

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: 104995

Project Name	Partnership for Market Readiness (PMR)
Region	EAST ASIA AND PACIFIC
Country	Vietnam
Sector(s)	General Public Administration (50%); General Industry and trade (25%); Solid waste management (25%)
Theme(s)	Climate Change (100%)
Lending Instrument	Investment Project Financing
Project ID	P152797
Borrower(s)	Socialist Republic of Vietnam
Implementing Agency	Ministry of Natural Resources and Environment (MONRE)
Environmental Category	C – Not Required
Date PID Prepared/Updated	March 17, 2016
Estimated Date of Board Approval	N/A
Decision	
Other Decision	

I. Project Context

Country Context

1. Vietnam's reforms (“Đổi Mới”) initiated in 1986 have successfully transformed the country from one of the poorest in the world to a lower-middle-income country. The country’s per capita income has drastically increased since 1986, and the poverty rate (at US\$1.90 a day, purchasing power parity) declined markedly, from 49.2 percent in 1993 to 3.2 percent in 2012. In contrast to many other countries, this rapid growth has occurred without large increases in inequality.¹ Additionally, the Vietnamese population is better educated and has a higher life expectancy than most countries at a similar per capita income level.² Despite the rapid changes that have taken place in the last quarter-century, nearly half (43 percent) of Vietnamese workers continue to work primarily in family farming, including fishing and forestry.³ Furthermore, in spite of significant reductions in poverty, a substantial proportion of the population is just above the poverty line and is therefore vulnerable to falling back into poverty if faced with short-term economic or climate-related shocks and with long-term

¹ As measured by the Gini coefficient, which shows a gradual increase over the period 1992–2004, small changes in the following years, and then a slight drop during 2010–12. Source: Vietnam 2035 Draft Report.

² Program for International Student Assessment results 2012.

³ Government of Vietnam and World Bank. 2015. Vietnam 2035 Draft Report.

unsustainable patterns.

2. 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. Low cost energy and natural resources have played a key role in driving the Vietnamese economy over the past decades. However, the current consumption and production patterns, accompanied with urbanization at an unprecedented pace, have placed enormous pressure on these resources and locked Vietnam into a highly energy-intensive economic growth. The quality and sustainability of growth remain a source of concern, given the resource-intensive pattern of growth, high levels of pollution, lack of diversification and value addition in exports, and the declining contribution of productivity to growth. Vietnam's industrial competitiveness is under threat because power generation has not kept pace with demand, logistical costs and real estate prices have climbed, and skill shortages are becoming prevalent. 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.³ How Vietnam handles this economic 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.

3. 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_{2.5} reading for Hanoi is more than 60 mg/m³, with certain months having an average of 95–110 mg/m³, considerably higher than the World Health Organization (WHO)'s advocated standard of 10 mg/m³.⁴ 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.⁵ 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.

4. Vietnam is facing a major challenge of addressing this unprecedented growth of GHG emissions in a context of growing international commitment to ambitious climate action. The Government of Vietnam has recognized this challenge through setting a number of domestic economy-wide and sectoral targets and policies that are intended to have an impact on GHG emissions, as it is outlined below. These efforts constitute a foundation of the (intended)

⁴ MONRE Data.

⁵ World Bank. 2015. Exploring a Low Carbon Development Path for Vietnam. World Bank, Energy Sector Management Assistance Programme, and U.K. Department for International Development.

Nationally Determined Contribution [(i)NDC] submitted by Vietnam to the UNFCCC in September 2015⁶ in the run to the COP21 in Paris. The (i)NDC states that with domestic resources, “by 2030 Vietnam will reduce GHG emissions by 8% compared to BAU, in which (i) emission intensity per unit of GDP will be reduced by 20% compared to the 2010 levels and (ii) forest cover will increase to the level of 45%.”

5. To support national mitigation efforts and enhance its contribution to global action, Vietnam is considering using diverse instruments of international cooperation. Building on its experience of using market and non-market instruments, such as the Clean Development Mechanism (CDM) and Nationally Appropriate Mitigation Actions (NAMAs), the Government of Vietnam has been exploring opportunities that could emanate from a range of new international cooperative approaches that were discussed as part of the negotiations on the international post-Kyoto climate architecture. This vision is reflected in the (i)NDC that states that the reduction of GHG emissions could be increased from 8% to 25% “if international support is received through bilateral and multilateral cooperation, as well as through the implementation of new mechanisms under the Global Climate Agreement, in which emission intensity per unit of GDP will be reduced by 30% compared to 2010 levels”.

