

Vietnam Carbon Market Development Emission Trading System Piloting and Simulation



Concept Note | 12 Oct 2022

The project is part of a program of ETP's interventions aimed at the development of a carbon market in Vietnam in cooperation with the Ministry of Natural Resources and Environment (MONRE) and Ministry of Finance (MOF). The ultimate goal of these interventions is to support Vietnam to establish a well functioning carbon market and carbon trade exchange by 2027. The domestic carbon trade exchange will be linked to a new framework through [Article 6 of the Paris Agreement](#) and align the country's policy with its climate commitments.

Under this project, the first-ever Emission Trading System (ETS) training and simulation will be developed and implemented. It will provide practical knowledge and experience among the large pollution sources (LPSs), financial institutions, carbon trade companies, governmental authorities, and the potential market participants in the ETS. Overall, this support will serve as a necessary readiness measure to set the foundation and provide the experience and policy recommendations for the design and operation of an ETS in Vietnam. This intervention, together with other planned technical assistance activities by ETP for MONRE and MOF will enable the Government to establish the carbon market in Vietnam by 2027.

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[Annex 1. Background Information](#)

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I. Introduction

1. The Southeast Asia Energy Transition Partnership ([ETP](#)) brings together governments and philanthropies to work with partner countries in the region. ETP supports the transition towards modern energy systems that can simultaneously ensure economic growth, energy security, and environmental sustainability. To contribute to the achievement of the UN's Sustainable Development Goals (SDGs) and the Paris Climate Agreement objectives, ETP works in Southeast Asia, with a focus on three priority countries, namely Indonesia, the Philippines, and Vietnam. ETP's strategy is built around four inter-related pillars of strategic engagement that are squarely aligned to address the barriers to energy transition. These are (i) policy alignment with climate commitments, (ii) de-risking energy efficiency and renewable energy investments, (iii) extending smart grids, and (iv) expanding knowledge and awareness building.

II. Project Details

A. Rationale and Impact

2. Following up the country's net-zero commitment by 2050 at COP26, the government of Vietnam issued decrees, circulars, and policies related to greenhouse gas emission reduction and domestic carbon market development to promote the implementation of the net-zero goal by 2050. Given the fact that developing a carbon market is indispensable for Vietnam to successfully achieve its net-zero emissions target by 2050, it is necessary to understand how the ETS works, assess its impacts on the industries and economy, and discuss the most applicable design of the ETS. Pilot modelling and simulation for ETS with the participation of key energy-intensive entities shall provide the Government of Vietnam with a clear view and quantification of the ETS's impacts on the key industries and the whole economy. Therefore, it enables the Government of Vietnam to formulate an adequate legal framework and policies to ensure the effectiveness of the future ETS.
3. ETP is working with MONRE and MOF to support the development of the carbon market in Vietnam. With MONRE, ETP will support the Department of Climate Change (DCC) to: pilot and model ETS simulation, carbon pricing design, pilot voluntary labelling program and assessment of the opportunities to link the domestic ETS with the international ETS. With MOF, ETP will support the Legal Department identifying the legal, financial and infrastructure gaps for the carbon trade exchange development and fulfilling the gaps through a series of follow-up technical assistance and capacity building activities.
4. The ETP's support shall provide the key beneficiaries, including MONRE, MOF, MOIT, State Bank of Vietnam and Stock Exchange Commission and the private sector (industries tentatively identified in the Decision 01/2022/QD-TTg Dated 18/01/2022 on Promulgating the list of sectors, greenhouse gas-emitting establishments subject to greenhouse gas inventory), a clear vision of the ETS's impacts on different energy-intensive entities, recommending a legal framework and institutional mechanism for designing phases of the future ETS. A better understanding of ETS

and its impacts shall also encourage industries to transform from high-carbon technology to low-carbon technology in their processes and gradually reduce their dependence on fossil fuels.

