I. Project Context

Country Context

Vietnam has achieved some striking developmental successes. As noted in the recent Country Partnership Strategy (CPS), the poverty headcount ratio has fallen from 58 percent in 1993 to 14.5 percent in 2008. Vietnam has already attained five of its ten original Vietnam Development Goal (based on Millennium Development Goals or MDGs) targets and is well on the way to attaining two more by 2015. At the end of 2010, Vietnam's per capita income was US$ 1,130, placing it firmly in the ranks of middle-income countries. Strong growth continues: in 2010 its GDP grew by 6.8%.

Industrial development is the driver of Vietnam’s growth. As a percentage of overall national GDP, industry has risen from 22.7% in 1990 to 41.1% in 2010 (representing a value of about $42.5 billion). Rapid industrial development in Vietnam has at the same time generated serious pollution issues and put tremendous pressures on its natural resources. The World Bank’s 2010 Vietnam Development Report on Natural Resources Management concluded that the poor management of natural resources and continued environmental degradation are likely to jeopardize the pace, quality and sustainability of the country’s economic growth.

II. Sectoral and Institutional Context

A key strategy of industrial development in Vietnam is the development of Industrial Zones (IZs), which contribute about 30% of national industrial outputs; in 2010, the aggregate turnover of IZs nationwide reached US$20.4 billion equivalent. In the same year, IZs attracted 35% of national foreign direct investment (FDI) and created 1.6 million jobs directly and 1.8 million more indirectly. The Ministry of Planning and Investment (MPI) is designated as the lead ministry for the development of large scale industrial zones to attract external and internal investment. Industrial zones have also been established to relocate polluting industries away from urban centers. Most provinces have set up an Industrial Zone Management Board (IZMB) to manage the development of IZs. Industrial Zone Developers (IZDs) build and manage IZs. They are state-owned enterprises (with public ownership held by provinces), private companies, or public/private joint ventures. The majority fall into the third category. As of December 2011, MPI had approved the establishment of 283 IZs. Of these, 180 covering around 58,300 hectares, have started operations. There is keen competition between provinces to establish IZs. In some cases supply has exceeded demand and serviced space lies unused.

IZs have been required by law since 2009 to provide sewer networks and centralized effluent treatment plants (CETPs) to collect and treat wastewater discharged by their tenants. IZDs set limits on the quality and quantity of effluent that they will accept in order to protect the treatment processes and equipment. If needed, tenants are required to provide and operate pre-treatment facilities to bring their effluent down to the acceptable level. Not all IZs have CETPs yet. According to a report by MPI, only about 60% of the 174 operating IZs had CETPs. There is also scope for improving the operation and management of effluent collection and treatment facilities. In some cases not all tenants are connected and in others the plants are not being properly operated. Because of the intense competition between provinces to attract investors to IZs, there is strong pressure on provincial authorities to relax environmental standards and for IZDs to minimize the fees and charges made to investors/IZ tenants for infrastructure services. Consequently, IZDs endeavor to minimize the cost of wastewater collection and treatment services. Sometimes this results in CETP designs that are sub-optimal (treatment units are under-sized and lower quality equipment is utilized) and ineffective operation of the plants (some plants are reportedly only operated intermittently to reduce costs). IZDs also report difficulties in mobilizing affordable long term finance for collection and treatment systems.

As a result, it is estimated that IZs discharge about one million cubic meters of untreated wastewater per day directly to receiving water bodies, about 70% of the total industrial effluent discharge. Among others, the Nhu-De Day River in the north and Dong Nai River in the south, that pass through the country’s most industrialized provinces, are recognized as the two most heavily polluted rivers. Water quality tests reveal that many environmental parameters exceed national standards. In fact, there have been frequent occurrences of severe industrial wastewater pollution exposed in the national media. In some cases these incidents have triggered protests by local communities. Water pollution issues are a major focus of public complaints to the National Assembly. Clearly, these high pollution levels have severe implications for human health and natural ecosystems and are also becoming a constraint to urban development and the sustainability and future growth of industry and agriculture.
As in many emerging middle-income countries Vietnam has not yet found a way to accommodate the costs of the environmental externalities of industrial production, which are largely a result of regulatory failures, including: (a) policies that promote industrial growth without sufficient regard to the environmental consequences; (b) limited resources in terms of trained personnel and funding for environmental monitoring; (c) insufficient enforcement because of inadequate resources and corruption; (d) low penalties for noncompliance; and (e) limited public disclosure of industrial pollution information. Poor compliance, ineffective enforcement and inadequate provision for wastewater treatment, negatively reinforce each other to exacerbate the problem. It is important that this cycle be broken.

The Ministry of Natural Resources and Environment (MONRE) is responsible for regulating industrial effluents and water quality. It has the authority by law to close or relocate out-of-compliance industrial polluters. At the provincial level, Departments of Natural Resources and Environment (DONREs) are responsible for implementing the national policies and regulations promulgated by MONRE. Recognizing the need to improve environmental performance of IZs, the Government is taking action to address the above noted policy and regulatory failures. On policy and institutional issues the national government is initiating a thorough review of the existing regulations on IZ environmental management. Key issues to be addressed in this review are: institutional responsibilities for environmental management in IZs, technical standards needed to support environmental monitoring and supervision, levels of penalties for non-compliance or violations, and wider disclosure of pollution information. To improve monitoring, a Master Plan of National Environment Quality and Natural Resources Monitoring was approved in 2007 to, amongst other things, develop a national water quality monitoring network. On inspection and enforcement, the Environment Police at the central and provincial levels have been actively pursuing pollution violations at IZs in recent years.

