

Financing Vietnam's Response to Climate Change: Building a Sustainable Future

KEY FINDINGS AND RECOMMENDATIONS OF THE CLIMATE PUBLIC EXPENDITURES AND INVESTMENT REVIEW



Vietnam Ministry
of Planning and Investment



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The Government of Vietnam (GoV) has conducted a Climate Public Expenditure and Investment Review (CPEIR) with the support of the World Bank and the United Nations Development Programme (UNDP). The review examined Vietnam's policies and climate change expenditure for the period 2010–2013 from five ministries (MONRE, MOIT, MARD, MOC, and MOT) and three provinces (Bac Ninh, Quang Nam and An Giang). To assess the public expenditure and improve alignment with policy goals and targets, a Typology of Climate Change Response Expenditures (TCCRE) was developed. This typology was used to classify the government's spending on its climate change response into three pillars: (i) Policy and Governance (PG), (ii) Scientific, Technological and Societal Capacity (ST), and (iii) Climate Change Delivery (CCD). The typology also examined how expenditure within each pillar and in each sector is relevant to Vietnam's climate change response (CC-response). Since roughly 70 percent of the total investment spending is allocated at the provincial level, the analysis does not represent the totality of Vietnam's CC-response, but still offers substantive insight into spending, in particular through a comprehensive focus on the five key line ministries.

Based on its findings, the CPEIR proposes solutions for how to accelerate Vietnam's CC-response through the state budget and informs decision makers on readiness for scaling up the CC-response while increasing coherence across sectors' and provinces' policies. The CPEIR report is released at an opportune time, allowing the review's recommendations to inform the formulation and implementation of the SEDP 2016–2020, and enabling/promoting the GoV's post-2015 climate change and green growth response program.

The full review and background notes are available on the website of the Ministry of Planning and Investment that was established to track Climate Finance Options for Vietnam (<http://cfovn.mpi.gov.vn>), as well as on the websites of the World Bank (www.worldbank.org/en/country/vietnam) and UNDP (www.vn.undp.org).

Climate change impacts and a carbon intense economy threaten Vietnam's development progress.

Climate-related hazards have adverse effects on the national growth and poverty reduction, on the poor and several sectors of the economy simultaneously. According to the Climate Change Vulnerability Index, Vietnam is considered one of 30 “extreme risk countries” in the world. The country is already experiencing increases in temperature, sea level rise, intensifying storms, and more frequent floods and droughts, which cause loss of life and damage the economy. The rural poor are at high risk given their reliance on the natural resources for the livelihood, particularly in agriculture and fisheries. The Mekong River Delta and Red River Delta have already suffered from saltwater intrusion, threatening agricultural productivity and the millions of people relying on these watersheds for their income. Urban populations living in informal settlements are also at risk; particularly to suffer from heat and humidity extremes, and to floods and storms.

At its current rate of growth, Vietnam will become a major greenhouse gas (GHG) emitter. Although Vietnam has historically been a minor contributor to global warming, projections show a fourfold increase of the total net emissions between 2010 and 2030 [1]. Vietnam's emission growth is one of the highest in the world and its carbon intensity is now the second highest in the region, after China. These increases are mainly driven by the projected growth in the use of coal for power generation, which is predicted to account for more than 50 percent of the energy mix by 2030 [2].

ACHIEVEMENTS AND CHALLENGES IN POLICY AND EXPENDITURE

The implementation of national climate change and green growth strategies and action plans continues to shape Vietnam's response to climate change, but further harmonization with sectoral and sub-national policies is necessary to ensure both adaptation and mitigation goals are reached.

Vietnam recognizes the challenges it faces and has proactively developed national, sub-national and sectoral policies and programs that aim to address climate vulnerability and promote a low carbon, green growth development path. The

[1] SR Vietnam (2010). Vietnam's Second National Communication under the United Nations Framework Convention on Climate Change. Hanoi: Socialist Republic of Vietnam, Ministry of Natural Resources and Environment, page 56.

[2] The World Bank/ESMAP and DFID “Charting a Low Carbon Development Path for Vietnam” 2014 study shows that the incremental investment of a low-carbon development scenario over the BAU is estimated at US\$ 2 billion per year on average during 2010–2030—approximately 1.0% of the country's GDP. This does not take into account the additional costs of adaptation required.

