

## ANNEX 1

### Vietnam Climate Public Expenditure Review (CPEP)

#### CONCEPT NOTE

#### – I. CONTEXT

**Vietnam has seen a dramatic decrease in poverty reduction, improvements in human development and an increase in economic growth over the past two decades. The country has also increased its Greenhouse Gas Emissions (GHG) during this time.** In the early 1990s, over 50% of the population in Vietnam was living under the poverty line, but the poverty rate has now fallen to 10 %. At the same time the country experienced rapid growth of over 7% on average and Vietnam to middle income status. Although still a relatively minor contributor to global greenhouse gas emissions (GHGs), the rate of emissions growth currently outstrips that of GDP growth. There is therefore considerable room for improvements for the efficient use of resources.

**Vietnam is among the countries most vulnerable to climate change.** Over the past decade, climate related disasters in Vietnam, particularly storms and floods have caused an average annual cost in damages of around 1.2 percent of GDP, with public investments in infrastructure roads, communication networks and drainage structures carrying a large share of these climate induced costs.<sup>1</sup> Natural disasters have also shown a high toll on human life, with 445 deaths caused on average by floods storms and in part by landslides over the past 10 years. The delta areas are significantly exposed to sea level rise and under current projections will face increased risk saline intrusion, flooding and coastal and riverbank erosion. This not only affects agricultural production but also settlements, industrial estates, ports and infrastructure. Impacts of sea level rise are aggravated by environmental degradation and land subsidence, which further contribute to the adaptation bill.

**The government of Vietnam views climate change as a very high priority in its policy agenda and has put in place a comprehensive policy response.** The current 5-year socio-economic development plan (SEDP) recognizes climate change as a significant threat to development and reaffirms commitments on improved natural resource and disaster risk management. The climate change related strategies/action plans include the National Target Program to Respond to Climate Change (NTP-RCC) 2008-2011, and 2012-2015 cycles, the 2011 National Climate Change Strategy (NCCS), the National Action Plan to Respond to Climate Change (NAPCC). The National Climate Change Committee (NCCC), chaired by the Prime Minister, was established in 2012.

**Vietnam has recently committed to working towards a low carbon economy, contributing to the global effort to reduce GHG emissions.** Vietnam contributed 1.637 Metric Tonnes of Carbon Dioxide Equivalent (MtCO<sub>2</sub>) per capita in 2009<sup>2</sup>, but the country is expected to triple total GHG emissions by 2030, relative to 2010.<sup>3</sup> To address this, the 2012 Vietnam Green Growth Strategy (VGGS) seeks to achieve more sustainable and higher quality growth through greater resource and energy efficiency and lower GHG

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1

Note these estimates do not include the economic loss to the private sector and households or cost created by heat waves and droughts.

2

<http://data.un.org/Data.aspx?d=MDG&f=seriesRowID:751>

3

emissions per unit of GDP. Embarking on a low carbon emission path will also allow the country to develop new emerging green sectors and to take advantage of opportunities for increased competitiveness and employment generation.

**Addressing climate change will require increased budgetary resources.** Infrastructure development will face greater need for climate proofing (e.g. roads, ports, flood control, electric power networks, drainage structures). On the mitigation side, additional public resources will be required to overcome market failures and resulting investment barriers (e.g. energy efficiency, renewable energy). Given budget constraints, there is a need to ensure, on the one hand, that climate change is adequately mainstreamed into national development planning, and that the climate change planning and the resources allocation processes are well aligned with Government priorities and, on the other hand, that line ministries have the capacity to implement and monitor adaptation and mitigation related publicly financed investment programs.

## – 2. OBJECTIVES AND EXPECTED OUTCOMES

**The overall goal of the CPEIR is to assist the Government of Vietnam to increase the efficiency of public resource allocation, utilization and implementation of Government's climate resilient and low-carbon development priorities.** A CPEIR is prepared jointly with the Government and is a tool for dialogue with the Ministry of Planning and Investment (MPI), Ministry of Natural Resources and Environment (MoNRE) in charge of the coordination of the CC agenda and Ministry of Finance (MOF) as well as the relevant sector ministries in the context of the utilization of climate change resources and budget requests and how well national priorities are being met. The CPEIR focuses on key Ministries and sectors, selected based on their importance for the climate change agenda.