B. Objectives

5. The Project aims to provide a pilot ETS simulation tool and learning-by-doing platform for different ETS participants and players to raise their awareness of carbon pricing. In addition, based on the ETS simulation results, the Project will develop concrete policy recommendations for designing an ETS in Vietnam based on the analysis of the lessons learnt and impacts of the ETS operation on energy transition. The simulation shall directly support the roll out of domestic ETS as a carbon pricing instrument in 2027.

C. Project Component and Outputs

6. The following activities shall be delivered in the project, as detailed in the ToR (Annex 2):
 - Task 1: Preparation of Inception Report and Project Work Plan
 - Task 2: Organising an Inception Workshop
 - Task 3: Conducting an analysis, surveys and consultation events on readiness and awareness of enterprises and facilities on GHG emission/mitigation and carbon market.
 - Task 4: Developing a detailed stakeholder mapping and engagement plan.
 - Task 5: Providing a carbon simulation tool tailor-made for Vietnam.
 - Task 6: Developing a web-based carbon simulation platform
 - Task 7: Organising a series of ETS simulation trainings/workshops/forums.
 - Task 8: Planning a carbon market master class for key government officials to learn and exchange governance knowledge and experience of ETS. The participants from Government agencies tentatively include MOF, MONRE, MOIT and State Bank of Vietnam.
 - Task 9: A technical report with policy recommendations for ETS in Vietnam. ETS operation manual is enclosed as an annex.
 - Task 10: Conducting a final report and final workshop

D. Project Timeline

7. The Project is planned for 18 months from 2022 to 2024. The actual project timeline will be presented by the consultant and agreed upon in the Inception Report. The timeline of the Project is shown in Terms of Reference (TOR) for the consultant's services.