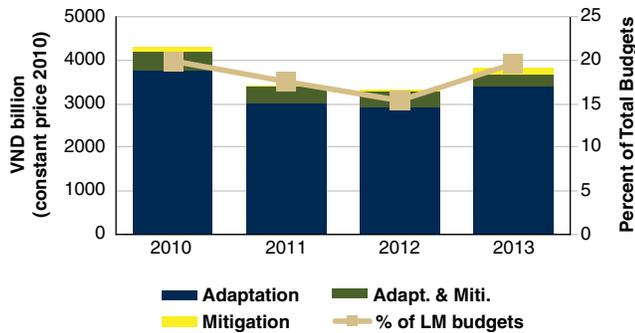


core climate change policies in Vietnam comprise the National Climate Change Strategy (NCCS) and Green Growth Strategy (VGGS) as well as their related Action Plans. These policies are supported by programs that focus on climate change and green growth—for example, the National Target Program to Respond to Climate Change (NTP-RCC) and the Support Program to Respond to Climate Change (SP-RCC)—and a host of related strategies focused on renewable energy, energy efficiency, disaster risk reduction and management (DRRM), Reducing Emissions from Deforestation and Degradation (REDD+), and science and technological development. With these policies and programs in place, the basis for Vietnam's CC-response has strengthened. However, establishing a more effective CC-response will require developing more policy and institutional capacity, in particular for implementing, mobilizing more resources, and providing additional support across national and sub-national levels.

Mainstreaming CC-response into sectoral policies has progressed in some cases, but remains limited in others. Some progress has been made in areas such as water, energy, and DRRM, however the forestry sector, roads and transportation, and construction can benefit more from deeper integration. Recent advances in, and modernization of, Vietnam's public financial management system can help ensure mainstreaming of CC-responses and provides opportunities for streamlining data management to support the ongoing effectiveness of climate change interventions.

Adaptation to climate change is considered as an immediate priority and is the furthest advanced in policy and practical implementation, but more needs to be done to ensure harmonization with DRRM. The GoV has carried out a significant amount of work to establish scenarios of climate change impacts in different regions to help formulate and implement adaptation responses, but the use, uptake, and integration of the scenarios and climate risk information needs to be strengthened and taken into account when planning a CC-response. In

Total climate change appropriations for five line ministries, NTP-RCC, and NTP-EE, 2010–2013



addition, while the majority of current SEDPs at the national and provincial level, as well as the sectoral master plans for the period 2011–2020, reflect some DRRM priorities, more efforts are needed to sufficiently mainstream climate change.

Mitigation policy has become a domestic priority, with specific targets set for GHG mitigation, but these targets are often conflicting and difficult to achieve due to the disincentives. Vietnam’s GHG emission mitigation targets across policies and programs are diverse (in units, baseline and time-scale) and often overlapping or unrealistic. This prompts the need to consolidate mitigation targets across plans, policies and sectors to ensure more effective delivery. Furthermore, indirect subsidies on the use of fossil fuels for power production and transport, and the current pricing policies, will make it difficult to achieve current and future mitigation targets.

To lead, coordinate, harmonize, and monitor Vietnam’s CC-response, the GoV has established the National Committee on Climate Change (NCCC), but its oversight role needs to be enhanced. With the establishment of the NCCC, inter-sectoral coordination has been strengthened, but reporting on progress towards climate change and green growth objectives still needs improvement. The recent establishment of the Vietnam Panel on Climate Change (VPCC) offers an opportunity to advise the NCCC on policy and scientific aspects.

Despite a tightening fiscal environment, the GoV shows continued dedication to spending on its CC-response, but more effective funding is needed to successfully face the scale of Vietnam’s climate change challenge.

