



Report No: RES00128

RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF

North Central Region Emission Reductions Program

APPROVED ON 12-Oct-2020

TO

Socialist Republic of Vietnam

Environment, Natural Resources & the Blue Economy  
East Asia And Pacific

Regional Vice President:	Manuela V. Ferro
Regional Director:	Anna Wellenstein
Country Director:	Kathleen Anne Whimp
Practice Manager:	Mona Sur
Task Team Leader(s):	Dinesh Aryal, Thu Thi Le Nguyen



**ABBREVIATIONS AND ACRONYMS**

BSP	Benefit Sharing Plan
CATS	Carbon Assets Tracking System
ER	Emission Reductions
ERPA	Emission Reductions Payment Agreement
FCPF	Forest Carbon Partnership Facility
ISR	Implementation Status Report
MARD	Ministry of Agriculture and Rural Development
PDO	Project Development Objective
REDD+	Reducing emissions from deforestation and forest degradation, and enhancement of forest carbon stocks
VVB	Validation and Verification Body

**BASIC DATA**

**Product Information**

Operation ID P162605	Operation Name North Central Region Emission Reductions Program
Product/Financing Instrument Investment Project Financing (IPF)	Geographical Identifier Viet Nam
Approval Date 12-Oct-2020	Current Closing Date 31-Dec-2025
Original EA Category Partial Assessment (B) (PAD Approval Package-13 Nov 2023)	

**Organizations**

Borrower Socialist Republic of Vietnam	Responsible Agency Ministry of Agriculture and Rural Development
---	---



**OPERATION STATUS**

**Project Development Objective (DO)**

Original Development Objective

The Development Objective of the Project is to make payments to the Program Entity for measured, reported and verified Emissions Reductions (ER) from reduced deforestation, forest degradation and enhancement of forest carbon stocks (REDD+) in the North Central Region of Vietnam and to distribute ER payments according to an agreed benefit sharing plan.

**Disbursement Summary (in USD million)**

Source of Funds	Net Commitment	Disbursed	Balance	% Disbursed
IBRD	--	--	--	0
IDA	--	--	--	0
Grants	51.50	51.50	0.00	100.00

**Policy Waivers**

Does this restructuring trigger the need for any policy waiver(s)?

No



## TABLE OF CONTENTS

<b>I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING .....</b>	<b>1</b>
<b>II. DESCRIPTION OF PROPOSED CHANGES .....</b>	<b>3</b>
<b>III. PROPOSED CHANGES .....</b>	<b>4</b>
<b>IV. DETAILED CHANGE(S) .....</b>	<b>4</b>

---



## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

### A. Program Status

- 1. The Emission Reductions Program in the North Central Region of Viet Nam is an operation that provides results-based payments for measured, reported and verified emission reductions (ERs)<sup>1</sup> generated from the program, through the Emission Reductions Payment Agreements (ERPA) signed between the World Bank (acting as ‘Trustee’ of the Forest Carbon Partnership Facility – FCPF) and the Government of Viet Nam, represented by the Ministry of Agriculture and Rural Development (MARD) (‘Program Entity’).** The ERPA<sup>2</sup> was signed on October 22, 2020 for a Contract Volume of 10.3 million ERs at a unit price of US\$ 5 to be delivered by December 31, 2025. The Contract Volume under an ERPA is the amount of ER units that the ER program commits to deliver to the FCPF during the term of the ERPA and for the FCPF to pay for such amount at the unit price. The ERPA also has an agreed additional volume (‘Additional ERs’) of up to 5 million ERs at a unit price of US\$5 (equivalent to US\$25 million). Additional ERs are volumes generated by the ER program beyond the Contract Volume and can be paid for under the ERPA per the Call Option provision. Payment for Additional ERs is a right but not an obligation of the FCPF and the volume to be paid for is decided by the FCPF in consultation with the FCPF Carbon Fund Participants (donors).
- 2. The ERPA for the Viet Nam ER program has three reporting periods, during which the program can measure and report on ERs generated through an ER Monitoring Report and the ERs are verified by an independent third party (Validation and Verification Body – VVB) financed by the FCPF.** The reporting periods are (i) February 1, 2018 – December 31, 2019; (ii) January 1, 2020 – December 31, 2022; and (iii) January 1, 2023 – December 31, 2024. For the first reporting period, an independent third-party validation is also conducted in addition to the verification of reported ERs.<sup>3</sup> When the validation and verification are completed, the VVB issues the Validation and Verification Reports. Besides the reporting on ERs (which includes a confirmation on the ability to transfer title to those ERs to the FCPF), the ER Program also reports on non-carbon accounting aspects as part of the annexes to the ER Monitoring Report. The non-carbon accounting aspects include reporting on social and environmental safeguards, Benefit Sharing Plan (BSP) readiness and implementation, and non-carbon benefits, which are reviewed and cleared by the World Bank and documented in an Implementation Status & Results Report (ISR). Payment for the verified ERs can proceed

---

<sup>1</sup> Each ER unit represents one metric ton of Carbon Dioxide Equivalent reduced, avoided, removed or sequestered within the ER Program Area.

