



# Viet Nam: Developing the Market Readiness Proposal for a Domestic Carbon Market

Project Name	Developing the Market Readiness Proposal for a Domestic Carbon Market	
Project Number	46237-001	
Country	Viet Nam	
Project Status	Closed	
Project Type / Modality of Assistance	Technical Assistance	
Source of Funding / Amount	TA 8341-VIE: Partnership for Market Readiness: Developing the Market Readiness Proposal for a Domestic Carbon Market	
	Partnership for Market Readiness Fund	US\$ 315,000.00
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth	
Drivers of Change	Governance and capacity development Partnerships	
Sector / Subsector	Energy - Energy efficiency and conservation	
Gender Equity and Mainstreaming		
Description	<p>In October 2011 at the meeting of the Partnership for Market Readiness (PMR) Assembly meeting in Istanbul, several countries, including Viet Nam, submitted an expression of interest (EOI) to participate in the PMR program, a grant-based, capacity building trust fund that provides funding and technical assistance for the collective innovation and piloting of market-based instruments for greenhouse gas emissions reduction. The Partnership brings together developed and developing countries, as well as other key experts and stakeholders, in order to provide a platform for technical discussions on market instruments, foster South-South exchange, facilitate collective innovation for pilot efforts and harness financial flows for implementation and scale up and whose participation has been confirmed. At that meeting, Viet Nam requested the PMR Partnership Assembly (PA) to approve the Asian Development Bank as a Delivery Partner under the PMR, in order for Viet Nam to collaborate with it as its main Delivery Partner and with the World Bank as its co-Delivery Partner in carrying out PMR activities.</p> <p>The technical assistance (TA) supports the government's National Target Program (NTP) for responding to climate change as well as Viet Nam's proposed strategy for green growth. A TA fact finding mission visited Viet Nam and reached an agreement with the government on the TA impact, outcome, outputs, activities, cost, implementation and financing arrangements, and terms of reference.</p>	

**Project Rationale and Linkage to Country/Regional Strategy**

In Viet Nam, strong economic growth and industrialization over the past 2 decades were largely fuelled by intense exploitation of natural resources. Viet Nam's industrial growth has driven annual increases in energy consumption, and corresponding greenhouse gas (GHG) emissions. In 2008, growth in energy consumption was 11.3%, a consistent trend over the past decade. Energy consumption is comprised primarily of oil and coal and amounts to 28,479 kilotons of oil equivalent. If this trend continues as projected, with Viet Nam continuing its heavy reliance on fossil fuels, national GHG emissions, 177 metric-ton carbon dioxide equivalent in 2005, will triple by 2030. Furthermore, Viet Nam's per capita energy consumption is projected to reach 5,400 kilowatt-hour (kWh) by 2030 from 985 kWh in 2010. Today, 52% of electricity consumption is from the industrial and business sectors, 39% from residential areas, and 8% from agriculture. The large increase in energy demand and requisite infrastructure investment required to satisfy energy needs in an environmentally sustainable manner poses a significant challenge especially as climate change takes hold. Increased temperatures and reduced dry season rainfall will increase power demand for cooling and pumping. In the medium-term, Government of Viet Nam's (GOV's) plans to meet these growing needs include a mix of new coal and hydropower projects. The magnitude of the challenge is daunting, and enormous amounts of investments will be required to meet the growing energy needs in Viet Nam while transitioning to a low-carbon path. Current plans estimate that energy demand by 2015 will be met through coal, hydropower, and natural gas, and increasingly supplemented by nuclear and renewable energy sources such as solar, wind, and small-scale hydropower. GOV has committed to market-oriented pricing that would reduce the demand for coal compared to cleaner burning natural gas and other energy sources. Specific initiatives include:

The Law on Environmental Protection Tax which came into effect January 2012. It aims at using an indirect tax for products and goods which, when used, have negative impacts on the environment;

Viet Nam's Green Growth Strategy has three focus areas: (i) reducing GHG, particularly to reduce GHG emissions for energy activities by 10% (20% with international support) for 2011-2020 and by 30% (45% with international support) for 2020-2030 compared with business as usual scenario (BAU); (ii) greening production; and (iii) green lifestyle;

The Law on Energy Efficiency and Conservation effective since January 2011 to ensure energy security; and Viet Nam's action programs for energy efficiency and a large-scale development of renewable energy sources. The mid to long-term objectives of this strategy are (i) to reduce energy consumption per gross domestic product (GDP) by at least 2.5 to 3% per year by 2020; (ii) total GHG reduction relative to BAU by 2-3% per year from 2020 to 2030; and (iii) to enhance the share of renewable energies in the total power generation to 5.6% in 2020 and 11% in 2050 of which, 20,000-22,000 megawatt (MW) is planned from hydropower plants and 1,600 MW by biomass of the total generation capacity.

Changes in pricing are unlikely to provide incentives for clean reliable energy. There is a need to mobilize financial resources from all possible channels, including carbon market mechanisms. In November 2010, the UN Secretary General's High Level Advisory Group on Climate Change Financing presented a report on potential sources of financial resources to support developing countries in addressing climate change. The report identified the carbon market as one of the feasible sources to scale-up long-term financing to fill the gap in international climate financing for the needs of developing countries to be engaged in addressing climate change.

