



**WORLD BANK CLIMATE AND CARBON FINANCE UNIT
CARBON PARTNERSHIP FACILITY
2016 ANNUAL MEETING**

VIETNAM ENERGY EFFICIENCY FOR INDUSTRY PROGRAM

- ◆ Industrial energy intensity context in Vietnam
- ◆ VEEIP objectives and its scope
- ◆ Key NMM features
- ◆ VEEIP implementation model
- ◆ Social and Environmental Aspects
- ◆ Key Risks and Mitigation Measures
- ◆ Program Preparation Schedule

VEEIP Objectives and Scope

- ◆ VEEIP will support EE improvement in the industrial sectors in Vietnam and contribute to GHG emission reductions.
- ◆ VEEIP will be designed as a part of the Vietnam EE Industrial Enterprises project (VEEIE) of the World Bank:
 - The VEEIE is a 5-year project comprising EE Investment Lending (USD 312 M) and TA (USD 1.7 M).
- ◆ VEEIP will provide result-based payments for emission reductions in the form of TA at the level of industrial enterprises, participating banks and the government (approx.€10-12 M expected in total):
 - Upon further discussion with MOIT, additional component may be added to leverage resources available to support implementation of the VEEIE.

VEEIP Contribution to EE Policy Development and Implementation

Industrial EE & Climate policies in Vietnam

1. Establishing energy intensity benchmarks
2. Energy audits for high intensity consumers
3. Improving performance tracking & enforcement

Vietnam EE Industrial Enterprises project (VEEIE)

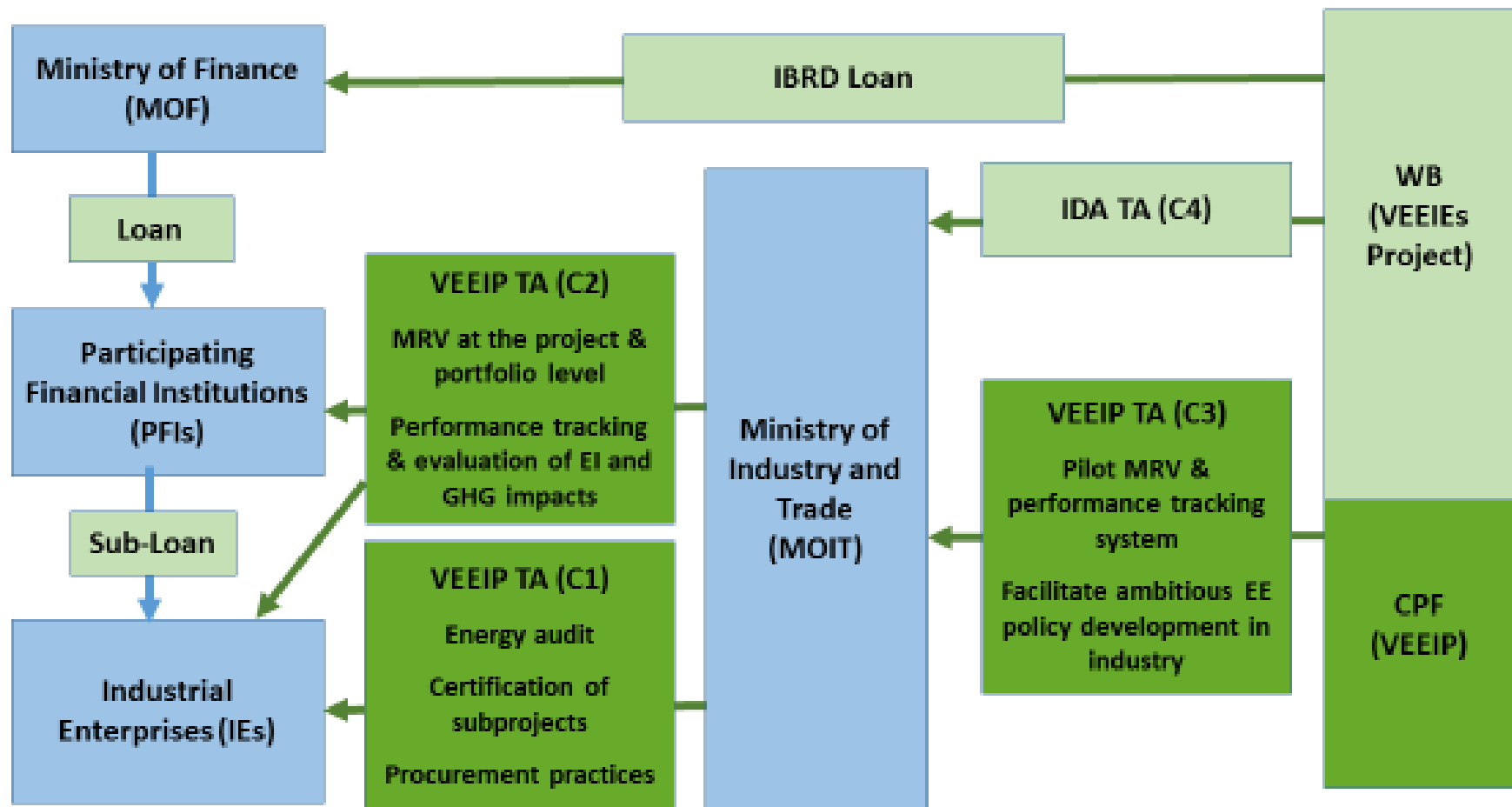
1. EE Investment Lending (USD 312 M)
2. TA & Capacity building for improving EE (USD 1.7 M)