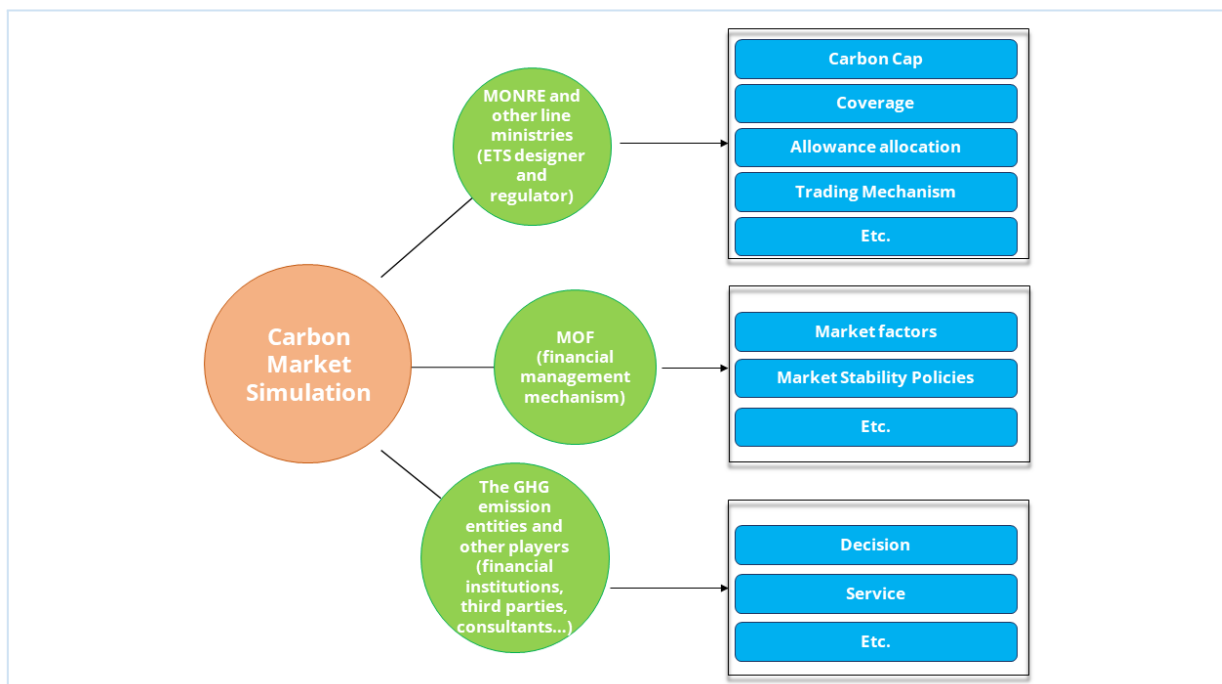
E. Implementation Arrangements

8. The procurement method of Request for Proposals (RFP) will be employed. This RFP will be published on the UN Global Marketplace website (UNGM) for 21 days, upon which an evaluation panel, including the required expertise, will review and select the related bids. After internal approval by the UNOPS contracts committee, this process will result in a contract for services to the selected bidder.

III. Stakeholders and Donor Activities

9. The project will impact the following stakeholders:
 - i. **MONRE, MOF** are the direct beneficiaries of the ETP’s support. The two ministries can strengthen their knowledge of ETS functions and the steps involved in the design process through the simulation. Simulations can also expose policymakers to typical stakeholder concerns or interests and highlight trade-offs in the design process as policy recommendations for developing the future ETS. The simulation results could provide deep and practical experiences for MOF to adopt and manage any market shocks as well as provide suitable market stability intervention policies. ETP’s support to the ministries and private sector shall contribute to the Government’s efforts to achieve climate change targets in the Paris Agreement and meet the net-zero emission commitment by 2050.
 - ii. **The Private sector and potential market participants in the future ETS (eg. financial institutions, third verification parties) and the public:** Through the simulations and platform, they gain knowledge of the ETS operations, its potential impacts and opportunities for their businesses. Businesses will learn how to factor a carbon price into their business strategies. Simulations aims to encourage companies to invest early in emission reduction and build a broader awareness of the need for mitigation and trading strategies. The activity helps raise public demand for regulations and policies to achieve net-zero emission targets by 2050.

Figure 1: Expected Beneficiaries of the Project's activities



10. Other donors' activities in carbon market:

Below is the list of interventions relevant to the carbon market implemented by the development partners in Vietnam in response to the government's requests.

Organisation Name	Topic and Detailed Activity	Timeline
Government of the Federal Republic of Germany - German Agency for International Cooperation – GIZ	The project under "Component 4 Green fiscal for sustainable and inclusive growth" under the "Macro-economic reform/green growth program: - The Project strengthens the coherence of Vietnam's economic policies, eg.green economic policies, green fiscal policies, credit policies, banking and green public financial management.	2012-present
World Bank	The Vietnam Partnership for Market Readiness Project (VNPMR) The main objective of the project is to strengthen the capacity of Vietnam to generate carbon credits and participate in international carbon credit trading activities under Article 6 discussion/negotiation of the Paris Agreement. The key activities include capacity building to develop carbon pricing methodologies through supporting the development of building blocks of market-based instruments (MBIs), and supporting the readiness for piloting the selected MBIs in the steel and solid waste sectors.	2014 - 2020
World Bank	The Vietnam Partnership for Market Implementation Project (VNPMI) The objective is to support the Government with the development and application of a National Crediting Program and ETS and enhance expertise and capacity for their implementation. The project phases include one on ETS: <ul style="list-style-type: none"> • Support to the development of legal and technical foundations and enabling activities to introduce domestic ETS in the industry sector and potentially power sector. However, the project is expected to be operational in late 2023, until when government is seeking other resources to support ETS; • Support for pilot voluntary domestic trading schemes in steel, cement production and thermal power sectors and the detailed design for mandatory domestic ETS. • Support for implementation of mandatory domestic trading schemes in the steel, cement production and thermal power sectors and detailed design for mandatory domestic ETS. 	Since 2018 the Project has not been approved by the Government of Vietnam according to Decree 114.
USAID	Public Financial Management Project Focus on research, assessment and recommendations of the financial mechanism to the establishment and operation of carbon market in Vietnam	2022 - declined by the MOF
ADB	Article 6 Support Facility (A6SF) The A6SF provides technical assistance to Vietnam through policy development and capacity building support. As part of this support, ADB will help Vietnam to review its policy framework and develop	2020 - 2021

