

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

VIETNAM: FCPF REDD+ READINESS GRANT

Report No.: 73607

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| | |
|---|---|
| Project Name | <i>Vietnam – FCPF REDD+ Readiness Grant</i> |
| Region | <i>EAP</i> |
| Country | <i>Vietnam</i> |
| Sector | <i>EASVS</i> |
| Lending Instrument | <i>TF Grant</i> |
| Project ID | <i>P124584</i> |
| Recipient | <i>Vietnam</i> |
| Implementing Agency | <i>Vietnam REDD+ Office, VN Forest, MARD</i> |
| Environmental Screening Category | []A []B []C []FI []TBD (to be determined) |
| Date PID Prepared | <i>August 30, 2012</i> |
| Estimated Date of Appraisal Completion | <i>September 25, 2012</i> |
| Estimated Date of Participants Committee Assessment of Readiness Package | <i>December 30, 2014</i> |
| Concept Review Decision | Following the review of the concept, the decision was taken to proceed with the preparation of the Grant. |

I. Introduction and Context

A. Contry Context

1. Vietnam is considered a major development „success story“. With sustained high rates of growth over the past decade, Vietnam’s Gross National Income per capita reached US\$1,010 in 2009, enabling the country to become a Middle Income Country (MIC). Over the past two decades, Vietnam’s poverty rate has fallen dramatically from 58% in 1990 to an estimated 29% in 2000 and to around 13.5% in 2010. Despite these impressive gains, a large number of Vietnamese households remain vulnerable to livelihood or income disruption due to natural hazards, macro-economic instability, and/or growing pressures on the country’s natural resource base.

2. Although Vietnam may not be a globally significant emitter of GHGs, it emits non-negligible quantities and these are growing every year. Projections show a considerable growth in GHG emissions in Vietnam, reaching around 516 MtCO₂e by 2030.¹ In 2000 the agriculture

¹ The projected total emissions are from the three principle emitting sectors: energy, LULUCF and agriculture. These data do not include emissions from industrial processes and waste, which was in total 6.1% in 1994 and 11.8% in 2000. It was projected that by 2010, the energy sector would replace agriculture as the highest CO₂

and forest sectors accounted for 43.1% of GHG emissions proportion the share of which has decreased considerably, in particular due to the rapid expansion in the energy sector. The quantity of emission by the agriculture and forest sectors, however, kept increasing (52.4 MtCO₂e and 65.1 MtCO₂e in 1994 and 2000 respectively)².

3. In the forest sector, according to government statistics, there is a net increase in forest cover, implying that this sector actually reduces net carbon emissions. However, as highlighted in the R-PP there are clearly defined pockets of deforestation and high potential for increasing forest carbon stocks through restoration of large tracts of degraded forest lands. An internal assessment exploring possible „no regrets“ mitigation options for Vietnam, which was carried out by the World Bank in 2010 ranked REDD+ as one of the best options when considering the financial benefits of the investments and the public benefits in the context of sustainable development.³

B. Sectoral and Institutional Context

Sectoral Context

4. Much of Vietnam’s forest cover was lost in the last century, declining from an estimated 43% in 1943 to 20% in 1993. More recently Vietnam has made considerable efforts and investment to increase overall forest cover. According to official statistics, the actual forest area in Vietnam has increased to 13.6 million ha in 2009 (about 39% of the land area) from 9.2 million ha in 1992. Monitoring data on forest cover are difficult to collect and analyze so these values and trends need to be interpreted with caution. Although an aggregate increase in forest cover is reported, this conceals high levels of deforestation in certain parts of the country, as well as widespread deterioration in forest quality. In terms of what is driving deforestation and forest degradation, this is highlighted in the R-PP as primarily the conversion of forests for agricultural purposes, unsustainable (and sometimes illegal) logging activities, infrastructure development, and man-made forest fires. Root causes include issues such as demographic changes, inequality and poverty, public policies, as well as broader questions of governance and social change and development choices.

5. The National Forestry Strategy 2006-2020 defines the country’s strategic approach to the forestry sector. Vietnam’s overall objectives for the forest sector are outlined in the recent Decision approving the National Forest Protection and Development Plan for the period 2011-2020: “(i) to well manage the available forests; use forest resources and land availability planned for forestry in an effective and sustainable manner; (ii) to increase the forest cover to 42 - 43% by 2015 and 44 - 45% by 2020 respectively; increase the productivity, quality and values of forests; restructure the sector towards increasing added values; basically meeting with demands

emissions sector - UNDP (2011), CLIMATE CHANGE FACT SHEET: Greenhouse gas emissions and options for mitigation in Vietnam, and the UN’s responses, Hanoi.