Carbon Finance Project (VEEIP)

1. Improve the capacity of IEs to comply with design of EE measures;
2. Design and implement MRV and performance tracking systems within IEs & Banks;
3. Establish & pilot policy monitoring and performance tracking systems within the GOV.

Contribute to adoption of more ambitious policies through revealing enterprise-level data and creating monitoring & performance tracking systems

Components of the VEEIP



Key Features of the Crediting Approach

- ◆ Program objective and performance metrics are designed to contribute to the development and adoption of more ambitious sectoral EE policies in Vietnam.
- ◆ Baseline setting:
 - Set at level of the each participating enterprise;
 - Expressed in terms of energy intensity;
 - Baseline energy intensity based on the historical energy performance of industrial unit(s).
- ◆ Demonstration of the “own effort”:
 - Quantified as a share of energy intensity improvement from the baseline level;
 - Resulting ERs will be claimed by MOIT.
- ◆ Creditable ERs:
 - Calculated based on the energy efficiency improvement beyond the “own effort.”
- ◆ Expected ER volumes based on assumed achievable performance:
 - 5.5 MtCO₂e to 9.2 MtCO₂e between 2017 to 2021

1. Impact on the international competitiveness:

Buyer Participants' comment	WB's response
<p>Concerns on potential impacts of supporting sectors competing directly with the EU industry related to :</p> <ul style="list-style-type: none">• Imposition of "unilateral" additional costs to European industry,• Support for competing countries through CF programs.	<ul style="list-style-type: none">• The intended CPF component (currently assumed as € 10-12 M) is less than 1% of the overall investment needs and will not have any significant impact on the market.• During the preparation of the VEEIEs project, the WB did not receive any concerns from donor countries on the issues raised.• The VEEIP will contribute to the leveling of competition field by pulling up the EE requirements for the local and internationally exposed industries in Vietnam both through the policy-related support and through capacity building and awareness raising at the level of industrial enterprises.

2. International competitiveness and own effort of the targeted IEs:

Buyer Participants' comment	WB's response
<ul style="list-style-type: none">• Internationalization and competitiveness profile of possible target sectors.• Ambition of the own effort of the affected industries on top of the country's own effort.	<ul style="list-style-type: none">• Most energy intensive sectors in Vietnam are producing for domestic market with little internationalization.• The level of own effort by the targeted IE's will be further defined during the preparation of the VEEIP.• The eligibility requirements under considerations for the VEEIEs project (20% of minimum energy savings) are already relatively high compared to the average requirements for similar type of EE crediting lines (15%).• The VEEIP will require and support important additional efforts from the participating IEs (e.g., implementing comprehensive energy audits).