<sup>2</sup> The ERPA is structured as two separate legal agreements, one for each of the two tranches of the FCPF Carbon Fund. For simplicity, this document refers to both agreements jointly as ‘ERPA’. Specifically, tranche A is designed to be a commercial window that transacts on tradeable carbon assets, whereas tranche B is designed to provide results-based payments for verified ERs without a respective ER title transfer from recipient countries (tranche B has approximately 95% of the current fund capitalization). It is important to note that most commercial terms, notably the term and reporting period for the ERPA, are the same for both tranches of the ERPA and verification follows the same process. A key difference is whether ERs are retained by the Program Entity (e.g., to be accounted for as part of the NDC) or transferred to the Carbon Fund (for possible transaction in the future).

<sup>3</sup> Validation is done on the carbon accounting aspects of the ER program particularly on updates made to the reference level, monitoring plan etc. since the ER Program Document was approved by the FCPF.



only after the Validation and Verification Reports are issued, and the ISR is approved. As per the PDO, payments made under the ERPA for the verified ERs are distributed by the Program Entity in accordance with the agreed BSP.

3. **MARD, as Program Entity, submitted the ER Monitoring Report for the first reporting period (February 1, 2018 – December 31, 2029) in June 2021 and a total of 16,217,520 ERs were measured and reported.** Validation and verification were conducted which confirmed and verified the reported ERs. The Validation and Verification Reports were issued on October 3, 2023. With this volume, the Program Entity fully delivered the Contract Volume of 10.3 million ERs, and also generated 5.9 million Additional ERs. Payment of US\$ 51.5 million for the Contract Volume will be transferred to MARD which will then be distributed to beneficiaries of the ER program per the agreed BSP. Eighty (80) percent of this amount, i.e., US\$ 41.2 million was transferred on August 8, 2023, against the monitored ERs. The remaining payment of US\$ 10.3 million is being processed.
4. **The Project has achieved the first part of the PDO, exceeding the target indicators on volume and payment (10.3 million ERs and \$51.5 million, respectively) in the first of three reporting periods and generating 5.9 million surplus ERs.** It is too soon for the team to confirm that the second part of the PDO and third indicator --- distribution of payments per the Benefit Sharing Plan (BSP) --- is also advancing. Viet Nam is still at the initial stages of implementation of its BSP, and, in accordance with the ERPA, will submit its first annual BSP implementation report six months after the first verified ER payment (in July 2024).

## **B. Rationale for Restructuring**

5. **The proposed restructuring is required to reflect the additional payments for up to 1 million Additional ERs under the Call Option provision of the ERPA.** These payments will also be shared with beneficiaries of the ER program per the BSP. On October 6, 2023, the Trustee issued a Call Option Exercise Notice for the first reporting period for an Additional ER volume of 1 million ERs at a unit price of US\$5/Additional ER (equivalent to US\$5 million). The ERPA stipulates the Parties have 90 calendar days from the date of the Notice to complete the transaction, which hinges upon this restructuring. On December 18, 2023, the Program Entity requested an extension of the Exercise Completion Date from January 6, 2024, to March 31, 2024 which was approved by the Trustee on December 21, 2023 as a one-time only extension.
6. **The ERPAs remain effective and include a remaining Call Option Volume for up to 4 million Additional ERs.** The Program Entity is required to issue ER Monitoring Reports for reporting periods 2 and 3 and the Trustee is required to provide corresponding independent Verification Reports. This provides the Trustee with the opportunity to purchase up to 4 million more Additional ERs in subsequent reporting periods through the exercise of Call Options (for up to US\$20 million), or, if not exercised, provides the Program Entity with the opportunity to generate more Excess ERs that could be used by the country either towards its Nationally Determined Contribution or to monetize through third party transactions, including through bilateral agreements or conducting auctions. Additional payments beyond the US\$51.5 million for the Contract Volume is a positive sign for the Government of Viet Nam in terms of proof of concept, sustainability of the ER program and livelihoods, and overall goals of Viet Nam towards a low-carbon growth.