² Vietnam 2nd National Communication Note on Emissions.

³ World Bank (2011), Climate-Resilient Development in Vietnam: Strategic Directions for the World Bank, World Bank Vietnam Country Office, Hanoi.

for timber and forest products for domestic consumption and export; and (iii) to generate more jobs, improve incomes for forest-dependent residents, contributing to hunger elimination and poverty reduction, ensuring security and national defense”⁴. Recent Party resolutions have also stressed the need to conserve watershed and coastal-protection forests and accelerate the reform of the State Forest Enterprises (SFEs) as well as stressing a greater role and responsibility of local communities for managing the forests.

6. The National Forestry Strategy did not explicitly mention REDD+ because it was developed in 2006 and the REDD+ concept emerged subsequently. However, the more recent National Forest Protection and Development Plan 2011-2020 notes the need to “*actively establish bilateral ad multi-lateral cooperation with regional and international forestry organizations. Continue implementing international agreements in forestry to which Viet Nam is a signatory including [...] REDD+*”. Forestry in general and REDD+ in particular appear as important elements of both the Government’s National Target Program to Respond to Climate Change and in the emerging Green Growth Strategy⁵.

7. There have been growing efforts to identify and introduce innovative mechanisms to finance the forest sector. A national system of transfer payments to subsidize reforestation was implemented through the recently completed “Five Million Hectares Reforestation Program” (also known as the “661 program”, for the Decree 661 that authorized the program). Vietnam is the first country in Southeast Asia to pilot a scheme for Payments for Forestry Ecological Services (PFES) as promoted under Decision 380/QD-TTg in 2008. The focus has been on capturing the value of watershed protection services. Based on the success of the pilots, a government decree on a nation-wide PFES policy (Decree 99/ND-CP) came into force in December 2010 to replicate this scheme to other provinces, in which carbon sequestration and stabilization and reducing emissions are legally defined as forest environmental services. The emergence of REDD+ as a new financial mechanism to support forestry and forestry-dependent communities is now attracting great interest in Vietnam.

Institutional Context

8. In 2008, the Prime Minister of Vietnam approved the National Targeted Program to Respond to Climate Change (NTP-RCC) (Decision No. 158/QD-TTg dated December 2, 2008) in which REDD+ is one component. The National Steering Committee for the NTP-RCC consists of representatives from line ministries and is chaired by the Prime Minister. Under the NTP-RCC structure, the Vietnam Forestry Administration (VNFOREST, based in MARD) is authorized to be the focal agency for the REDD+ component and is responsible for coordinating

⁴ Decision No. 57/Q -TTg Hanoi, 9th January 2012 on approval of the Forest Protection and Development Plan for the period 2011-2020.

⁵ The National Targeted Program to Respond to Climate Change (NTP-RCC) was approved in 2008 and is under the authority of MONRE; the follow-on National Strategy on Climate Change was approved in December 2011 through Decision No. 2139/QD-TTg. The Ministry of Planning and Investment (MPI) is taking the lead on the development of the Green Growth Strategy.

all efforts and activities among government agencies, private organizations, NGOs and international development partners for REDD+ implementation.

9. In early January 2011, the Prime Minister requested MARD to: a) take lead in preparation of the NRAP; b) strengthen institutional and organizational arrangements for REDD+ implementation; c) establish a National REDD+ Steering Committee (NRSC) in order to mobilize technical and financial support from the international donor community and strengthen cooperation among government agencies at central and local levels (Official letter 282/VPCP-HTQT of the Government Office).

10. Under authorization of the Prime Minister, the Minister of MARD signed Decision 39/QĐ-BNN-TCCB dated January 7, 2011 on the establishment of the NRSC. Members of the NRSC are representatives from relevant ministries and ministerial level agencies including the Office of the Government; Ministry of Natural Resources and the Environment (National Focal Point of UNFCCC and Kyoto Protocol); Ministry of Planning and Investment; Ministry of Finance; Ministry of Science and Technology; Ministry of Foreign Affairs; and National Committee for Ethnic Minorities. The NRSC is chaired by MARD's Minister. The Decision stipulates that at the Steering Committee's meetings, the Chairperson could invite representatives from relevant ministries, local authorities, relevant stakeholders and international development partners to participate. The VRO was also formed in January 2011 to serve as the standing office for the NRSC and is placed at VNFOREST within MARD. VRO is the implementing agency for the FCPF Grant.