3. Baseline setting under the VEEIP:

Buyer Participants' comment	WB's response
<p>Importance to appropriately reflect the expected increase in GHG emissions in Vietnam:</p> <ul style="list-style-type: none">• Exceptional trend among countries in a similar phase of economic growth.	<ul style="list-style-type: none">• Conservative baselines for crediting will be defined during a more detailed design of the VEEIP.• Baseline will take into account relevant historical and expected GHG emission scenarios in industries in countries at a similar phase of economic growth (e.g., through benchmarking approach).

4. Exiting barriers to the implementation of EE measures:

Buyer Participants' comment	WB's response
<p>More fundamental issues that impede the uptake of EE improvements have to be considered as part of the discussion of EE measures for individual plants</p>	<ul style="list-style-type: none">• The general constraints to EE investments in the industrial sectors in Vietnam include:<ul style="list-style-type: none">a) low or subsidized energy pricing and a resulting relatively small share of energy costs in the operating costs for IEs/consumers,b) lack of institutional champions due to the fragmented nature of EE measures;c) limited financing for the up-front capital expenditure;d) lack of capacity to identify and develop EE projects. • In the communication with the donors, the team also identified cement sector specific issues. • All of these constraints and issues will be considered during the preparation of the VEEIP.

5. Rationale for CPF support:

Buyer Participants' comment	WB's response
<p>Rationale for the CPF support, taking into account the existing VEEIEs project and its relevant size</p>	<p>The VEEIP (currently assumed as € 10-12 M) will add up to IDA's grant component (\$ 1.7 M) available as a part of the VEEIEs Project. The carbon finance will help to achieve the following objectives:</p> <ul style="list-style-type: none"><li data-bbox="884 776 1885 1019">• To improve the capacity of industrial enterprises to comply with ex post design of EE measures, MRV requirements, including monitoring of GHG impacts of EE investments on the overall carbon footprint of their operations.<li data-bbox="884 1084 1808 1170">• To facilitate the GoV's adoption of more ambitious energy efficiency policies.

6. Components supported by the carbon finance:

Buyer Participants' comment	WB's response
<p>Additional components supported by the carbon finance that are not already covered by the VEEIEs project.</p>	<ul style="list-style-type: none">• The CPF carbon finance would cover the transaction costs as well as costs related to the creation of high-quality carbon assets, including:<ul style="list-style-type: none">• ex-ante costs for selection and design of EE measures;• operational costs related with monitoring of impacts of the EE measures and portfolio management, in particular at the level of PFIs; and• policy development costs at the level of the government to inform and incentivize more ambitious sectoral EE policy making.

7. Direct support to EE investment is not recommended:

Buyer Participants' comment	WB's response
Confirm that no carbon finance income will be used to support any direct EE investment.	<ul style="list-style-type: none"><li data-bbox="961 548 1940 643">• No carbon finance income will be used to support any direct EE investment.<li data-bbox="961 703 1940 846">• The proceeds of the carbon transaction is used for the MRV and additional TA which were not originally covered by the VEEIEs.

Program Preparation Schedule

- ◆ CPF Buyer Participant Program Note Review: **May 2016**
- ◆ Memorandum of Understanding signed: **June 2016**
- ◆ Finalization of draft Scaled-up Crediting Program Design Document: **December 2016**
- ◆ Signing of the Seller Participation Agreement: **January 2017**
- ◆ Completion of the Scaled-up Crediting Program Design Document/Arrangement of the validator/panel of experts to validate the PDD: **May 2017**
- ◆ Presentation for inclusion into the CPF Second Tranche Portfolio: **July 2017**
- ◆ Signing of the ERPA: **October 2017**