6. The Paris Agreement, as part of the COP21 decisions package, creates a new foundation for ambitious cooperative action to curb climate change. The Paris Agreement, adopted in December 2015 by Parties of the UNFCCC, is a new framework for cooperative action to tackle climate change beyond 2020 that will replace the Kyoto Protocol. The agreement sets an ambitious goal of global warming of well below 2 degree Celsius with limit warming to 1.5 degrees. Under the agreement, all countries will develop plans on how to contribute to climate change mitigation, and communicate them to the UNFCCC in form of “nationally determined contributions” (NDC). Importantly, the Paris Agreement provides a mechanism for countries to cooperate in achieving (i)NDCs. Countries can meet their (i)NDC targets by transferring ‘mitigation outcomes’ internationally.

7. While the implementation modalities of cooperative mechanisms are yet to be defined, the Paris Agreement gives a rationale to countries, such as Vietnam, to pursue readiness efforts for the use of new market-based instruments. The provisions of the agreement, especially in Art. 6, cover a range of approaches, including voluntary cooperative approaches, transfers of mitigation outcomes, and mechanisms to contribute to mitigation and support sustainable development. These provisions give a new impetus to the policy and institutional efforts that need to be undertaken prior to 2020 to prepare and implement these new market-based instruments in Vietnam to contribute to the implementation of their (i)NDCs post 2020. These readiness efforts would create an opportunity for Vietnam to exhibit leadership that can be translated into long-term demand for clean growth and in increased commitment to adaptation.

8. National preparation process to (i)NDC implementation would reinforce the policy and institutional framework for market-readiness activities in Vietnam. With the adoption of the Prime Ministers’ Decree on the preparation of the (i)NDC expected in fall 2016, the

⁶ Available at:
<http://www4.unfccc.int/submissions/INDC/Published%20Documents/Viet%20Nam/1/VIETNAM'S%20INDC.pdf>.

Government of Vietnam will start the process of developing a package of policies and actions required to achieve the targets of the (i)NDC post-2020 in the effective and efficient way. This preparation process could also anchor the efforts of the Government of Vietnam in terms of exploring other policies, such as carbon pricing approaches, including market-based instruments. To comply with the requirements of the Paris Agreement and the COP21 decision package, important efforts would need to be undertaken to increase transparency, monitoring and reporting capacities, as well as to improve understanding of policies impacts of GHG emissions. Importantly, the outcomes of this process would also help to translate the targets and policies into concrete investment plans and send a strong message to investors – public and private, domestic and foreign – about the demand and profitability of long-term investments in both mitigation and adaptation in Vietnam

Sectoral and Institutional Context

9. Recognizing the challenges it faces with increasing climate change and growing emissions, Vietnam has responded by pursuing development of a policy and institutional agenda that aims to address its increasing climate vulnerability and promote a low carbon, green growth development path. In June 2013, the Central Executive Committee of the Party adopted Resolution 24/NQ-TW on Active Response to Climate Change, Improvement of Natural Resource Management and Environmental Protection. The Resolution declared the fight against climate change as “one of the most important tasks of the entire political system.” Earlier, two strategies were introduced by the GoV – the National Climate Change Strategy (NCCS, 2011) and the Vietnam Green Growth Strategy (VGGS, 2012), which is at the core of Vietnam’s CC-response. While the NCCS aims to build resilience to climate change effects and includes actions to mitigate GHG emissions, the VGGS specifically addresses low-carbon development, green production, including technology innovation and restoring natural assets, and promotion of green lifestyles. Both strategies were accompanied by action plans with specific programs. Two related strategies are the National Strategy for Natural Disaster Prevention, Response and Mitigation (2007), and the National REDD+ Action Program (2012), which both also serve a great purpose in building a low-carbon and climate resilient economy.

10. The GoV has also recognized that a strong coordinating body to manage its climate change response agenda is key to successful implementation. As a result, the Government established the National Climate Change Committee (NCCC) in 2012 to lead, coordinate, harmonize, and monitor climate change and green growth action. It is chaired by the Prime Minister and includes ministers of key climate change-relevant ministries as members. The NCCC is responsible for coordination between ministries and oversight of the implementation of the NCCS, VGGS and related programs and initiatives. The Ministry of Natural Resources and Environment (MONRE) supports the NCCC through the Standing Office (SO) of the NCCC and is the technical focal point for climate change-response policy. The recent establishment of the Vietnam Climate Change Panel also offers an opportunity to advise the NCCC on policy and scientific aspects.

