

Vietnam Carbon Trade Exchange Development Assessment of Country's Readiness and Design for Carbon Trade Exchange



Concept Note | 3 March 2023

The Technical Assistance is an intervention among a series of ETP's support to Ministries of Finance (MOF) and Natural Resources and Environment (MONRE) in the development of the carbon market in Vietnam. In this technical assistance, ETP, in a close cooperation with MOF and relevant government agencies, will conduct assessments and consultations with relevant governmental authorities, international development agencies, exchange and financial institutions, potential market makers and players and other key stakeholders to evaluate the existing legal, institutional and infrastructure conditions of Vietnam and to identify the gaps to be fulfilled for development of the carbon market and carbon trade exchange (CTX) in Vietnam. The appropriate legal, institutional and technical design solutions, which are developed based on international experience and the understanding of the country's context, shall be recommended to the government of Vietnam to facilitate the full legal framework for CTX by 2025 and its physical operation by 2027.

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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.

III. Project Details

A. Rationale and Impact

2. Vietnam's swift economic expansion and increasing energy requirements have resulted in a considerable surge in greenhouse gas (GHG) emissions, leading to the country having the second-highest air pollution levels in Southeast Asia as of 2019¹. To achieve its climate and development goals, it is crucial for Vietnam to establish a carbon trade exchange (CTX), which is widely recognized as a valuable tool in mitigating climate change². The CTX enables organisations to trade credits they have earned from emission reduction projects, incentivizing them to invest in emissions reductions. Additionally, it can attract foreign investment, foster the development of green technologies, and support sustainable projects. Overall, the CTX can aid Vietnam in transitioning to a low-carbon economy, reaching its emission reduction targets, and providing opportunities for sustainable development.
3. In response to [the request from the Ministry of Finance](#), this technical assistance project has been initiated as part of a series of interventions by ETP. Its aim is to provide support in the development of the legal framework and financial mechanism required for the establishment and operation of the Carbon Trade Exchange (CTX) in Vietnam by 2025. Furthermore, the project seeks to provide support to implicated ministries in the initial preparations for the physical

¹ IQAir. 2022. *Air quality in Vietnam*. <https://www.iqair.com/vietnam>

² According to the World Bank's State and Trends of Carbon Pricing 2022 report, there are over 68 carbon pricing initiatives globally, covering 23% of global greenhouse gas emissions. The report also highlights that carbon pricing has the potential to play a key role in achieving net-zero targets by 2050, as countries increasingly adopt measures to put a price on carbon.

operation of the CTX by 2027. This project aligns with the objectives of the government's Resolution No. 54/NQ-CP³ and the Minister of Finance's Decision No.1134/QD-BTC⁴.

4. The project will be implemented in close coordination and cooperation with the relevant ministries, including MONRE, MOIT, and the international development agencies, financial institutions, the potential market participants and key stakeholders to benefit and the activities and the benefits of the project.
5. The project incorporates gender inclusion and considerations in design and implementation of the project activities.

B. Objectives

6. This project's objective is to provide the Ministry of Finance a comprehensive understanding of the country's existing relevant legal, institutional framework and infrastructure conditions and the gaps to be fulfilled for the establishment and operation of the CTX. Lessons learnt from developed CTX models in other countries, particularly countries having similar starting points and conditions as Vietnam, shall be analysed to recommend an appropriate institutional and technical solution roadmap for Vietnam.

C. Outputs and Specific Activities

7. The following activities shall be delivered in the project, as detailed in Terms of Reference):

Task 1: Preparing an Inception Report and Project WorkPlan.

Task 2: Organizing Inception Workshop.

Task 3: Review of international experiences and assessment of the legal, institutional and infrastructure requirements for establishment and operation of the CTX.

Task 4: Review of the national context and assessment of existing relevant regulations, institutions and infrastructure for establishment and operation of the CTX.

Task 5: Analysis of legal, institutional and infrastructure gaps for establishment and operation of CTX in Vietnam and recommended solutions based on international experience and the country's context.

Task 6: Stakeholder engagement and consultation.

Task 7: Design a carbon market master class for government officials to learn and exchange governance knowledge and experience of CTX.

Task 8: Final report and final workshop.

³ The Resolution No. 54/NQ-CP was issued by the Vietnamese Government in April 2021 and outlines the Action Plan to Implement the National Assembly's Resolution on the Economic Restructuring Plan for the 2021-2025 period.

⁴ Decision No.1134/QD-BTC assigns the Legal Department to establish a carbon trade exchange using blockchain technology and to develop a financial management mechanism for the operation of the carbon market.