### **Objectives**

The proposed CPER in Vietnam has the following objectives:

- To establish a classification of climate expenditure and assess options for tagging and tracking CC relevant expenditures in the budget
- To provide an overview and to analyse climate change expenditure through the selected channels for the period 2010-2013 with view to increasing the effective use and monitoring of resources
- To clarify to what extent climate change spending under the national budget is aligned with Government priorities and to identify gaps
- To assess the institutional set up and governance structures at national and local levels in Vietnam in order to improve planning mechanism for climate change mainstreaming and the effectiveness with which Vietnam's existing climate policies are implemented
- To review the national financial architectures with a view to improving capacity, and consolidating the set up, and reforming the fiduciary procedures for resources mobilization (e.g. capacity and procedures to meet international stringent accreditation criteria of the Adaptation Fund and Green Climate Fund).
- To review the fiscal policy framework in Vietnam as a tool for climate change mitigation and green growth and make recommendations drawing on international experience

### **Outcomes**

At the end of the study, the Government of Vietnam should be able to:

- Obtain a better overview of how resources for climate change are spent, and have obtained consensus on assessing, tracking and reporting of current CC related expenditures at selected Ministries and at the sub-national level
- Consider gaps identified by the study in the national (climate change) institutional structure that may prevent the government from an efficient implementation of climate change policies

- Consider opportunities to enhance institutional structure and budget procedures to mainstream climate change in programs and implementation, including improving the accountability over climate change spending
- Better understand the needs of capacity development, fiduciary procedure, and capacity building and the opportunities for Government to tap into global climate funds and aligning their use with national policy priorities
- Weigh options for, and uses of, fiscal policy instruments for addressing market failures, providing incentives, broadening the fiscal base and mobilising revenues to initiate the development of a green fiscal policy framework

### **Complementary work**

Following the CPER exercise, a costing of the envisaged roadmap for the VGGs with an emphasis on energy, agriculture and forestry could be envisaged. This would build on the low carbon assessment work conducted by the World Bank, in collaboration with CIEM, TDSI and IEVN, and other donors as well as the *Marginal Abatement Cost Curves* recently prepared by UNDP.

### – 3. ACTIVITIES

The CPER will consist of an institutional review and an expenditure review, which will be undertaken in parallel to inform the common goal of the CPER. The team will begin its activities by familiarizing itself with, and ensuring a comprehensive understanding of, Viet Nam's climate change policy priorities as identified in the NCCS, the Disaster Risk Management Strategy, the VGGs, as well as related Action Plans and relevant sectoral Master Plans and Provincial strategies and plans. It will subsequently undertake the following activities:

The first part of the **expenditure review** will focus on expenditures with mitigation and adaptation co-benefits included in Vietnam's State budget for the period 2010-2013 based on the programs identified, for example in the NCCS, NCCAP, VGGs, NTP-RCC and the Disaster Risk Management Strategy and related implementation plans. The review will also look at other relevant climate change programs in the investment budget at central and sub-national level but that are not included as a priority in Government's climate strategy. The assessment will focus on (i) the investment budget of three Ministries/Institutes (budgetary allocations and expenditures), (ii) the funding sources of the programs, and (iii) the level of donor resources. It should be noted that the scope of this analysis will depend on the quality of the available data.

This assessment will be complemented by a review of **public finance management** issues, focusing on the budget process (linkages between climate change planning and the national development planning and resource allocation processes), the implementation capacity of climate change relevant programs and the tracking, monitoring and reporting of these expenditures. Apart from the management of domestic resources, the review also examines the management and effectiveness of donor aid.

Fiscal policy is an important element in the climate change response and realigns incentives towards a low-carbon green transition. Fiscal policy can also help to generate sizeable revenues. This activity focuses on assessing the green fiscal policy framework, the uses and merits of individual fiscal policy instruments in the context of Viet Nam and makes recommendations on fiscal policy reform, identifying specific areas for further analysis.

The **institutional review** will include a comprehensive mapping of Vietnamese institutions involved in climate change, in order to provide an overview and identify gaps and overlaps in responsibilities related to climate change. This mapping will be followed by an assessment of these institutions' human resources and technical capabilities and an assessment of the role and responsibilities of sub-national units (provinces, districts and communes). In addition, the effective coordination between government units will be assessed (both at specific levels of government as well as between different levels) and overlaps and gaps identified.

The assessment will also draw on international experience in the Asia Pacific region on the institutional mechanisms for climate change response. Finally, the institutional review will focus on the institutional structure in relation to the international climate finance architecture and identify potential gaps to access climate funds.

Climate change financial architecture is an essential element in the climate change response. An appropriate financial architecture can help to mobilize and blend international and domestic finance and direct to those are in need and to align with prioritized policy actions. This activity focuses on assessing the current national climate finance and international experience with a view to make recommendations on structure, governance, human resources and fiduciary procedures for a suitable financial architecture in the context of Viet Nam.

#### – 4. SCOPE

The scope of CPER is defined as follows:

**Reference framework:** The CPER will assess specific expenditures against development objectives, expressed in national policies and strategies as detailed above.