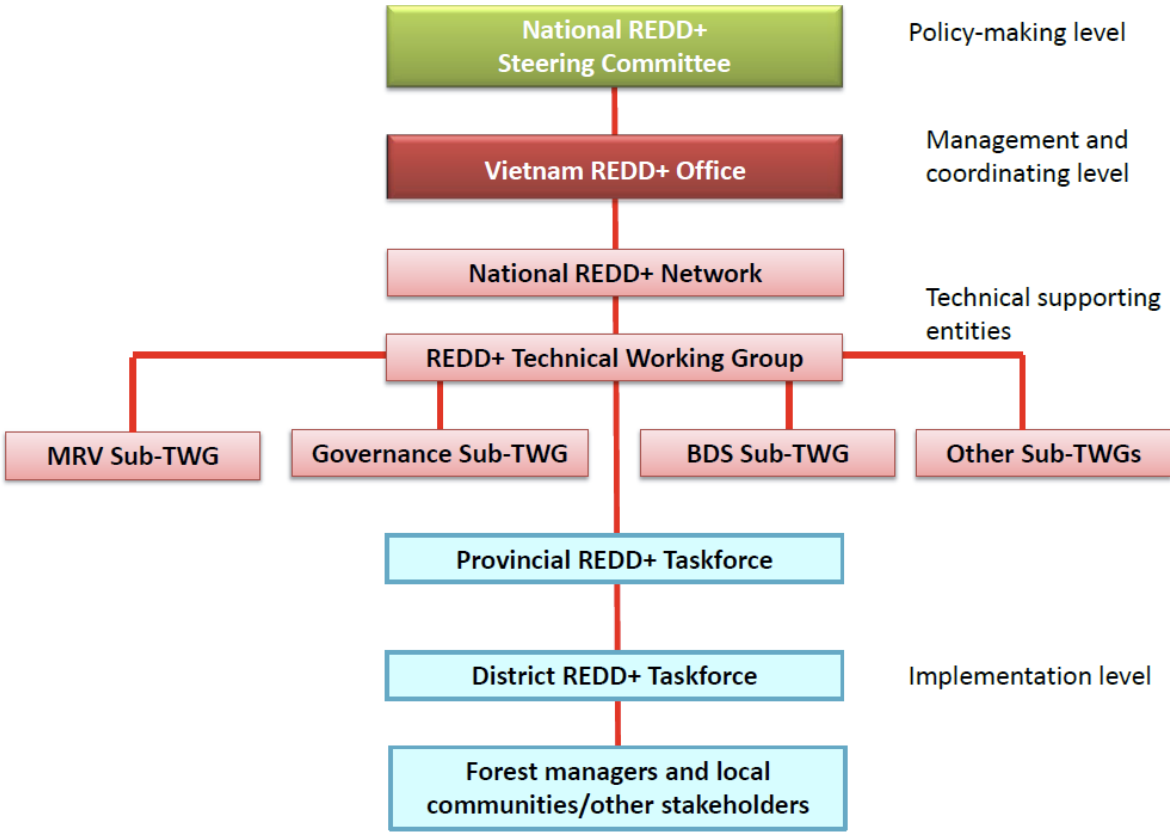
11. The situation on REDD+ has evolved quickly and substantially in Vietnam. Following the formulation of the R-PP (which was largely written in 2010), the Government on June 27, 2012 approved a comprehensive NRAP⁶, the preparation of which was informed by the FCPF's R-PP and by inputs from UN-REDD. This document lays out a comprehensive and coherent vision of the future of REDD+ in Vietnam and the steps that are needed to make that vision a reality. It builds on the earlier R-PP and the lessons learned from the large number of ongoing REDD+ studies and pilots, such as those under UN-REDD. Although this will provide the overall framework for moving forward on REDD+ in Vietnam, further detailed work will be required to help steer many of the aspects outlined within the Program as well as for the development of its detailed implementation guidelines.