The budget devoted to CC-response accounts for a substantial share of the total budgets of the five studied ministries, reflecting an existing large platform to further address the climate challenge in Vietnam. On average 18 percent of the studied line ministries’ budgets are dedicated to funding climate change related activities. However, given that ministries’ total budgets have decreased, the total allocation for CC-response has

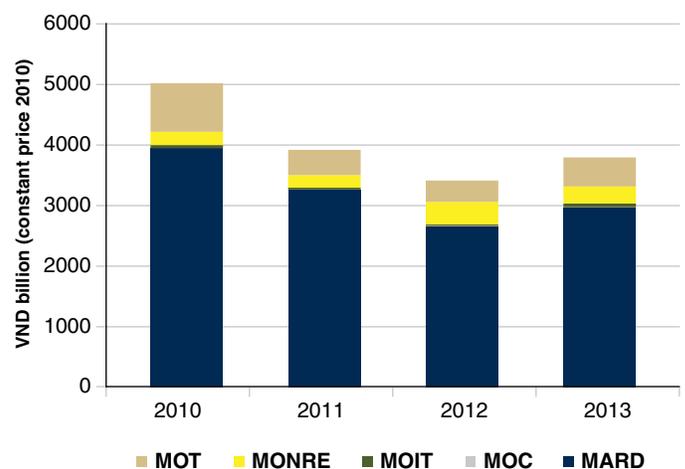
followed suit (from about VND 4300 billion to VND 3800 billion). As a percentage of GDP, spending on CC-response still remains low, which is estimated at only 0.1 percent of Vietnam’s GDP. To move from a business-as-usual (BAU) scenario to a low-carbon and climate resilient development path, a higher share will be required in Vietnam [2].

CC-response spending is mainly directed towards large-scale infrastructure projects that build resilience, but the budget dedicated toward low-carbon action is also growing.

From 2010–2013, the GoV allocated about 88 percent of CC-response financing for projects that offered a significant amount of climate change adaptation co-benefits. The allocations largely consist of MARD irrigation and MOT road transport projects, which in total account for 92 percent of 2010–2012 CC-response expenditures and 2013 appropriations. MARD attains the largest share of spending with 79 percent of implemented CC-response spending followed by MOT, which accounts for 13 percent of CC-response spending. In general, these are activities that display attributes where indirect adaptation and mitigation benefits may arise but they are not explicitly listed in project objectives or stated results or outcomes.

A growing amount of financing from the recurrent budget has been directed towards mitigation. From 2010–2013, the share directed toward mitigation action accounted for only two percent. However, by 2013 the mitigation budget increased to 3.9 percent, mainly due to increases in recurrent spending through the National Target Program on Energy Efficiency. Recurrent CC-response spending has also financed projects that contribute to both adaptation and mitigation objectives, which total about 10 percent of CC-response spending overall.

Total climate change expenditures (investment and recurrent) by line ministries from 2010–2013 (2010–2012 implemented, 2013 budgeted)





Most expenditure has been focused on Climate Change Delivery, while little has been dedicated to Scientific, Technological and Social Capacity, and Policy and Governance activities.

The bulk of spending by the five ministries studied is focused on climate change delivery (CCD) activities. The large share of spending at the ministerial level (89 percent) is targeted at CCD. The GoV's CC-response spending has provided limited finance towards some tasks that are essential for building a climate-resilient low-carbon economy. For example, activities whose main objectives or desired results are addressing saline intrusion, improving water quality and supply, and improving resilience in fisheries and aquaculture have received little attention, and only a very small part of the budgets in the five ministries has been dedicated to concrete mitigation such as low-carbon energy generation and energy efficiency measures.

Only a small proportion of CC-response spending has been allocated to Scientific, Technological, and Societal Capacity (ST), and Policy and Governance (PG), each of which is fundamental for creating the enabling environment for CCD activities. While ST accounts for 9 percent, PG accounts for only 2 percent of CC-spending. Most of the work under ST and PG is carried out under MONRE's relatively small budget, with 61 percent supporting ST and nearly the remainder of the budget focused on PG, with only a very minor part aimed at CCD tasks in water management.

CC-response spending from the three studied provinces (An Giang, Bac Ninh, and Quang Nam) reflects the same trends found at the ministerial level. Primary emphasis by these provinces has been on CCD activities and less so on ST and PG. This is consistent with the relative limited capacity at the provincial level and the need for central and sectoral inputs on policy and scientific support.

Two provinces (Bac Ninh and Quang Nam) have allocated a significant amount of their budgets towards CC-response (4 percent each), while An Giang has only devoted 1 percent. However, allocations for climate change activities for all of the three provinces have increased at a faster average annual rate than their total budgets.

Financing of the recurrent budget is essential as it funds mitigation response as well as Scientific, Technological and Social Capacity and Policy and Governance activities.