II. DESCRIPTION OF PROPOSED CHANGES

- 7. **The Additional ERs that have been generated and verified can be paid for under the ERPA up to the maximum amount of US\$25 million (for 5 million ERs). For the first reporting period, up to 1 million Additional ERs will be eligible for payment under the ERPAs equivalent to US\$5 million.** At the time of project preparation, only the amount for the Contract Volume was included, i.e., US\$ 51.5 million under the Tranche A (TF0B2967) and Tranche B (TF0B2966) ERPAs, respectively. The reason being that a commitment and payment for Additional ERs is subject to decision by the Trustee at the time when such Additional ERs are generated and verified, as stipulated in the ERPAs. Given that the Additional ERs have been generated and verified during the first reporting period, a restructuring is proposed to reflect an increase to the project amount by US\$5 million, bringing the total project amount to US\$56.5 million. It is important to note that the Additional ERs are those generated from the same activities as those that generated the ERs pertaining to the Contract Volume.
- 8. **The restructuring does not require any change to the legal agreements and only the total project financing will be reflected with the increase.** The legal agreements already include the provision for the Trustee to purchase up to 5 million Additional ERs at US\$ 5/ER. As such, following the approval for restructuring, the changes that are required are limited to updates in the Bank system. This includes an increase of the total project cost to US\$56.5 million which represents an increase to Tranche A and Tranche B trust funds by US\$ 268,110 and US\$ 4,731,890 respectively as shown in the table below.

Particulars	Tranche A	Tranche B	Total
	B2967-001	B2966-001	
Original Allocation	\$ 2,575,000	\$ 48,925,000	<b>\$ 51,500,000</b>
Revised per Memo dated December 14, 2023	\$ 186,555	\$ (186,555)	-
Revised Allocation	\$ 2,761,555	\$ 48,738,445	<b>\$ 51,500,000</b>
Call Options Exercised	\$ 268,110	\$ 4,731,890	<b>\$ 5,000,000</b>
Total Revised Allocation	<b>\$ 3,029,665</b>	<b>\$ 53,470,335</b>	<b>\$ 56,500,000</b>

- 9. **As the initial payment schedule was delayed due to the delay in effectiveness of the ERPA and completion of the validation and verification for the ER Monitoring Report for the first reporting period, the disbursement estimates will also need to be updated.** With this and the potential payments for Additional ERs, it is proposed to update the disbursement estimates to include a payment of the Contract Volume and part of the Additional ERs in FY24, and any further payments for Additional ERs in FY25.



**III. PROPOSED CHANGES**

<b>Operation Information</b>	<b>Proposed Changes</b>	<b>Operation Information</b>	<b>Proposed Changes</b>
Disbursements Estimates	Yes	Loan Closing Date Extension	No
Development Objective	No	Loan Cancellations	No
Safeguard Policies Triggered	No	Reallocations	No
ISDS	No	Financial Management	No
MFD/PCE	No	Procurement	No
Results	No	Institutional Arrangement	No
Risks	No	Implementation Schedule	No
Legal Covenants	No		
Conditions	No		
Implementation Modalities	No		
Disbursements Arrangements	No		
DDO	No		
Clients	No		
Appraisal Summary	No		
Components	No		

**IV. DETAILED CHANGE(S)**

**COSTS & FINANCING**

**Private Capital Facilitation**

**Is this an MFD-Enabling Project (MFD-EP)?**

**Is this project Private Capital Enabling (PCE)?**

**LOANS**

**DISBURSEMENTS**





**Operation Dates & Projection Details**

Reasons to change the full Disbursement date and/or the projection

Implementation Start Date

12-Oct-2020

Operation Closing Date

31-Dec-2025

Projected Date for Full Disbursement

16-Aug-2027

**Expected Disbursements (in US \$) (Absolute)**

Year	Original Estimation at Preparation (Approval Package – 13 Nov 2023)	Revised Estimation	Actual
FY2021	887,087.50	0.00	0.00
FY2022	2,691,956.50	0.00	0.00
FY2023	3,619,780.50	0.00	0.00
FY2024	5,401,011.00	0.00	51,500,000.00
FY2025	9,251,872.00	0.00	0.00
FY2026	12,145,348.00	0.00	0.00
FY2027	14,280,486.50	0.00	0.00
FY2028	3,222,458.00	0.00	0.00