12. In order to share information and experiences of the different agencies and organizations working on REDD+ in Vietnam and in an effort to heighten awareness and integrate the activities of different Government Ministries and Agencies, the Ministry of Agriculture and Rural Development (MARD) introduced Decision No. 2614/QĐ-BNN- LN in 2009. This allowed for the establishment in September 2009 of the National REDD+ Network and the

⁶ The National Targeted Program to Respond to Climate Change (NTP-RCC) was approved in 2008 and is under the authority of MONRE; the follow-on National Strategy on Climate Change was approved in December 2011 through Decision No. 2139/QĐ-TTg. The Ministry of Planning and Investment (MPI) is taking the lead on the development of the Green Growth Strategy.

REDD+ TWG. At the first REDD+ Network meeting it was agreed that the Network is chaired by the Vice Minister of the MARD, who is also the Director General of the VNFOREST, and co-chaired by an international development partner on a rotation basis. The REDD+ TWG provides technical advice and recommendations to the national REDD+ Network. As of April 2012, six (6) Sub-TWGs have been established: (i) Local Implementation of REDD+; (ii) Measurement, Reporting and Verification (MRV); (iii) REDD+ Financing and Benefit Distribution Systems (BDS); (iv) REDD+ Governance; (v) Private Sector Engagement; and (vi) Safeguards. All six are currently operational and meeting on a regular basis. The thematic sub-TWGs will continue to be critical fora for information exchange to help inform the overall Program and to learn from lessons and experiences from sub-national implementation.

Figure 1: Institutional framework for REDD+ implementation



Relationship to CPS

13. Vietnam’s REDD+ agenda and its participation in the FCPF are fully in line with the World Bank Country Partnership Strategy (CPS). The World Bank CPS for FY12 to FY16 is aligned to Vietnam’s Socio-Economic Development Strategy (SEDS) 2010-2020 which gives attention to structural reforms, environmental sustainability, social equity, and emerging issues of macroeconomic stability. These objectives are in turn the organizing pillars of the CPS: (i)

competitiveness; (ii) environmental and natural resources sustainability; and (iii) opportunity; with governance, gender and resilience being the cross-cutting themes.

14. The REDD+ readiness program supports all pillars and cross cutting themes of the CPS. Priorities for the Bank under the CPS for FY12-16 that align with the readiness program include: better understanding of poverty and piloting new instruments to reach the poor; empowering ethnic minorities in the development processes; reducing vulnerability to adverse shocks, including natural and climatic hazards and diseases; SFCs/SFEs reform; and support focusing on a range of challenges related to land, forestry, and water resources.

15. The World Bank has a long history of working in the forestry sector in Vietnam. This includes support to the forest plantation and certification, sustainable forest management and forest governance, biodiversity conservation, piloting community forest co-management and co-benefits, and the reform of State Forest Companies. The section on illegal logging in the R-PP draws on a report by the World Bank (2010) on Forest Law Enforcement and Governance.

16. The FCPF grant is also consistent with the Bank's strategy on climate change in Vietnam as highlighted in the document "Climate-Resilient Development in Vietnam: Strategic Directions for the World Bank". REDD+ was identified as having the second highest technical potential for mitigation by the year 2015. It is, therefore, recognized as a priority mitigation option for Vietnam. The CPS also highlights the importance of climate change as a development challenge and elevates the attention to be given to mitigation and adaptation in the Bank's development work.

II. Proposed Development Objective(s)

17. The objective of the proposed World Bank/FCPF REDD+ Readiness engagement in Vietnam is *to support Vietnam to become ready for future REDD+ implementation by preparing the key elements, systems and policies needed in a socially and environmentally sound manner.*

18. In line with the structure of the Forest Carbon Partnership Facility, the World Bank/FCPF engagement with Vietnam would involve two phases generally referred to as "REDD+ readiness preparation" and "REDD+ implementation".

- First, the REDD+ preparation phase will consist of analytical work and consultations. It would be supported by the proposed US\$3.8 million grant from the FCPF Readiness Fund.
- Second, the REDD+ implementation phase would consist of performance-based payments for verified carbon emissions reductions. Vietnam has shown strong interest in

the FCPF Carbon Fund and is already taking steps that would position it to be ready to seek eventual support for its REDD+ program under the FCPF Carbon Fund.⁷

19. For the REDD+ implementation phase, however, there are three key points - resulting from the very innovative nature of REDD+ - need to be taken into consideration: (i) many of the conditions underlying the future implementation of REDD+ are still being discussed under the auspices of the UNFCCC and other international negotiations; (ii) Vietnam is among the first countries to engage in the REDD+ preparation phase, and there is no precedent yet of any country having completed this process; and (iii) the operational modalities of the FCPF Carbon Fund as a pilot for performance-based transactions, are still in the process of being defined.

