Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 23-Jan-2022 | Report No: PIDC255840

BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P178165		Moderate	Vietnam Partnership for Market Implementation
Region	Country	Date PID Prepared	Estimated Date of Approval
EAST ASIA AND PACIFIC	Vietnam	23-Jan-2022	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	State Bank of Vietnam	Ministry of Natural Resources and Environment	

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	5.00
Total Financing	5.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	5.00
Partnership for Market Implementation Facility	5.00

B. Introduction and Context

Country Context

Vietnam is a rapidly growing lower-middle-income country experiencing increasing pressure on its environmental and economic resources and the negative impacts from rapidly growing greenhouse gas (GHG) emissions. Its NDC projects that without additional policies, national GHG emissions will triple by 2030 to 927.9 million tons of carbon dioxide equivalent (CO2e) from 284 million tons of CO2e in 2014.

About actively responding to climate change, Vietnam has developed and promulgated several policies related to GHG mitigation, including national-, ministerial- and local-level policies. In addition, several GHG mitigation options have been developed and prepared for implementation under its NDC.

The updated NDC of Vietnam aims to decarbonize major sectors, especially in energy production and consumption, using both policies and practical measures to achieve the country's commitment to reducing GHG emissions by 2030. This objective has been legalized in the revised Law on Environmental Protection (LEP), which the National Assembly approved in November 2020. The LEP provides regulations from national to facility levels on GHG emission targets, action plans, MRV system, and strategy towards decarbonization. In addition, international carbon pricing instruments (CPIs) like Clean Development Mechanism (CDM), Joint Crediting Mechanism (JCM) as well as other voluntary carbon standards (the Gold Standards, the Verified Carbon Standards) have also been applied in Vietnam from the early stage. Vietnamese key stakeholders thus have recognized the potential benefits of CPIs. They are recently interested in developing domestic carbon ones that can bring about GHG mitigation benefits (for contribution to NDC) and other environmental, economic, and fiscal positive impacts.

Sectoral and Institutional Context

Vietnam has been experiencing a relatively high growth rate in socio-economic development with the diverse portfolio of GHG emitters in terms of abatement sizes, abatement costs, and constraints to mitigate GHG emissions. Developing and applying CPIs are critical to leverage businesses and individuals' incentives to seek out and exploit the lower-cost ways of reducing emissions. Pricing carbon delivers clear signals to innovators and entrepreneurs to develop and market new, low- and zero-carbon technologies and products. To date, Vietnam has accumulated substantial experience in implementing international (bilateral and multilateral) crediting frameworks, which will be helpful for informing the design of a new national crediting program.

The provisions in the revised LEP lays the foundation for the development of bylaw documents by the Prime Ministers and line ministries in the forms of decrees and circulars in the period of 2021-2025 that will be crucial for creating a legal enabling environment to develop the carbon market in Vietnam and employ other CPIs. The upcoming Decree on GHG Emission Reduction and Ozone Layer Production will specify the responsibilities and roles of all line ministries, sectors, and provinces in GHG emission reduction, allowing them to use CPIs to reduce GHG emissions within their authorities. This Decree will enable the Government of Vietnam to develop and issue legal documents for the application of CPIs, such as the target for domestic ETS, regulations on allocation, and so on.

This activity will support the development of legal foundations for the domestic emission trading scheme, including financial and investment policies to promote the development of domestic ETS, and detailed design and assessment of impacts of voluntary domestic emission trading scheme on private sectors.

Relationship to CPF

The activity is well aligned with Pillar 3 of the CPF. Building on strong engagements across the energy sector, according to the CPF, WBG will support the government over through an integrated and comprehensive work program that comprises lending, investment, analytical and advisory work, TA, and guarantees. The WBG will apply the Cascade approach in the energy sector in Vietnam, aiming to strengthen private sector participation while stimulating low-carbon energy generation—both strategic shifts in the CPF. More specifically, the WBG energy sector program seeks to help the country transition in its energy mix: (i) increase energy efficiency (demand and 33 supply sides), including targeting enterprises to upgrade inefficient production systems and introduce new and clean technologies; (ii) scale up non-hydropower renewable energy, with particular focus on solar and wind, and gas-to-power; (iii) promote the financial viability of EVN and the power sector; (iv) introduce competition in gas and electricity markets; and (v) improve sector governance.

C. Project Development Objective(s)

Proposed Development Objective(s)

The PDO is to support the Government of Vietnam in the development and application of a National Crediting Program and Emission Trading System and to enhance expertise and capacity for their implementation.

Key Results

Development of legal foundations for the domestic emission trading scheme, including financial and investment policies to promote the development of domestic ETS, and detailed design and assessment of impacts of voluntary domestic emission trading scheme on private sectors;

Assessment of human capacity needs with adequate required skills and knowledge to implement ETS.

