



Concept Environmental and Social Review Summary

Concept Stage

(ESRS Concept Stage)

Date Prepared/Updated: 01/20/2022 | Report No: ESRSC02535



BASIC INFORMATION

A. Basic Project Data

| | | | |
|---|---|--------------------------|----------------------------|
| Country | Region | Project ID | Parent Project ID (if any) |
| Vietnam | EAST ASIA AND PACIFIC | P178165 | |
| Project Name | Vietnam Partnership for Market Implementation | | |
| Practice Area (Lead) | Financing Instrument | Estimated Appraisal Date | Estimated Board Date |
| Environment, Natural Resources & the Blue Economy | Investment Project Financing | | 12/9/2022 |
| Borrower(s) | Implementing Agency(ies) | | |
| State Bank of Vietnam | Ministry of Natural Resources and Environment | | |

Proposed Development Objective

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.

| Financing (in USD Million) | Amount |
|----------------------------|-------------|
| Total Project Cost | 5.00 |

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

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 project will help:



Develop the domestic carbon market, including trading of GHG emissions allowances and carbon credits from appropriate domestic and international crediting and offsetting mechanisms under the provisions of laws and international treaties to which Vietnam is a member; and

Identify emission facilities to participate in domestic and international carbon crediting and offsetting per the provisions of laws and international treaties, to which Vietnam is a member, are authorized to trade carbon credits in the domestic carbon market.

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

Vietnam has recognized the importance of green growth and its Nationally Determined Contribution (NDC) mentioned the country's commitment to reduce 9 percent of greenhouse gas (GHG) emissions by 2030 compared to the business-as-usual (BAU) scenario and aims for further reduction of 27 percent with support from the international community. To actively respond 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 set and prepared for implementation under its NDC. The revised environmental protection law, which will go into effect in early 2022, requires industries to use the best available technology to control air pollution, limit environmental impact, and define communities' enhanced role in supervision and feedback.

The previous project for innovating and piloting carbon pricing instruments (CPIs) funded by the Partnership for Market Readiness (PMR) (2016-2020) provided a platform for technical discussions, policy exchange, and collective innovation on new market instruments, and created shared knowledge products and lessons learned; and improved data management, reporting, and stakeholder engagement and design of selected elements of MBI on Market Readiness in steel and social waste landfill sub-sectors. The private sector already has experience crediting programs through international credit trading mechanisms, such as the Clean Development Mechanism (CDM), Joint Crediting Mechanism (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 the Ministry of Natural Resources and Environment (MONRE) and other line ministries. These factors will create a solid foundation to develop and implement the National Crediting Program (NCP).

This proposed project aims to support Vietnam to establish and implement the NCP and a mandatory Domestic Emission Trading Scheme (DETS) by establishing a legal framework and institutional infrastructure, developing system design, and enhancing stakeholder engagement for these carbon pricing instruments (CPIs). It will finance technical assistance for (i) development of a legal basis that underpins the NCP and DETS and provides legal certainty for their implementation, (ii) enhancing institutional and administrative infrastructure, which ensure the NCP's and DETS' implementation systems and regulatory oversight arrangements, (iii) developing system designs which describe the rules governing what the NCP and DETS cover and how they function, and (iv) enhancing the stakeholder's understanding of the NCP and DETS and engagement for their implementation.



The proposed project is aimed to be implemented with the support from the Partnership for Market Implementation (PMI), of which member country Vietnam is. It will carry out the implementation support for the NCP and DETS based on the outputs of the assessment of the CPI options feasible in Vietnam, legal, institutional, and administrative gap analysis for the CPI implementation, study on the applicability of the CPI to the target sectors (the iron and steel sector, and solid waste management sector) supported by the PMI’s successor program, the Partnership for Market Implementation (Vietnam Partnership for Market Readiness Project (P152797)). Based on the Expression of Interest prepared by the government of Vietnam, a full proposal will be prepared for the PMI’s consideration and decision on the fund allocation to Vietnam. In addition, the proposed project activities will be further refined and revised with stakeholders’ feedback through consultations and a review of different initiatives and gaps related to carbon pricing in the country.

D. 2. Borrower’s Institutional Capacity

The Ministry of Natural Resources and Environment (MONRE) will be the lead implementing agency. The revised Environmental Protection Law (EPL) states that MONRE's general role is to operate and supervise the ETS, including identifying total caps and allocating allowance to participants in the market. The Ministry of Finance (MOF) will coordinate with MONRE and other ministries to prepare and develop the ETS.

The MONRE has some experience with national and global climate change policy and carbon crediting and is well-positioned to coordinate across sectors on climate change-related issues. Also, the MONRE has experience in implementing Bank-financed projects and applying Bank's environmental and social safeguards policies. Specifically, MONRE implemented the Vietnam Partnership for Market Readiness Project (P152797) and was familiar with previous Safeguards Policies.

However, MONRE has no relevant experience in preparing and implementing a project under the Environmental and Social Framework (ESF), implying that training and capacity building is required.