11. The i(NDC) includes a number of priority mitigation measures that builds on the measures included in the NCCS, VGGS and their action plans. These include: (1) strengthening the role of the State in responding to climate change through integration of CC in

strategies, development plans, and improving and strengthening institutions; (2) improving the effectiveness and efficiency of energy use and reducing energy consumption; (3) changing the fuel structure of industry and transportation; (4) increasing the proportion of new and renewable energy sources in energy production and consumption; (5) reducing GHG emissions through the development of sustainable agriculture; (6) managing and developing sustainable forests; (7) waste management; (8) communication and awareness raising; and (9) enhancing international cooperation.

12. The adoption of key Government programs and initiatives have supported the implementation of these recent policy developments and have built the foundation for the implementation of Vietnam's (i)NDC. The noteworthy national programs are the National Target Program to Respond to Climate Change (NTP-RCC), the Support Program to Respond to Climate Change (SP-RCC), and the National Target Program for Energy Efficiency (NTP-EE)⁷. The NTP-RCC stressed the need for mainstreaming climate change responses into social and economic development with a first phase (2008-2010) that focused on scientific analysis and initial planning and a second (2011-2015) that focused on financing continued scientific analysis, detailed planning, capacity building and development of sector and provincial action plans. The NTP-RCC has been instrumental in supporting the Government's capacity development to enact climate change-response policies and investments. The first phase of the SP-RCC (through 2015), which was supported by the World Bank through a climate change DPO series, built a multi-sector mechanism that enabled the scaling up of the Government's climate change response and coordinated policy development and dialogue between the Government and Development Partners. A second post-2015 phase of the SP-RCC builds on these accomplishments of the first phase to promote a stronger integration of climate change and green growth policy reforms over the short to long term with a focus on ramping up ambition in key policy reform areas. The NTP-EE was the first call for coordinated efforts to improve energy efficiency, reduce energy losses, and to conserve energy across all sectors of the economy. The program is now implementing phase two (2011-2015; Decision 2406/QĐ-TTg), aiming to save five to eight percent of total energy consumption in 2012-2015 compared to projected increases in national electricity demand. To achieve this target, a number of energy efficiency and conservation actions are proposed as well as a reduction per unit output in selected industries (steel, cement and textile).

13. To support the climate change response and achieve the targets of the (i)NDC, the GoV has been active in mobilizing domestic and a growing amount of external resources. However, implementing its NDC commitments will require a higher-level, more integrated and multi-sector financing strategy that will help the GoV plan, budget, finance, implement, track, report, and monitor an effective climate change response. The findings of the Climate Public Expenditure and Investment Review (CPEIR), conducted by the Government with support from the World Bank and the United Nations Development Programme, indicate that while Vietnam has indeed been effective in mobilizing resources for climate change and green growth, only a limited portion has been directed towards mitigation activities that are essential

⁷ The NTP-RCC, NTP-EE and the current phase of the SP-RCC are scheduled to end after 2015. As a result, the Government is preparing a post-2015 Support Program to Respond to Climate Change that builds upon the lessons learned of the two programs to promote policies, investments, and capacity and knowledge development for climate change and green growth action.

for further developing Vietnam into a low-carbon economy. From 2010-2013, 12 percent of climate change-response financing from the five studied sector ministries – whom represent the bulk of the central government’s climate change response spending – have been directed towards activities that have climate change mitigation co-benefits, most of which are enabling activities to improve the capacity for concrete climate action.

14. As a result, the need for large scale mitigation action would require an extensive effort from both the public and private sector in Vietnam. The Exploring a Low Carbon Development Path for Vietnam report finds that Vietnam can achieve its Green Growth targets under a low-carbon development (LCD) scenario, though it will require early action and significant policy commitment, design and implementation across the key sectors. The report confirms that market, economic, and fiscal instruments to support low carbon investments and provide the right incentives for private sector actions is essential. This in turn requires proposals of different policy designs and in-depth analysis of their impacts, trade-offs, and interactions with other measures and policy options. It is also critical for Vietnam to take concrete steps to mainstream low carbon and green growth considerations into the planning process by building capacity in key institutions and through an effective implementation of a Monitoring, Reporting and Verification (MRV) system coordinated with the National GHG inventory. The LCD scenario could have short term implications on economic growth but does not lead to a reduction of the long term growth trend of the economy and may in fact have modestly positive impacts, as low carbon investments generate positive externalities to the other sectors of the economy and contribute to value added and employment. The LCD scenario is seen to accelerate the development of the service sector in Vietnam and leading to a shift to greener sectors of the economy.