Against this backdrop, the Clean Development Mechanism (CDM) approach has demonstrated the role market instruments can play in the carbon market by supporting the cost-effective reduction of GHG emissions and in channeling mitigation finance to developing countries. It is widely recognized that scaling up the participation of developing countries in the carbon market is necessary. An expansion of the existing carbon market and introduction of new market-based mechanisms requires improved international awareness on the role of market-based mechanisms, as well as increased national and international capacity for designing, implementing, and overseeing such mechanisms in developing countries. For effectively scaling up international carbon markets, it requires adopting a well-designed and structured approach to capacity building. To facilitate these efforts, the PMR program was launched at COP-16 in Cancun, Mexico in 2010. The PMR is intended to help interested countries reach these objectives. The 15 participants, who volunteered to participate in this initiative, are: Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Jordan, Mexico, Morocco, South Africa, Thailand, Turkey, Ukraine, and Viet Nam. It was also decided at the onset that the World Bank would act as trustee of the PMR activities and administer the PMR Multi-Donor Trust Fund which is expected to receive \$100 million in contributions from the various donor countries.

The PMR comprises two phases: (i) preparation phase for preparing the organizing framework (OF) and then the Market Readiness Proposal (MRP) which details the country's road map for its proposed market-based instrument(s) and market readiness components, and (ii) implementation phase for piloting the proposed market instrument(s) where possible. Viet Nam, along with four other countries, submitted its OF to the PMR Secretariat in May 2012 for consideration by the PA which approved it and allocated a funding of \$315,000. This funding will support the formulation of the MRP proposal and complete the preparation phase.

Viet Nam intends to initially apply market-based instruments to selected sectors with a view to broadening the scope over time and achieve broad-based carbon pricing. The key themes it will pursue towards developing market-based instruments are:

- (i) Study and deploy potential market-based instruments in (i) steel, (ii) solid waste management, and (iii) power (energy efficiency) with pilots in Da Nang and/or Hoi An;
- (ii) Integrate market-based instruments in development of planning and policy and coordination to assess their use in mainstreaming green growth;
- (iii) Further develop draft proposal on GHG emissions management and carbon markets and establish and manage a monitoring, reporting, and verification (MRV) system; and
- (iv) For sectors and regions: prepare emission profile, prepare BAU (for cities), and identify emission reduction options, approval/implementation of Nationally Appropriate Mitigation Actions (NAMA)/market-based instrument and sectoral MRV systems.

<b>Impact</b>	Piloting of market based-instruments for greenhouse gas emissions reduction in Viet Nam
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**Project Outcome**

<b>Description of Outcome</b>	The PMR Market Readiness Proposal developed by the Government of Viet Nam is accepted by the PMR Assembly
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<b>Progress Toward Outcome</b>	The draft MRP has been submitted to PMR Assembly/Secretariat during the 9th meeting of the PMR Partnership Assembly (PA9) on 25-27 May 2014 in Cologne, Germany. The participants of PA9 were invited to submit written comments on Vietnam's draft MRPs by June 13, 2014. Following its practice, the PMR Secretariat will compile all feedback both summarized feedback from the discussion at PA9 and any submitted written feedback (which will be recorded verbatim). Vietnam are invited to take into account the feedback in finalizing their MRPs. The final MRP should be submitted to the PMR by October 3, 2014, for circulation to Participants three weeks prior to PA10.
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**Implementation Progress**

<b>Description of Project Outputs</b>	The Market Readiness Proposal and related activities for a domestic carbon market are completed as per standard PMR guidelines
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**Status of Implementation Progress (Outputs, Activities, and Issues)**

**Geographical Location**

**Summary of Environmental and Social Aspects**

**Environmental Aspects**

**Involuntary Resettlement**

**Indigenous Peoples**

**Stakeholder Communication, Participation, and Consultation**

<b>During Project Design</b>	The PMR program was conceptualized as a result of the COP-16 at Cancun. There is increased interest in new carbon market mechanisms, particularly in the increased participation of developing countries. However, most developing member countries lack the capacity and the funding to enable them to effectively participate in the emerging markets as well as initiate a domestic carbon market mechanism. GOV has shown its commitment and opted to participate in the PMR program as one of the 15 pilot countries.
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**During Project Implementation**

**Business Opportunities**

Consulting Services Ten (10) person-months of international and 10 person-months of national consultants will be required to deliver the outputs. Consultant engagement will be done in accordance with ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time) and disbursements under the TA will be done in accordance with ADB's Technical Assistance Disbursement Handbook (May 2010, as amended from time to time)

Responsible ADB Officer	Kausar, Rehan
Responsible ADB Department	Southeast Asia Department
Responsible ADB Division	Energy Division, SERD
Executing Agencies	Ministry of Planning and Investment 6 B Hoang Dieu street, Ba Dinh district, Hanoi, Viet Nam

Timetable	
Concept Clearance	11 Jul 2012
Fact Finding	14 Aug 2012 to 16 Aug 2012
MRM	-
Approval	21 Mar 2013
Last Review Mission	-
Last PDS Update	09 Sep 2014

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Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
21 Mar 2013	12 Sep 2013	12 Sep 2013	30 Jun 2014	31 Dec 2014	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
0.00	315,000.00	0.00	0.00	0.00	0.00	315,000.00	21 Mar 2013	313,473.04

Project Page	<a href="https://www.adb.org/projects/46237-001/main">https://www.adb.org/projects/46237-001/main</a>
Request for Information	<a href="http://www.adb.org/forms/request-information-form?subject=46237-001">http://www.adb.org/forms/request-information-form?subject=46237-001</a>
Date Generated	11 May 2021

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