Training on WB's Environmental and Social Standards will be required to support the MONREC in implementing the project under ESF requirements.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Moderate

Environmental Risk Rating

Moderate

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

Public Disclosure



(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 II and Phase III), where the emitters, such as enterprises and businesses will allocate their resources for green investment and operations (e.g., industrial energy efficiency enhancement, fuel switch from fossil fuel to renewable energy, solar and wind power development, and green procurement.). These activities 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 foreseen, 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.

Social Risk Rating

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. Therefore, the social risk classification of this project is anticipated to be Moderate.

Public Disclosure

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

Discussion with the project’s Task Team on lessons learned from the implementation of the previous project on Partnership for Market Readiness, review of the project initiation note, and following the guidelines outlined in the OESRC Advisory Note for Technical Assistance and the ESF has provided the basis for screening of the potential environmental and social risks and impacts of the proposed project.

This project aims to advance the positive agenda of emission reduction, promoting shifts to slow rising CO2 levels in the atmosphere and improve the country’s resilience to climate change benefiting millions of citizens.

While the details of actual NCP and DETS will be developed and decided through the support for the PMI implementation, the proposed project aims to assist the establishment and/or development of the legal, institutional and administrative setup (e.g., GHG national registry, MRV (monitoring/measurement, reporting, and verification)



framework and system, and carbon credit/allowance trading platform), capacity building (e.g., MRV knowledge enhancement for the government officials, firm operational/technical staff, and third-party verifiers), and stakeholder engagement. This proposed project will not support the preparation of feasibility studies, technical or engineering designs, or other activities supporting the preparation or construction of physical infrastructure or support to a future investment project. The project will not involve the development of policy, plan, or strategy that would have downstream environmental and social impacts. The project will lead to long-term positive impacts to the environment, particularly on GHG emission reduction in select sectors that will be further discussed based on the readiness of sectors and the size of the companies taking part in the project activities. In addition, the project will bring potential significant indirect and downstream social benefits to improve living conditions and job creation in Vietnam. The final selection of sectors for mandatory ETS will be decided and reviewed, considering the potential emission reductions and the sectoral policies and implementation capacity.

The technical assistance would include the development of detailed design and pilot of the NCP and DETS through the development of the following building blocks: system design (operational and MRV systems), institutional structure (the GHG national registry, methodology approval procedures, project approval procedures, emission reduction verification procedures, and credit issuance procedures etc.), and legal basis for the carbon credit trading and ETS. The DETS implementation is expected to have positive environmental impacts (GHG and local pollutant GHG emissions). But, on the other hand, the potential downstream low carbon/emission technologies that the enterprises and businesses pursue may bring moderate to significant environmental implications depending on the type of industries, scale of investment, and sectors (such as the iron and steel sector, and solid waste management sector) and technologies to be piloted in the future. For example, while potential positive impacts are foreseen, the direct electrification of industrial processes may have potential negative impacts such as electric shocks, arc flash/blast, fires, and explosions in case of improper installation and use. Fuel switching using alternate cleaner fuel may bring more expensive options to the industries and businesses and prompt use of lower quality materials to compensate the higher cost of products. Increased quantities of waste in the incinerators in waste to energy projects will emit more toxins and pollutants that harm local air quality and human health.

It may have adverse impacts on the international competitiveness of the emissions-intensive trade-exposed (EITE) sectors and, consequently, employment and household income of some income groups. However, the government has already considered the NCP to mitigate such risks. Besides, the PMI will consider the Just in Transition aspect in the proposal for its fund allocation to Vietnam. There are already many international practices and lessons learned, which Vietnam can consider and introduce for negative impact mitigations.

Relevant aspects of the WB's ESF will be considered in project activities, including the NCP and ETS design, including the legal framework and institutional arrangements. This will be included in any ToRs prepared for project activities, and downstream activities that are funded by the Bank. This provision will be included in the Environmental and Social Commitment Plan (ESCP) to be prepared prior to project appraisal.

Areas where “Use of Borrower Framework” is being considered:

Use of Borrower's Framework is not being considered.



ESS10 Stakeholder Engagement and Information Disclosure

While this project may have moderate to significant environmental implications downstream, the identification and outreach to affected and interested stakeholders would be expected to be an important component of the project. Stakeholder identification and mapping were carried out, and the preliminary stakeholder engagement plan was developed under the PMR support.

With these outputs and other information available, a project-level Stakeholder Engagement Plan (SEP), proportionate to the nature and scale of this project and its potential risks and impacts, will be prepared, consulted, and disclosed by MONRE before the beginning of the project activities to ensure meaningful consultations, disclosure of relevant project information plus the establishment of a Grievance Redress Mechanism (GRM). In addition, the SEP will be included in the Grant Operational Manual.