The GoV's CC-response spending is dominated by investments (92 percent), while recurrent spending is much lower; though recurrent spending has increased as a share of overall spending in recent years. Most mitigation activities are funded through recurrent spending, and though overall recurrent spending saw a slight decrease in the period from 2010 to 2013, the overall share dedicated to mitigation tasks grew from 7 percent to 22 percent of the recurrent spending. MOIT's CC-response financing—though not large—is mostly funded under the recurrent budget with a focus on energy efficiency activities.

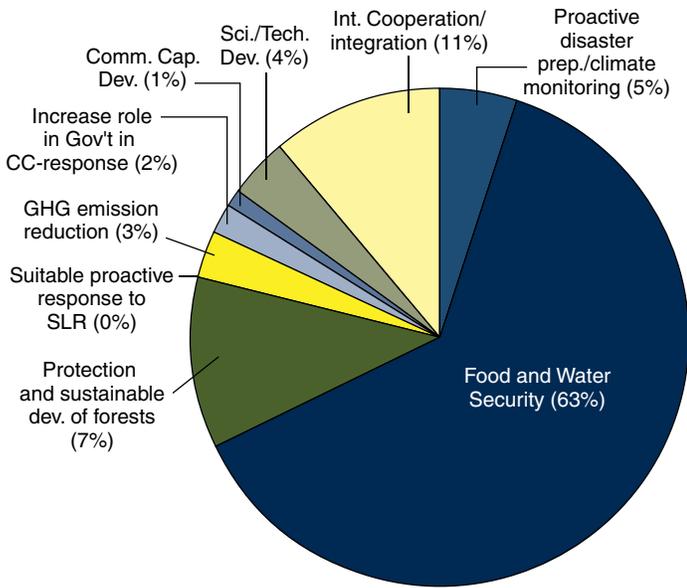
ST and PG activities are important as they support enabling activities that build capacity for CCD implementation. 94 percent of financed ST activities are projects and programs that develop science and technology as a foundation for policy formulation, impact assessment, and the ongoing identification of appropriate climate change adaptation and mitigation measures. The very small portion of CC-response expenditure dedicated to PG activities predominantly financing the development of action and sectoral plans.

The NTP-RCC has played a significant role in the recurrent budget. It has provided strong technical inputs to Vietnam's CC-response by supporting mostly recurrent spending (about 40 percent) that proactively targets activities to improve the country's enabling environment and capacity to deliver CC-response investment. About 51 percent of the NTP-RCC expenditure is directed towards developing ST, and about 31 percent directed at PG.

CC-response spending is not fully aligned with NCCS and VGGS policy objectives.

CC-response expenditure is primarily targeted towards the NCCS and VGGS objectives of "food and water security" (63 percent) and "sustainable infrastructure" (74 percent), while other NCCS and VGGS objectives remain underfunded or not funded at all. In particular, PG activities that support adaptation and mitigation policy instruments and a number of CCD tasks such as coastal and river protection, saline intrusion, and improved water quality and supply remain underfunded.

Total climate change expenditures (investment and recurrent) by NCCS strategic objectives (2010–2012 implemented, 2013 budgeted by constant price 2010 VND billion)



Overall, about 17 percent of CC-response financing was not capable of being tagged in accordance with VGGs policy objectives, confirming that direct financing towards some resilience activities is not captured within the VGGs policy framework, even though its main climate objective is to promote low-carbon green growth.

Initial allocations from the SP-RCC Financial Mechanism (FM) are largely covered under a select few NCCS objectives, and are generally not captured under the VGGs objectives as these mostly consist of adaptation activities. The FM, created in 2010 to finance CC-response projects under a set of criteria adopted by the Prime Minister in 2011 has thus far financed activities with an emphasis on improving the resilience of coastal areas and riverbanks. Only about

6 percent of financing from allocated projects is captured under the VGGs; all directed to the “development of sustainable infrastructure for transportation, energy, irrigation and urban works.” Given that the FM has been identified as a financing source for the implementation of the newly launched Green Growth Action Plan (GGAP), there is a significant need to review selection criteria and the review processes (under Decision No. 1719/QĐ-TTg dated October 4, 2011) and the guidance to implement this FM (under joint inter-ministerial Circular No. 03/TTLB-BTNMT-BTC-BKHDT dated March 5, 2013) for project selection under the FM to better align its objectives with the GGAP.