15. The Paris Agreement, which came as a result of COP 21, aggregates countries’ efforts for ambitious action to curb climate change from 2020 onwards. Clarity of the implications of the Paris Agreement still needs work, and this will emerge from the technical discussions under the UNFCCC. However, the agreement, particularly the provisions in Article 6, provides several implications in the pre-COP 21 period. Cooperative approaches (Paragraph 6.1), transfers of mitigation outcomes (Paragraphs 6.2-6.3), and mechanism to contribute to mitigation and support sustainable development (Paragraphs 6.4-6.7) would provide a strong rationale for the international support for the preparation and implementation of the market-based instruments in developing countries depending on their political, economic, social and environmental context. This will signify an opportunity for Vietnam to build upon recent events in the past year to exhibit leadership that can be translated into long-term demand for clean growth and in increased commitment to adaptation. This higher ambition will also send a strong message to investors – public and private, domestic and foreign – about the demand and profitability of long-term investments in both mitigation and adaptation. This five-year period is critical for Vietnam to develop its readiness to implement its (i)NDC.

16. This project, combined with the Bank’s support for the SP-RCC through an upcoming DPF series, is fully in line with the Bank’s strategic engagement to support the implementation, monitoring, and preparation for revision and ramping up of ambition of Vietnam’s (i)NDC. This includes providing support to the Government to develop building

blocks (e.g., MRV system) and investigate national policies needed (e.g., carbon pricing including market-based instruments) that would facilitate Vietnam to meet the targets articulated in its INDC.

II. Project Development Objective(s)

6. The Project Development Objective (PDO) is to strengthen the Government of Vietnam's capacity to develop market-based instruments to reduce greenhouse gas emissions.

III. Project Description

Component Name

Component 1: Strengthening capacity for developing carbon pricing approaches, including through supporting priority building blocks for MBIs

Comments (optional)

Through this component, the GoV will facilitate future development of carbon pricing policy approaches, including MBIs through a focus on evaluating carbon pricing options for Vietnam and assessing and developing the technical, policy and management tools available to the GoV for MBI implementation.

Component Name

Component 2: Readiness to pilot selected market-based instruments

Comments (optional)

Through this component, the GoV will lay the foundation for piloting and implementing market-based instruments through selected sectors. The selection of sectors and activities to be covered during the implementation of the Project is primarily based on three criteria: competitiveness, cost-effectiveness, and donor coordination and avoidance of overlap with existing initiatives. In addition to these factors, the Government has also considered alignment with Vietnam's climate change and green growth strategies, interest of stakeholders in the sectors, sector experience with MBIs, and technical and MRV capacity. As a result, the Government has selected the steel and solid waste sectors for this Project.

Component Name

Component 3. Program management and stakeholder engagement facilitation

Comments (optional)

This component will support MONRE to guide the implementation of the proposed activities and other MBI-related activities in Vietnam. This component would also support enhanced stakeholder engagement and communication efforts, including the reporting of PMR project implementation progress to the NCCC.

IV. Financing (in USD Million)

Total Project Cost:	3.60	Total Bank Financing:	3.00
Financing Gap:	0.60		
Financing Source			Amount
BORROWER/RECIPIENT			0.60
Partnership for Market Readiness			3.00
Total			3.60