**Sectors:** Given limited resources and time, both the institutional review and the expenditure review will focus on 3 key Ministries (Ministry of Natural Resources and Environment (MONRE), Ministry of Agriculture and Rural Development (MARD), and Ministry of Industry and Technology (MOIT) and 2-3 representative provinces (to be finally selected). Some of the research and specialized institutes attached to the Ministries are also included in the analysis (notably the Central Institute for Economic Management (CIEM), the Institute for Policy and Strategy of Natural Resources and Environment (IPSONRE), the Institute of Energy (IEVN), the Institute for Policy and Strategy for Agricultural Development (IPSARD),...).

**Type of expenditures:** The CPER will be based primarily on the investment budget included in the state budget at the central and, to the degree possible, at the local level. Financing of donor projects integrated in the State budget will be also part of the CPER assessment but not projects that are funded by external donors and managed outside the national budget (for example, projects funded under the Clean Technology Fund, the Global Environment Facility, the Global Facility for Disaster Risk Reduction).

Whether recurrent expenditures could be also included in the analysis will be determined at a later stage. The analysis will not cover expenditures managed by State Owned Enterprises (such as Electricity Company (EVN), irrigation companies, water supply,...). In addition, the CPER will not assess support to climate related activities (e.g. contingent liabilities, private investments through PPP and tax incentives).

**Period of the analysis:** The PEIR will review the period 2010-2013.

#### – 5. METHODOLOGY

The general methodology applied in the CPER, **consisting of a combination of quantitative and qualitative assessments**, has much in common with traditional public expenditure reviews. The expenditure review will draw upon a primary data collection at MPI, and other Ministries, institutions and two provinces. The budget data will be collected primarily at MPI and will then be extended to information available at other Ministries, institutions and agencies and complemented by recent studies. The data assessment will be complemented by a qualitative analysis, including consultations and a close involvement of the Ministries in the preparation and revision of the assessment.

Similarly to the expenditure review, the information for the institutional review will be collected through document reviews and consultations with government partners. At the local level short surveys will gather information of the level of climate change awareness.

A focal point of the assessment is the **identification of the CC related expenditures** which will be **based on two approaches**:

*Policy based definition of Government's key priorities for addressing climate change*: Government's strategies (NCCS, NCCAP, NTP-RCC, VGGS and others) will be assessed against the State Budget (notably the investment budget of selected Ministries). A main reference constitutes the Government's key strategic priority programs which are included in the NCCS, NCCAP and VGGS.

*Assessment of climate change related activities based on a typology of climate co-benefits*: To complement the assessment above, a closer look will be taken at the investment budget to identify activities with adaptation and mitigation co-benefits other than Government's key priority programs. As a guideline to identify climate co-benefits in the investment budget, a set of criteria will be used that were recently developed by the World Bank to identify climate related co-benefits in projects. The criteria will be used jointly with Government counterparts to assess the budget with an additional climate lens.

## – 6. PARTNERSHIPS AND INSTITUTIONAL ARRANGEMENTS

**MPI will be the lead agency** for this CPER in Vietnam. Under the overall guidance of a Vice Minister, the Department for Science, Education, Natural Resources and Environment (DSENRE) of MPI will coordinate, facilitate and ensure quality assurance of the process. MPI will set up an ad hoc inter-ministerial working group consisting of the member of the Climate Finance Task Force and other selected CPER Ministries for the exercise to ensure the mobilization and collaboration with the Ministries, MOF and MPI, as well as access to available information, guidance and quality assurance of the study.

DSENRE currently chairs a **Climate Finance Task Force** (CFTF), consisting of representatives of several Departments within MPI. For the CPER work, MPI will officially request other ministries to nominate new members to expand the CFTF for the purpose of the project. The expanded CFTF will support DESENRE in coordination and quality assurance of the CPER. The expanded CFTF will act as oversight and steering committee of the study.

Sub-national level work will be organised in two provinces. The **People's Committees and Provincial authorities** (DPIs, DONREs, etc) of these provinces will be approached by MPI for their participation in the CPER.

The CPER reflects an equal **partnership between UNDP and the World Bank**. The CPER will be conducted jointly by both donors, with the UNDP taking the lead on the Institutional review/climate change finance architecture and the World Bank on the expenditure/investment review. While both donors have conducted several CPERs in South East Asia and Africa, the joint CPER exercise in Vietnam constitutes a first and unique opportunity for both development partners to increase mutual learning experience and share lessons learned.

Working arrangement will also be created with the **development partners** supporting the SPRCC that will be invited to participate in the CPER. The donors of the SPRCC are considering the possible inclusion of the CPER in the policy matrix of the SPRCC, acknowledging its strategic importance. Moreover, the National Climate Change Committee (NCCC) and the planned National Committee for Aid Coordination, chaired by the Deputy Prime Minister, will provide further validation by government of the CPER.