Development partner funding plays an important role in financing CC-response.

Official development assistance (ODA) for CC-response has risen strongly over the past decade. Vietnam has mobilized its own resources for CC-response, but Development Partner (DP) assistance has contributed about 31 percent of total CC-response expenditure. While the main emphasis has been to support CCD activities, both loan and grant assistance show a relative increase in PG activities. A significant amount of DP resources are also being directed towards State Owned Enterprises (SOE) for climate change related tasks, particularly for energy efficiency and renewable energy (about VND 10,000 billion for 2010–2013).

The NTP-RCC serves as a good example of leverage ODA to support Vietnam’s CC-response. The NTP-RCC was catalyzed by DP funding through the state budget. It serves a specific important role as it has given considerable emphasis to enabling activities supporting mainstreaming of climate action and capacity development; 51 percent of its expenditure is directed towards developing ST as a foundation for the GoV’s CC-response agenda.

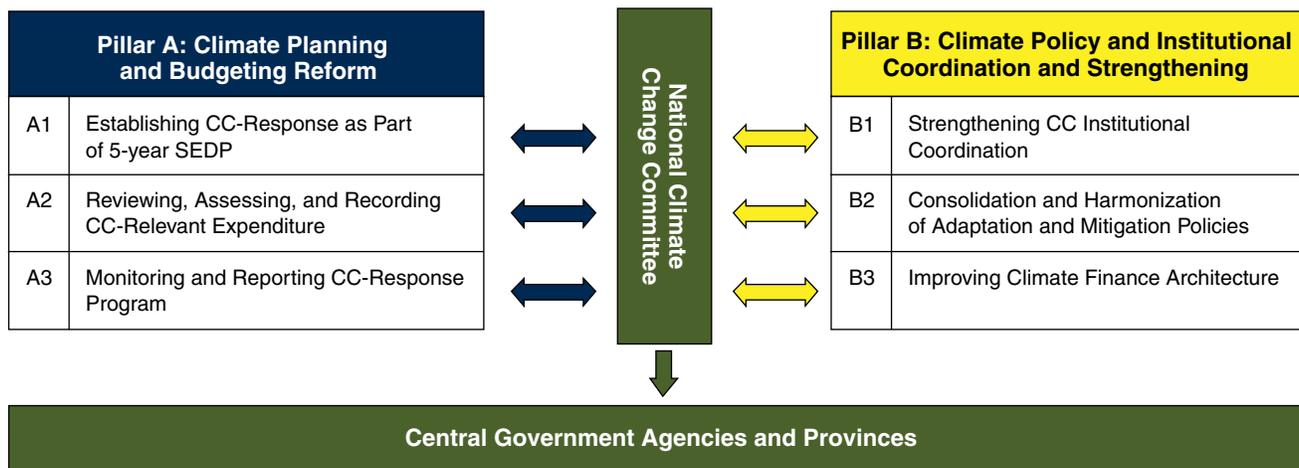


RECOMMENDATIONS FOR MOVING FORWARD

The recommendations of the CPEIR aim to assist the GoV enhance its CC-response by improving alignment of policies, plans and financing to achieve climate change adaptation and mitigation goals, and by better mobilizing, allocating and using resources to increase scale and effectiveness.

The following recommendations are underpinned by the findings and the analyses of the CPEIR and, together with its proposed Action Plan, are based on a framework that is organized around two pillars: (a) climate planning and budgeting reform, and (b) climate policy and institutional strengthening & coordination. Each pillar

includes a set of components, objectives and underlying activities to guide implementation of the proposed Action Plan and help the GoV improve its CC-response. Effective cross-sectoral engagement is central to the whole effort; as such, the two pillars are connected by a strong coordination and support body.



PILLAR A: CLIMATE PLANNING AND BUDGETING REFORM

A major effort is needed to establish CC-response as a central element of the forthcoming five-year Socio Economic Development Plan.