D. Preliminary Description

Activities/Components

Vietnam is currently seeking support from the PMI regarding the following activities. However, depending on the stakeholder consultation and/or review of different activities related to carbon pricing in the country and gaps identified to meet the ultimate objectives of the country, any opportunities to refine, revise and update the scope considered for the PMI support should be explored, assessed and agreed.

a. Development and operationalization of the domestic Emission Trading Scheme

The demand for CDM credits largely depended on the link to the EU ETS and demand from other developed countries such as Korea and Japan. For new carbon market mechanisms in Vietnam, there is often the assumption that future demand will also come from these countries, which may not be the case. With this, Vietnam considers a mandatory ETS as one of the cost-effective instruments to reduce GHG emissions to meet the GHG emission targets in the medium and long term. Hence, the country is ambitious in developing and operating the domestic ETS at a full scale. The ETS's target sectors are now being considered. The government is intensively working on the legal basis for developing domestic ETS as provided in the revised LEP. The link between the NCP and domestic ETS is also being researched and will be formally established once the NCP and the ETS have become operational and functional.

To establish a mandatory ETS, setting up a proper legal framework to provide institutional safeguards for emission trading and ensure a fair, open, and equitable market is necessary.

The sufficient generation of domestic demand and supply for carbon credits is one of the most critical factors for the success of the mandatory ETS, especially in the context of the economy size of Vietnam (The GDP value of Vietnam represents only 0.22 percent of the world economy.) Hence, after the NCP's Phase 2 (2023-2024) for the pilot voluntary domestic offsetting scheme has started, the pilot ETS will be implemented to test the carbon credit demand and supply, build the necessary infrastructure for the full operation, and increase awareness.

To operate the mandatory ETS at a full scale, the foundations for the domestic emission trading schemes, including legal, institutional, technical capacity, and awareness tracks, shall be developed step-by-step following the below development plan:

- Phase 1 (2021-2024): Development of legal foundations for the domestic emission trading scheme, including financial and investment policies to promote the development of domestic ETS, and detailed design and assessment of impacts of voluntary domestic emission trading scheme on private sectors; The revised LEP states that MONRE's general role is to operate and supervise the ETS, which includes identifying total caps and allocating allowance to participants in the market. The Ministry of Finance will coordinate with MONRE and other ministries to prepare and develop the ETS.

- Phase 2 (2025-2026): Pilot voluntary domestic ETS and detailed design for a mandatory domestic trading scheme with the use of offsets from the NCP and study on potential linking to other trading/crediting schemes under Article 6 mechanisms of the Paris Agreement; and

- Phase 3 (2027 onward): Implementation of mandatory domestic ETS and design for linking to other trading/crediting schemes under Article 6 mechanisms of the Paris Agreement.

For the development and linkage of carbon market mechanisms, reliable and transparent data, registries, and human capacity are critical to avoid double-counting and integrity problems, while data collection and sharing are severe problems in Vietnam. In parallel, preparing sufficient human capacity with adequate required skills and knowledge will be aimed from the first phase.

The sectors for the pilot phase will be further discussed and considered based on the readiness of the sectors and the size of participants. Annex I describes the sectors to be covered with the pilot ETS in Phase 2. The final sectors of the mandatory ETS will be decided and reviewed, considering the potential emission reductions and the sectoral policies and implementation capacity.

b. Development and operationalization of the National Crediting Program (NCP)

An NCP will allow GHG mitigation projects to monetize their emissions reductions through three different routes to market, or "tracks":

- Track 1: emissions reductions are sold to an emitter in Vietnam subject to a domestic CPI, such as a domestic ETS;
- Track 2: emissions reductions are sold within a bilateral agreement between Vietnam and another party outside Vietnam under Article 6.2 of the Paris Agreement; and
- Track 3: emissions reductions are sold to an international buyer the mechanism under Article 6.4 of the Paris Agreement.

A proposed development plan includes three phases:

- Phase 1 (2021-2023): Development of legal and technical enabling activities, including detailed design and MRV system, to introduce the NCP (Track 1), assessment of impacts of the voluntary domestic offsetting scheme on private sectors, and improvement of readiness/conceptual design for Article 6.2 mechanisms of Paris Agreement (Tracks 2), development of legal regulations to implement mechanism under Article 6.4 (Track 3).

- Phase 2 (2023-2024): Pilot voluntary domestic offsetting scheme (Track 1) and detailed design for implementation of Article 6.2 mechanisms of Paris Agreement (Tracks 2).

- Phase 3 (2025 onward): Implementation of the full voluntary domestic offsetting scheme (Track 1) and pilot for the implementation of Article 6.2 mechanisms of the Paris Agreement (Tracks 2)

Implementing the NCP requires that the necessary legal basis, institutional arrangements, and readiness from the private sector be in place. A framework for CPIs, including the NCP, is covered in the revision of LEP and a draft Government Decree on GHG Emission Reduction and Ozone Layer Protection, which is expected to be approved and adopted by the end of 2021. According to the revised LEP and draft Decree, the government will set up a domestic carbon market and position the country to engage international carbon market in the future. Building from the legal arrangements for existing crediting programs, the Law and Decree, once enacted, would provide the legal basis for setting up the NCP. Following the enactment of the Law and the Decree, issuance of a Guiding Circular promulgated by the Crediting Program Regulator would be necessary to provide the public with guidance on the rules and procedures for the NCP (including the national MRV system, the data collection, and management system and the registry) and provide the legal basis and institutional arrangements necessary to meet the international requirements under Article 6 of the Paris Agreement. The private sector already has experience with crediting programs through international credit trading mechanisms, such as the CDM and JCM and other voluntary crediting mechanisms. Their readiness to participate in the crediting program has also been further enhanced through capacity building and raising awareness activities from MONRE and other line ministries. All these factors will create a solid foundation to develop and implement the NCP.