The Government has also made efforts to promote concessional financing for CETP construction. CETP financing is eligible for subsidized state investment credit support through the Vietnam Development Bank. The state-managed Vietnam Environmental Protection Fund (VEPF) also makes concessional loans available for wastewater management in industrial zones. Some provinces also provide incentives. For example Ho Chi Minh City (HCMC) Peoples’ Committee has provided an interest rate subsidy for CETP construction for IZs in its jurisdiction. The Government has also listed the treatment of wastewater in IZs as a priority area for concessional on-lending of foreign loans. While the intent of these initiatives is encouraging, they have had a very limited effect because of the restrictive nature and limited funding availability of these programs, and the intense competition to access concessional finance. The provision of wastewater collection and treatment facilities continues to be hampered by lack of available affordable credit.

Recognizing that pollution is a very serious development issue with significant impacts on public health and industrial and agricultural production the Government has requested the World Bank’s support to help develop an effective multi-faceted pollution management strategy to address wastewater pollution from its industrial zones.

Other Donor Initiatives. The Energy Efficiency and Cleaner Production Program of the International Finance Corporation (IFC) was launched in 2010 to promote cleaner production in industrial firms. The Canadian International Development Agency (CIDA) is funding a Vietnam Provincial Environmental Governance Project. This provides a Canadian $15 million grant to improve the implementation capacity of MONRE and DONREs in eight provinces. The Japan International Cooperation Agency (JICA) initiated a three year (2010-2013) technical assistance (TA) project, Strengthening Capacity of Water Environmental Management, to improve capacity of MONRE and DONREs in five provinces on water environmental management issues. Finally, UNIDO is supporting MPI to prepare a GEF grant to minimize GHG (green house gases) emissions and the better management of key industrial sectors’ hazardous waste and wastewater. The IFC and UNIDO GEF activities are related to industrial production technologies and sector-specific. The CIDA and JICA initiatives are focusing on human capacity building at the national level but most important at the provincial level, and will not provide actual support for the development of the country’s environmental monitoring infrastructure.

III. Project Development Objectives
The project development objective is to improve compliance with industrial wastewater treatment regulations in four of the most industrialized provinces in Vietnam.

IV. Project Description
Component Name
Environmental Policy, Monitoring and Enforcement
Performance-based CETP Financing
Implementation Support.

V. Financing (in USD Million)

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VI. Implementation
MPI, which is responsible for IZ development, is the line ministry designated by the Government to be the primary executing agency for the proposed project. A Project Steering Committee (PSC) will be established consisting of key representatives from MPI, the Ministry of Finance (MOF), MONRE, and the four project provinces. It will provide: (a) guidance on implementation, especially on cross-cutting issues which require consensus from the various agencies involved in the project; (b) review and monitor implementation progress; and (c) ensure that policy and institutional reforms proposed under the project are consistent with the country’s overall agenda. The PSC will meet once or twice a year and will be chaired by a Vice-Minister of MPI.

A Project Management Unit (PMU) will be established in MPI’s Industrial Zone Management Department. The MPI PMU will facilitate overall
project coordination with other implementing agencies and provinces including MONRE, MOF, and VEPF and stakeholders including DPIs, DONREs, IZMBs, IZDs, and the Environment Police in the four participating provinces. It will be responsible for preparing and consolidating project documents, including budget and procurement plans for approvals as required by the government and the WB, financial management, M&E, and reporting. The MPI PMU will also be the implementing agency for Component 3.

A second PMU will be established at the Vietnam Environment Administration (VEA) of MONRE. The MONRE PMU is the implementing agency for Component 1. They will be responsible for coordinating with the MPI PMU, and the DONREs and Environment Police at the provincial level. The MONRE PMU will also help review and ensure that activities undertaken under Component 3 are technically sound for the achievement of the project’s development objectives.

Under Component 2, VEPF will set up the third PMU. Through the PMU, VEPF will solicit and appraise investment proposals for collection and treatment facilities from eligible IZs of the four project provinces based on procedures and criteria agreed with MPI, VEPF and the World Bank. Acting as an agent of MOF, VEPF will sign sub-loan agreements with selected IZs, authorize payments, monitor proper implementation of CETP investments, and collect loan repayments. VEPF will also establish a designated account into which project funds will be disbursed.

At each project province, a project focal point will be designated by provincial authorities to be responsible for overall implementation and coordination at the provincial level, primarily involving DPIs and DONREs. MOUs between the MONRE PMU and the four project provinces will be signed to clearly define procedures and conditions of the project at the provincial level.

The Environment Police of the four project provinces will receive project support for portable environmental monitoring equipment for on-site environmental inspection tasks and project-specific inspection and enforcement actions on IZs in the four project provinces. In addition, the Environment Police Department and Environment Police in the four project provinces will be participating in project-supported capacity building activities (such as training on environmental regulations, monitoring, inspection and enforcement) organized under Component 3. Its monitoring and enforcement data on IZs will be exchanged with DONRE and shared with MPI and MONRE PMUs. The project’s support to the Environment Police will be consistent with the recently released Guidelines on World Bank Support to Criminal Justice Activities.

VII. Safeguard Policies (including public consultation)

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VIII. Contact point

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