	recommendations to develop its domestic carbon market and to operationalize Article 6.	
UNDP	Assessment of applicability of carbon projects under requirement of Article 6 of Paris Agreement and Vietnam NDC contribution	Under preparation - to be launched in 2023
The Government of Singapore	The MOU on Carbon Credits Collaboration signed with Singapore. The MOU signals Singapore’s and Vietnam’s commitment to collaborate on carbon credit pilot projects which would support both countries in meeting their climate targets. To implement the pilot projects, both countries will also develop modalities and procedures to enable the transfer of correspondingly adjusted carbon credits that are generated.	Launched October 2022

IV. Results Based Monitoring Framework and Risks

A. Results Based Monitoring Framework

11. The Results of the Project are monitored through the following Framework in Table 2. All reports will update the achievement of the indicators.

Table 2. Monitoring and Evaluation Framework

ETP Outcome	Project Output(s)	Indicator	Target	Data Source and Means of Verification
<p>Impact: Contributions to meet the Paris Climate Goals expressed in Vietnam's Nationally Determined Contribution of 43.6% GHG reduction against BAU by 2030, JETP targets with peak emissions of 170MtCO₂e and 240MtCO₂e by 2030 and 2035 respectively and Energy Efficiency and energy saving of 7% against BAU by 2030.</p> <ul style="list-style-type: none"> • Disincentivize carbon production in Vietnam and support with the development of Vietnam's uptake of The Paris Agreement's Article 6 • Establishment of a well functioning carbon market and carbon trade exchange, thus aligning the country's policy with its climate commitments and achieving NDC targets • All necessary stakeholders are empowered with the information, knowledge, guidance and tools to enact ETS in Vietnam. • Carbon market and the carbon trade exchange are established by 2027 in Vietnam. • Legal framework for the carbon market management, operation and monitoring is in place by the end of 2025 and the market is ready for a 2-year trial operation period. • The concept of the carbon market as a source of financing for energy transition and GHG emission reduction is well communicated to the government officials, enterprises and people. 				
<p>Long-Term Outcome: Externality cost built into large pollution sources, forcing a change in BAU practices and thus resulting in a reduction of GHGs</p>				
<p>ETP Pillar .1. Strengthened RE and EE policy enabling environment</p>	<p>Output 1: Development of web-based carbon simulation platform</p>	<p>Indicator 1: Operational ETS Simulation Platform tailor-made for Vietnam</p>	<p>Target 1: Accepted and approved platform operational</p>	<p>Letter of acceptance from MONRE, Project</p>

	Output 4: Policy recommendations for ETS in Vietnam.	Indicator 4: # policy recommendations	Target 4: Full set into order for ETS to become operational within Policy	Documentation, Attendee lists.
ETP Pillar 4: Increased development of and accessibility to RE/EE knowledge	Output 2: ETS simulation trainings Output 3: Carbon market master class design	Indicator 2: # of participants trained and certified Indicator 3: # of participants	Target 2: 200 Target 3: 20	Letter of acceptance from MONRE, Project Documentation, Attendee lists.

E. Risks and Mitigation Measures

- The ETP team and the MONRE team had discussions on the technical assistance activities and confirmed that there is no risk of overlap with activities implemented by other donors in Vietnam. On the other hand, during the project design and development stage, ETP and MOF will work closely to ensure that the Project addresses the needs of MOF and is in line with the Government's regulations. The two teams will jointly provide proper justifications to any questions from the relevant authorities, securing the Project's timely approval.