The project's SEP, to be prepared and disclosed prior to the appraisal, will include special provisions to ensure that ethnic minorities (under ESS7) will also be considered and engaged in a culturally appropriate manner. An accessible Grievance Redress Mechanism (GRM) will be developed to receive and respond to complaints of the Project on E&S issues.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

The ESS 2 is relevant. Project workers include MONRE's own staff and consultants (direct workers). For this project, the MONRE should engage professional consultancy providers as contracted workers. No primary supply or community workers are expected.

Since most of the project workers' staff are expected to be based in Vietnam, then labor practices for most of the direct and contracted workers will be governed by the Vietnamese Labor Law, which is highly consistent with the ESF's ESS2. However, since there are still some gaps, a Labor Management Procedure (LMP) will be prepared and disclosed prior appraisal to i) protect workers' rights as set out in ESS2; (ii) include a responsive grievance mechanism to allow workers to quickly inform management of labor issues; and (iii) promote a healthy and safe working environment for project workers, including specific health and safety issues posed by COVID-19, e.g. when in-person capacity building activities are involved. The LMP will distinguish between the different types of workers as identified under ESS2 and identify specific protections for each type/category.

The LMP will be included as part of the ESCP as mitigation for ESS2 along with the provision of timelines.



ESS3 Resource Efficiency and Pollution Prevention and Management

ESS3 is relevant. The TA does not finance any civil works or other activities which would generate pollution to air, water, and land, or consume finite resources that may threaten people, ecosystem services and the environment at the local, regional, and global levels. However the NCP and domestic ETS system would eventually facilitate GHG and local pollutant emission reduction and could lead to improvement in resource efficiency after the system is operationalized in Phase II and Phase III.

The project will have no direct risk of significant adverse impacts on nearby communities or natural habitats from hazardous or toxic materials. Some potential downstream negative environmental impacts may be derived depending on the selection of low emission technologies that industries and business may pursue in the future. The TORs prepared for this project activities and downstream activities that these are funded by the bank, will consider such downstream environmental implications and be in line with the bank's ESF.

ESS4 Community Health and Safety

The ESS4 is not relevant to the proposed project interventions. However, it may deliver several community health benefits associated with positive downstream impacts as outcomes of the TA, such as reduced emissions that lead to improved community health.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

The ESS5 is not relevant. The project will not support any activities that might result in Land Acquisition, Restrictions on Land Use, and Involuntary Resettlement.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The ESS6 is not relevant to the proposed project interventions. The project just focus on the legal framework and capacity development for carbon credit/allowance and domestic emission trading platform to be implementable and enforceable. The proposed Project will neither finance nor support any civil works, activities or policies that might affect biodiversity, ecosystems and their services, or management of living natural resources.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

The project's SEP will include special provisions on meaningful consultations, information disclosure, and grievance mechanisms to ensure that ethnic minorities (under ESS7) will also be considered and engaged in a culturally appropriate manner. Therefore, no adverse impacts on ethnic minorities are expected.

ESS8 Cultural Heritage



The ESS8 is not relevant. The project does not involve any physical activities that directly or indirectly affect tangible or intangible cultural heritage.

ESS9 Financial Intermediaries

The ESS9 is not relevant. The proposed project will not channel funds to a Financial Intermediary with the objective of sub-lending.

B.3 Other Relevant Project Risks

None

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways No

OP 7.60 Projects in Disputed Areas No

III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered? No

Financing Partners

None

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:

- Complete Stakeholder Engagement Plan (SEP) before the appraisal
- Complete the project’s Labor-Management Procedure (LMP) before the appraisal
- Complete the Environmental and Social Commitment Plan (ESCP) before the appraisal

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):

1. Budget, staffing, and operational arrangement for ESF requirements
2. Terms of References (TORs) to conduct the project’s activities (legal framework development, assessment, and capacity building) will be reviewed by the Bank to ensure that the requirements of the World Bank ESF policy are effectively integrated.



3. Potential impacts associated with any downstream activities identified through the technical analysis and legal framework development will be considered through the TORs for the consultant undertaking this work.

IV. CONTACT POINTS

World Bank

Contact: Muthukumara S. Mani Title: Lead Environmental Economist

Telephone No: +1-202-458-9334 Email: mmani@worldbank.org

Contact: Jacques Morisset Title: Program Leader

Telephone No: 5777+3419 / 225-224-00419 Email: jmorisset@worldbank.org

Contact: Rahul Kitchlu Title: Lead Energy Specialist, Program Leader

Telephone No: 5777+7309 / 84-24-39367309 Email: rkitchlu@worldbank.org

Borrower/Client/Recipient

Borrower: State Bank of Vietnam

Implementing Agency(ies)

Implementing Agency: Ministry of Natural Resources and Environment

V. FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

VI. APPROVAL

Task Team Leader(s): Jacques Morisset, Rahul Kitchlu, Muthukumara S. Mani

Practice Manager (ENR/Social) Susan S. Shen Recommended on 13-Jan-2022 at 07:08:10 GMT-05:00

Public Disclosure