Improving forward planning of the national climate change frameworks through the 2016–2020 SEDP is essential to establish the strategic direction for CC-response plans and expenditure. Mainstreaming CC-response into sectoral and provincial programs can have a major effect on the GoV's CC-response. It will also further uncover the CC-response potential in each of the major sectors. This will facilitate the development of detailed guidelines for each ministry and province on the approach to be taken in the preparation of action plans and CC-relevant projects and programs for the 5-year and annual plans and budget submissions. The SEDP process also provides an opportunity to review and establish joint activities to develop multi-sector and landscape and area-based planning and

projects to address high-priority vulnerable regions and issues. To effectively introduce CC-responses into the 2016–2020 SEDP, it is critical that MPI and MONRE build on the key findings of this CPEIR, particularly with regard to mainstreaming CC-response into sectoral and provincial programs, which can have a major effect on the CC-response.

Building capacity to review, assess, prioritize, appraise and record climate change expenditure and green growth relevant expenditure will help the GoV to manage its CC-response program and strengthen channels for financing the response.

Establishing a policy-based classification of all CC-response expenditures and strengthening procedures to assess and appraise its relevance to climate change adaptation and mitigation objectives will enable stronger integration of the CC-response into the planning and budgeting cycle. The CPEIR demonstrates how the Typology of Climate Change Response Expenditures (TCCRE) developed for the expenditure

analysis can be used to assess the CC-relevance of plans and programs as well as help review and guide the screening, prioritization and management of CC-response policies. Refinement of, and training for, the TCCRE is critical to enable mainstreaming CC-response and Green Growth by all line ministries and provinces into the SEDP planning and budgeting process. In particular, the adopting of a refined TCCRE would allow the Government to:

1. Provide a regular, comprehensive overview of the distribution of total spending on the CC-response, including alignment with country climate change and green growth strategies, across line ministries and provinces;
2. Facilitate closer cooperation between levels of government and between the GoV and development partners;
3. Establish accountability for use of funds and achievement of results relative to CC-response objectives; and, as a result;
4. Strengthen channels for financing Vietnam's CC-response and guide resource mobilization from domestic and international sources.

Enhanced use and strengthening of climate reporting are necessary to progressively ensure improvement in the effectiveness of the delivery of CC-response spending.

Effective reporting is essential to CC-response policy credibility. The GoV should regularly prepare and release a Climate Report to show how CC-response expenditure has been spent, and give a broad assessment of achievement against the stated objectives. Such a report should be considered as an essential component of climate change policy implementation. The availability of regular and timely data on CC-response expenditures, through the application of the TCCRE, would greatly enhance the relevance and significance of the report and would buttress political and administrative control and direction of the overall CC-response program. Over time, reports should become more comprehensive, including assessments from all sectors and provinces to fully reflect policy developments and achievements in relation to the GoV's adaptation and mitigation goals. Furthermore, the Treasury and Budget Management Information System (TABMIS) can help incorporate all climate change relevant projects in the State Budget, and can use its accounting, reporting, and bank reconciliation facilities to track spending and ensure full financial accountability of all transactions processed through the system. As such, the pilot work on channeling ODA through TABMIS that is in place for the National Target Programs should be accelerated to all DP programs.

The GoV should review its current capacity, and speed up the development of a monitoring and evaluation (M&E) system for its CC-response and development of strategic key performance indicators (KPIs) to assess impact. Designing

an M&E system for climate change is a complex process due to the crosscutting nature of CC-responses. However, a cohesive M&E system can be initiated with an early emphasis on capacity enhancements and a focus on strategically important indicators at all levels of implementation. In the long term an effective M&E system will require sustained effort, supported by MPI and MONRE. M&E on CC-response spending is currently obstructed by limited definition of project objectives and a lack of verifiable KPIs, and compounded by highly decentralized management of many national CC-response programs. Effective and strategic M&E is essential to CC-response accountability and long-term planning. Combined with the further implementation of the TCCRE, progressive implementation of an M&E support system will help address these issues.

PILLAR B: CLIMATE POLICY AND INSTITUTIONAL COORDINATION AND STRENGTHENING

Strengthening the role of the NCCC for policy coordination and priority setting between adaptation and mitigation policies will help enhance linkages to the planning and budget cycle.

The role of the NCCC will be vital in the oversight of the NCCS, VGGS and other climate-related programs to ensure that they are coordinated and their implementation is harmonized. Harmonizing priorities across key adaptation and mitigation policies and programs and linking these with the budget and planning cycle is essential for setting priorities. It will require significant strengthening of the NCCC's oversight role so it can better assist with synchronization of overall program and project priority setting mechanisms, and ensure strengthened alignment between financing mechanisms, budgeting, and delivery of mitigation and adaptation activities.

