed in Annexes to Decree 18 (*On Environmental Protection Planning, Strategic Environmental Assessment, Environmental Impact Assessment, and Environmental Protection Plans (No. 18/2015/ND-CP)*). However, they will likely be included in higher-level sectoral strategies that are subject to SEA. In addition, it is likely that one of the Action Plans (the National Biomass Energy and Development Plan), which will be an outcome of the prior action ‘*the Government has developed and adopted procedures for the development of projects and a standard PPA for biomass and waste-to-energy*’ will be considered a Master Plan of a sub-sector, and so subject to SEA under Decree 18. Accordingly, potentially significant adverse environmental effects from this policy action would be identified, prevented and mitigated by the GoV.

**Vietnam has had a regulatory requirement for SEA since the 2005 Law on Environmental Protection.** It requires that specified categories of strategies and plans (SPPs) should undergo SEA before approval. However, the Ministry of Planning and Investment, which is responsible for overseeing most of the national and provincial socio-economic development plans, has a separate process for appraisal. Up until now, SPPs are often completed and appraised before SEA studies are appraised. This sequencing problem meant that SEA could not always properly influence the design of a SPP. Fortunately, this problem is being discussed in the Government’s proposed new Planning Law which is expected to require that the appraisal of SEA reports be carried out before the plan appraisal. The proposed Planning Law would be a commendable attempt to streamline what is an overly complicated planning system.

**There are two additional constraints associated with SEA implementation.** One is limited systematic documentation of environmental data. In theory, virtually all environmental data produced by public agencies as part of research, monitoring, or project environmental assessment should be freely available in the public domain. Limited access to good data impairs the quality of SEA studies which should inform the design of the Action Plans mentioned in the previous paragraph. Another shortcoming is the limited capacity of proponent agencies to formulate and evaluate SEAs, as much development partner attention over the last 10 years has focused on building the SEA capacities of the regulatory agency (MoNRE and a selection of DoNREs), rather than with proponents. While these problems require a long-term solution that is beyond the remit of the DPF series, they are being addressed through Bank continued support to the GOV for institutional capacity improvement.

**The strategic analysis undertaken also found that the following ‘drivers’ will likely eventuate from proposed reforms, and might have a consequent influence on projects:** conversion of agricultural land to biomass plantation; collection and transfer of solid waste; and construction and operation of electricity generating stations. Although in most respects,

Vietnam's legal and regulatory system is of international standard, and leads the way as a model for the region, capacity gaps still remain in central, provincial, and district line agencies. Recent studies have also indicated that there are capacity constraints in the private consulting sector. It is well known that consultants do not necessarily collaborate closely enough with project proponents during preparation of the project investment report. This can result in an inaccurate project description, including of technologies and equipment proposed for waste treatment. In addition, experience suggests that environmental management plans within construction contracts are difficult to enforce. These capacity gaps are, to some extent, being dealt with by the new Vietnam Learning Center for Environmental and Social Sustainability, established in 2015. The primary targets for training in the initial phase of this Learning Center operation are the project management units (PMUs) and Local People's Committees (LPCs). Addressing other constraints on Vietnam's capacity for environmental monitoring, supervision and enforcement (i.e., environmental quality monitoring networks) requires sustained capacity building efforts over the medium and long term that the Bank would continue supporting as part of its dialogue and engagement with the GoV.

## V. Tentative financing

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

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