## – 7. DISSEMINATION AND CONSULTATION

The CPER is a tool for dialogue and coordination between Ministries and other stakeholders. A CPER can help to improve this process by bringing various sectors together. Several partners have indicated a strong interest in the topic and in collaborating on this study. To ensure a strong involvement of the Government in

the CPER, various tools will be used to reflect Government's advice and ensure Ministries' buy-in:

1. A series of high-level policy dialogues will be held with senior government officials, together with several consultative workshops to discuss the analytical approach and progress of the study.
2. The two technical missions offer the opportunity to share the methodological approach with stakeholders involved in the preparation of the study and to ensure consensus building on the classification of CC related activities. This will be achieved through debriefings, workshops and a series of work sessions.
3. The existing coordination mechanisms, namely the Climate Finance Task force, will be responsible and involved to reach out to key stakeholders.
4. The final validation workshop with the participation of all stakeholders constitutes an opportunity to provide information and solicit comments and to obtain broad support from all stakeholders for better climate expenditure management and an improved climate governance framework. The final synthesis report will be used for information dissemination and will be available online for the general public.
5. Furthermore the UN led Climate Change donor working group as well as the SP-RCC goal 13 working group will serve as a platform to organize the meetings and to mobilize relevant actors.
6. Lessons from this activity will be shared with World Bank and UNDP staff members and other agencies, who are engaged in relevant work in and beyond the East Asia and Pacific. This will also include some joint knowledge management and dissemination efforts between the Bank and UNDP.

– **8. TEAM COMPOSITION:**

|                   |  |
|-------------------|--|
| Johan Kieft       | Technical Specialist on Climate Change and Sustainable Development (UNDP)        |
| Lai Xuan Dao      | Head of Sustainable Development Cluster (UNDP) (UNDP Task Team Leader)           |
| Koos Neefjes      | Policy Advisor – Climate change (UNDP)   |
| Tom Beloe         | Governance and Aid effectiveness Advisor (UNDP)                                  |
| Björn Surborg     | Institutional Analysis expert (UNDP Consultant )                                 |
| Phong Bui Hong    | Project Coordinator Sustainable Development and Climate Planning project (UNDP)  |
| Laura Altinger    | Senior Environmental Economist – Climate Change (World Bank Co-Task Team Leader) |
| Christophe Crepin | Environment Sector Leader (World Bank Co-Task Team Leader)                       |
| Sylke von Thadden | Public Finance expert (WB Consultant)  |

## – 9. TIME TABLE

It is expected that the study will take about 9 months from September 2012 until July 2013. Initial discussions about the study were held with the MPI during a July 2012 scoping mission, followed by an identification mission in September 2012 which agreed on the final methodology. The two teams (the WB and UNDP) would finalize for endorsement/agreement by MPI's leaders before the end of October 2012.

To complete the identification mission, MPI will organize a meeting with MONRE, MOF, MARD, and MOIT to get their support and engagement/commitments in the CPEIR. Initial assessment of available data/information is needed and confirmation on availability of needed data/information is required.

Two teams will then start working with the MPI and national consultants on the data collection and preparations for the first technical mission, including the kick-off workshop and the trip to the selected Provinces; to establish the selection criteria for the selection of Provinces and finalize selection; and to further engage the Ministries at the central level in the project. The next mission is scheduled for the first half of January 2013. The collection of data will be carried out over the period (November 2012 to April 2013) national investments/recurrent expenditure and some specific sectors, including the water, agriculture, forestry and energy sectors. It is planned to use the second/last technical mission in April to discuss the data as well as some first preliminary findings. It is planned to validate the results and recommendations during the final mission in June. The final report will be delivered to the Government in July 2013.

| <b>Time</b>                         | <b>Task / Phase</b>   |
|-------------------------------------|---|
| September, 2012                     | Identification mission (final preparations for implementation, assessing data availability)   |
| October/ November, 2012             | Agreement from MPI leaders and engagement/ commitments from MPI, MONRE, MOF, MARD, and MOIT.  |
| 1 <sup>st</sup> half January , 2013 | 1 <sup>st</sup> Technical mission (Half or full day kick-off workshop, data collection, visit to two provinces)   |
| Nov. 2012 –Apr. 2013                | Collection of budget data and documents   |
| Mid April, 2013                     | 2 <sup>nd</sup> Technical mission (Review of data collection and discussion of preliminary findings with MPI and Working Group, additional data collection as required, discussion of recommendations)<br><br>Preparation of the draft and joint review with Ministry |
| Early June                          | Final report (final validation workshop)  |