D. Timeline for the Project

8. The Project is planned for 6 months in 2023. 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.

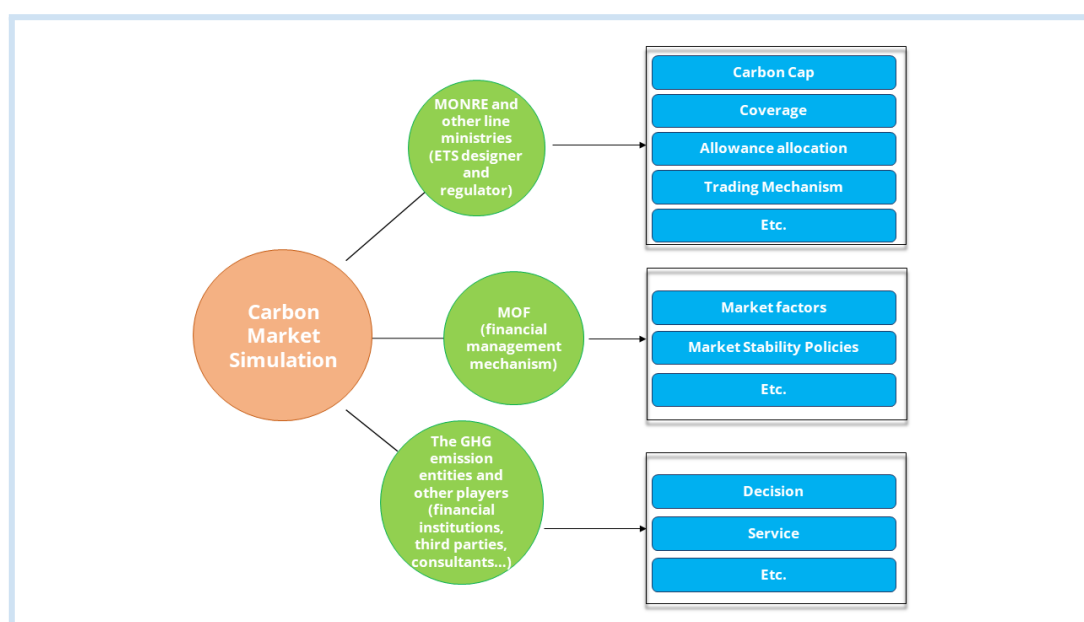
IV. Implementation Arrangements

9. 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.

V. Stakeholders and Donor Activities

10. The project will impact the following stakeholders:
 - i. **MOF** is the direct beneficiary of the ETP's support. The study will provide evidence-based recommendations for the MOF to decide how their legal framework, financial management mechanism and infrastructure should be designed for the establishment and operation of the CTX. The ETP's support shall contribute to the Government's efforts to achieve climate change targets in the Paris Agreement and to realise national green growth action plans and strategies, particularly the net-zero emission by 2050 commitment.
 - ii. **MONRE**, as the coordinating ministry responsible for carbon pricing and tax policies as well as GHG MRV and verifying GHG caps of the large source polluters shall be consulted and coordinated during the project implementation to ensure the alignment of policies and activities between the two ministries and among the relevant stakeholders.
 - iii. **Line ministries, industries and potential market participants** The Ministry of Industry and Trade (MOIT), Ministry of Construction (MOC), the Ministry of Agriculture and Rural Development (MARD), the State Bank of Vietnam, private sector and potential market participants in the future ETS (financial institutions, third verification parties): shall be consulted during the course of the project to make sure that the recommended policies will harmonise benefit of relevant parties. The activity also helps raise public awareness to implement regulations, policies to achieve net-zero emission targets by 2050.

Figure 1: Expected Beneficiaries of the Project's activities



11. Donor Mapping: 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.

Table 1. Development Partner Activities in Related Areas

Organisation Name	Topic and Detailed Activity	Timeline
GIZ	This program aims to strengthen 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)	Since 2018 the Project has not been approved

	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. Outputs include legal and technical support for ETS in the industry sector, support for pilot voluntary domestic trading schemes in steel, cement production and thermal power sectors and the detailed design for mandatory domestic ETS.	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 recommendations to develop its domestic carbon market and to operationalize Article 6.	2020 - 2021
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

VI. Results Based Monitoring Framework and Risks

A. Results Based Monitoring Framework

12. 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
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. <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 The Ministry of Finance is provided with a comprehensive of policy gaps analysis, recommendations and a roadmap to realise an enabling legal framework for the carbon trade exchange operation and its effective and efficient financial management mechanism 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. 				
Long-Term Outcome: Externality cost built into large pollution sources, forcing a change in BAU practices and thus resulting in a reduction of GHGs				
ETP Pillar .1. Strengthened RE and EE policy enabling environment	Output 1: Legal gaps review and policy recommendations	Indicator 1: # recommendations for establishment of a carbon market and its operation and management	Target 1: 1 policy recommendation.	Project Documentation and MOF's adoption of the roadmap.

ETP Pillar 4: Increased development of and accessibility to RE/EE knowledge	Output 2: CTX Policy recommendations workshop Output 3: Carbon market master class design	Indicator 2: # of participants from ministries and relevant stakeholders Indicator 3: # of participants	Target 2: 70 Target 3: 20	Project Documentation, Attendee lists.
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B. Risks and Mitigation Measures

- The ETP team and the MOF team had discussions on the technical assistance activities and confirmed that there is no risk of overlapping 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.