Strengthening the information flow to the NCCC on the achievement of policy objectives, complemented by a harmonized M&E system, can reduce the risk of fragmentation, improve targeting of resources and maximize mitigation and adaptation benefits. Enhanced information flow and coordinating mechanisms will also help to ensure that all relevant information is provided to key ministries and agencies. The NCCC's role should therefore be significantly strengthened. Setting up appropriate technical capacity, combined with strengthened high-level coordination, should help set priorities at a technical and evidence-based level in all program activities, as well as allow for high-level assessment of the overall balance of the CC-response program (with scientific support from the VPCC), combined with identification of technical and financial gaps. Strengthening the capacity of the NCCC Standing Office (SO) is necessary to ensure the implementation of a harmonized

M&E system that is linked to the planning and budget cycle and covers the range of Vietnam's CC-response. The SO represents a vital link in channeling high-quality, verified and succinct information to the NCCC.

Coordinated implementation of adaptation and mitigation policy responses is needed.

Climate change adaptation planning, financing, and policy implementation need improvement to effectively respond to growing climate change risks. The significant work done on climate change scenarios, as well as on risks and vulnerabilities, should be extended to all relevant sectors and provinces in order to identify and take action against climate change-related vulnerability. This process should be institutionalized to ensure that ongoing resilience building is aligned with revised versions of the climate change scenarios as they are generated. Both climate-related vulnerability and DRRM responses across a number of line ministries cover adaptation responses, but a more effective response to vulnerability should be instigated to increase alignment of adaptation and DRRM approaches both in higher-level policy objectives as well as in institutional coordination. Adaptation and DRRM teams should jointly develop more integrated vulnerability assessments and link project-level M&E systems to higher-level assessment against adaptation indicators. This should lead to a more comprehensive yet practical M&E system built on international practices in a locally tailored way. Finally, better design standards are an important part of the CC-response, and would lead to improved appraisal of investments. Raising design standards to meet both adaptation and mitigation objectives should be emphasized in SEDP discussions with agencies involved in construction activities.

Implementation of mitigation policy should be evidence-based and linked to global efforts. Mitigation involves complex policy issues that will be resolved progressively. For the GoV to meet its demonstrated commitment to low-carbon growth, a national Monitoring, Reporting, and Verification (MRV) system needs to be developed to identify, track, and report on trends in GHG emissions. Further, mitigation policies should link with global and national action on GHG emissions abatement and green growth targets. Key tasks for implementing mitigation policy are to: (i) review current mitigation activities and develop consolidated mitigation targets for post-2020 and an implementation roadmap for low-carbon development options; and (ii) establish a consistent fiscal policy framework to encourage reduction of fossil fuel use. The GoV's policy and management of energy SOEs is also crucial and should be reviewed given that they execute the bulk of energy investment and sale of energy to the public. In addition, the role of REDD+ as part of an overall coherent framework for mitigation needs to be determined.

Strengthening Vietnam's climate finance architecture would allow coordination and mobilization of resources for CC-response activities and identification of key policy and fiscal risks and gaps.

The climate financial architecture should be strengthened and unified as a result of stronger planning and budgeting, strategic M&E development, and more effective inter-ministerial coordination. This should provide a basis for identifying policy and financial gaps and overlaps. Rather than a multitude of programs and strategies competing for available funds, it should be possible to review the budget result and the Climate Report to narrow the scope of financing mechanisms to more specific targets and sources of funds. The existence of a more comprehensive mechanism will, in itself, help to attract funding sources and provide a basis for strengthening and designing suitable financing mechanisms. As such, the financing framework should be harmonized to focus clearly on policy implementation goals in climate change adaptation and mitigation, and to strengthen or establish appropriate mechanisms for financing which are linked directly to these goals.

To make the above recommendations a reality, steps need to be taken in the form of the finalization of a national action plan, with emphasis on immediate actions to establish a basic CC-response platform in support of the SEDP. The GoV should take specific steps to implement the CPEIR recommendations on a pilot basis (with the entities that have already been involved in the CPEIR). These steps, which are detailed in the report, should be initiated immediately as part of the upcoming annual and five-year 2016–2020 SEDP planning and budgeting cycle.