Regardless of the monetization track taken to generate the offsets, the program's architecture shall be such that it enables the mitigation impact resulting from projects to be readily reported to meet relevant domestic and international stakeholder's reporting requirements. Thus, offset generating activities pursued under the program shall follow the required MRV standard and procedures. They should include the recording of its credits in a national registry and the provision of documentation issued by the Government of Vietnam that demonstrates the ownership of such credits. The registry should also enable the accounting of credits' transfer between participating entities to take place.

To sell credits on the international market ('bilateral market' and 'multilateral market' monetization tracks), the government will need to prepare domestic measures to avoid double counting the emission reductions as internationally transferred mitigation outcomes (ITMOs). MRV systems for ITMO include arrangements to authorize the use of ITMOs and registry infrastructure to track ITMOs. The development of such double-counting avoidance measures for those tracks should be informed by the discussions under the international climate negotiations on Article 6.2 and Article 6.4 mechanisms.

Target sectors of the NCP should be those where barriers prevent the broad-scale uptake of specific mitigation actions and technologies. These may be sectors with a lack of awareness and experience with certain mitigation technologies, where mitigation project returns are below typical sector investment benchmarks and unable to access finance. In this sense, waste management, agriculture, forestry and land use (AFOLU), and energy (renewable electricity, fuel switch, and energy efficiency in residential and commercial facilities), and transport (road transport, maritime transport, aviation) may be NCP's target sectors. The NCP will potentially play an important role in enabling the broader uptake of mitigation technologies. The Program scope should be limited to projects that reduce gases covered by Vietnam's NDC: CO_2, methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs) defined in the NDC.

The sectors for the pilot phase (Phase 2) will be further discussed and considered based on the readiness of the sectors and the size of participants. Annex I indicates current target sectors covered with the pilot NCP in Phase 2. The final sectors of the NCP will be decided and reviewed, considering the potential emission reductions and the sectoral policies.

The NCP will increase awareness, build the necessary infrastructure for, and promote the implementation of mitigation measures for contribution to the NDC target of Vietnam. The NCP development will support the implementation of CPI, such as an ETS and/or a carbon tax that might be later introduced in Vietnam. The NCP will enable GHG emitters with obligations to reduce their emissions at a lower cost than implementing emissions reduction measures in their production facilities while investing in emission reductions within Vietnam.

Environmental and Social Standards Relevance

E. Relevant Standards

ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

Summary of Screening of Environmental and Social Risks and Impacts

The environmental risk rating for this project is rated as Moderate. The project will finance technical assistance activities to establish a legal framework and institutional infrastructure, develop system design, and enhance stakeholder engagement for the Domestic Emission Trading Scheme (DETS) and the National Crediting Program (NCP). The project will not involve any direct physical investment. Therefore, it is not expected to have the potential to cause direct adverse impacts and or risks on the biophysical environment, human health and safety, and/or valued environmental components. The potential downstream activities of this technical assistance will be the implementation of DETS and NCP (i.e., Phase ll and Phase lll), where the emitters, such as enterprises and businesses will allocate their resources for green investment and operations (e.g., industrial energy efficiency enhancement, fuel swich from fossil fuel to renewable energy, solar and winder power development, and green procurement.). These acitivies will have reduce GHG and local pollutant emissions and expected to be positive due to realizing emission reduction in the country that lead to improve community health, and reduce climate change impacts. However, while many potential positive impacts are foressen, the identification and piloting of potential low carbon technologies and investment opportunities by the enterprises and business in the downstream as outputs of this TA, may bring moderate to significant environmental implications depending on the type of industries, scale of investment, and target sectors (such as the iron and steel sector, and solid waste management sector) and technologies to be piloted. The social risk classification of this project is anticipated to be Moderate. The project will not involve the implementation of ETS design, carbon credits, and offsetting mechanisms at this phase. No significant direct social risks and impacts are foreseen from the proposed activities. No physical works are proposed, and the activities are expected to have indirect and downstream social benefits to improve living conditions (i.e., better health and environment from less polluting emissions, sustainable and livable cities), and job creation (through improving economic competitiveness lowering energy intensity, and new green opportunities). These positive impacts also apply to the potential downstream social implications that may arise from the implementation of THE domestic Emission Trading Scheme (ETS). Due to minor potential downstream social risks and impacts of the project activities, the social risk rating is Moderate. Also, the MONRE has qualified staff on board, with relevant experience applying social safeguards for WB-funded projects.

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Borrower/Client/Recipient

Borrower :	State Bank of Vietnam

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