V. Implementation

A. Institutional and Implementation Arrangements

10. **DMHCC under the line agency MONRE is designated as the Project Owner which will host the Project Management Unit (PMU).** The PMR project will be implemented in accordance Decree No 38/2013/ND-CP of the Government dated April 23, 2013 on management and use of official development assistance (ODA) and concessional loans of donors and Circular No 01/2014/TT-BKHDT of MPI dated on January 09th 2014 on guidelines on implementation of Decree No 38/2013/ND-CP. DMHCC has the function of advising and assisting the Minister of MONRE on state management in the field of meteorology, hydrology, climate change, protecting the ozone layer and implementation of public services for meteorological and climate change in accordance with the law. In accordance with the Prime Minister's Decision 1269/QĐ-BTNMT, DMHCC is the agency responsible for: forming the domestic carbon market and participating in the international carbon market; establishing a database on national GHG emissions, a national GHG inventory for 2005 and a system for national GHG inventories; and building relevant national and sectoral-level MRV systems, related to NAMAs. As the Designated National Authority (DNA) for Vietnam under the CDM, DMHCC has proven experience in national and global climate change policy. Based on this experience it is also familiar with MRV systems concerning carbon credits. In addition, the National Climate Change Committee's Standing Office is located within DMHCC, and therefore DMHCC is well-positioned to coordinate across sectors on climate change related issues.

11. **The PMR project requires technical expertise and involvement from several participating line ministries.** The primary function of MOIT is the state management of industry and trade and as a result, MOIT is the active counterpart for NAMA projects in the steel sector. MOC is the main entity responsible for the planning, designing and architecture of urban development, building materials, and planning and construction of urban technical infrastructure (including solid waste management) and as such, is the active counterpart for NAMA projects in the solid waste sector. Given that Component 1 of the project also involves activities that are likely to lead to recommendations in support of the development for draft financial mechanisms, institutional, legal and administrative arrangements, analytical contributions from MPI and MOF for these specific activities are needed. In response to MONRE Document No 5646/BTNMT-KTTVBĐKH (dated 22nd December 2014), which requested these participating line ministries to participate in the preparation and implementation of the project, MOIT assigned the Industrial Safety Techniques and Environment Agency (ISEA), MOC assigned the Department of Sciences, Technology and

Environment (DSTE), MPI assigned the Department of Science, Education, Natural Resources and Environment (DSENRE), and MOF assigned the Department of Legal Affairs (DLA).

B. Result Monitoring and Evaluation

12. Project monitoring and evaluation which will feed into the World Bank supervision of the implementation of activities to ensure achievement of the PDO under the PMR grant will include the following:

- *Project Progress Reports:* MONRE DMHCC, representing the recipient, will provide annual progress reports with details on progress on the delivery of PDO and Intermediate Results (as contained in Annex 1 Result Framework of the Project Paper) as well as all outputs studies, guidelines, and other documents) developed under the Project. The goal of the project progress report is to ensure timely support and feedback from the Bank on the activities outlined in the Grant Agreement.
- *Financial Statements:* The recipient will provide project’s Interim Unaudited Financial Report (IFR) bi-annually. The IFR are to be submitted to the Bank no later than 45 days after each period. The period for the purpose of the financial reporting is from October 1 to September 30.
- *Completion Report:* The recipient will prepare a project completion report to document how objectives outlined in the MRP and the Grant Agreement have been met and there is a plan for their sustainable outcomes.
- *PMR Country Updates:* PMR implementing Countries will also update once a year at the PMR Partnership Assembly (PA) meetings on the progress of their implementation phase activities. PMR PA meetings occur a minimum of two times per year. The purpose of these updates is to inform the PA and also seek feedback from the PA.

C. Sustainability

13. The sustainability of the outputs of the projects lies in capacities built in the core climate change line ministries and the level of engagement with Senior Government Leadership to influence policies, institutions, and implementation of the developed tools. The project will focus on developing no-regret measures in the pilot sectors chosen and stakeholder engagement will be carefully planned to ensure that MONRE and the other relevant Government agencies, private companies, and verifiers are sufficiently capacitated.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		X

Natural Habitats OP/BP 4.04		X
Forests OP/BP 4.36		X
Pest Management OP 4.09		X
Physical Cultural Resources OP/BP 4.11		X
Indigenous Peoples OP/BP 4.10		X
Involuntary Resettlement OP/BP 4.12		X
Safety of Dams OP/BP 4.37		X
Projects on International Waterways OP/BP 7.50		X
Projects in Disputed Areas OP/BP 7.60		X

Comments (optional)

The project will be solely on technical assistance activities. It is anticipated that the project will lead to long term positive impacts to the environment particularly on GHG emission reduction and energy consumption reduction. No separate safeguards instrument is required for this TA project. The Bank will review and provide inputs on key TORs to ensure that appropriate safeguards measures, including environment and social screening criteria, are incorporated in relevant studies. In addition, the Bank will work with the counterpart to ensure stakeholder participation and that perspective of men and women on GHG and its mitigation actions are taken into account in all activities.

VII. Contact point

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