20. In this context, the Bank's REDD+ engagement in Vietnam will focus on preparing those elements that are currently viewed as indispensable to any future agreement on REDD+⁸ in a way that optimizes the likely social and environmental outcomes of REDD+ and emphasizes the learning and knowledge-sharing dimensions.

21. As such these development objectives would be monitored through the following key output indicators:

- A Strategic Environmental and Social Assessment (SESA) is carried out and its outputs (including an Environmental and Social Management Framework, ESMF) are endorsed by national stakeholders and Government agencies and used by the Government of Vietnam to further refine the NRAP;
- The following GoV policy documents and legal guidelines are approved, viz. (i) decision by Prime Minister on key beneficiaries of REDD+, methods and rate of payment; (ii) Government regulations/technical guidelines on mainstreaming REDD+ into relevant socio-economic and environment protection strategies, master and action plans; and (iii) support for the development of roadmaps for 2 provinces (which would include identification of the barriers, drivers and issues) for the development of provincial REDD+ Action Plans;
- Suitable platform and mechanisms for regional cooperation on REDD+ and FLEGT implementation between Vietnam and other countries in the South East Asia, particularly with Lao PDR, Cambodia and Myanmar, are established.

⁷ Vietnam expressed interest in participating as a pilot country in the new FCPF Carbon Fund. Consistent with the two-phase structure of the FCPF, the REDD Readiness Preparation Phase (with the Readiness Fund) would proceed in parallel with the preparation of a possible Emissions Reduction Program (with the Carbon Fund). In line with the Carbon Fund rules of operations, the signature of an ERPA under the Carbon Fund is contingent upon the assessment by the FCPF Participants Committee of the Country's Readiness Package

⁸ Fundamental elements of a future REDD mechanism were defined at the 16th session of the Conference of the Parties to the UNFCCC in Cancun, December 2010. See Cancun Agreements, UNFCCC Decision 1/CP.16 Section C and Appendix I.

III. Preliminary Description

22. The focus of the World Bank's engagement around REDD+ in Vietnam, as described in this document, will be to help the Government and its partners to finish preparing the elements which need to be in place in order for the country to access financial incentives from any future agreement on REDD+. The FCPF program supports the following four components:

Table 1: FCPF Grant Components

| Components | Budget (mil. USD) |
|---|------------------------------|
| <u>Component 1:</u> Analytical studies and development of capacities for the effective and efficient REDD+ implementation at national and provincial level. | 1.5 |
| <u>Component 2:</u> Policies review, studies and development of user-friendly guidance materials on SFC reform for REDD+ service provision. | 0.7 |
| <u>Component 3:</u> Stakeholder consultation and regional cooperation; and Strategic Environmental and Social Assessment (SESA) in connection with the refinement of national and sub-national REDD+ strategy options. | 0.95 |
| <u>Component 4:</u> Project management, and monitoring and evaluation. | 0.5 |
| TOTAL | 3.65 |
| Contingency | 0.15 |

23. **Component 1:** Analytical studies and development of capacities for the effective and efficient REDD+ implementation at national and provincial level.

The NRAP, approved by the Prime Minister in June 2012, is part of the National Strategy on Climate Change, National Program on Reducing GHG Emissions in Agriculture and Rural Development Sector and National Forest Development Strategy. Following the NRAP approval, the top priority identified is to design an operation mechanism and build relevant capacities and policies for effective and efficient NRAP implementation. This component is aimed to provide support for the GoV to strengthen capacities for effective management, implementation and coordination of REDD+-related activities in Vietnam by i) strengthening the capacities of NRSC and VRO; ii) providing technical support and analytical studies for the formulation of relevant national and sub-national policies and programs which are under preparation. The analytical studies will aim to better understand the drivers of deforestation, as well as recommendations to address them. The component will contribute to the development of roadmaps for 2 provinces to feed into preparation of Provincial REDD+ Action Plans. The information generated during the process, including opportunity cost analysis of doing REDD+ and economic assessment of the different options will provide guidance on what are the most cost-effective and appropriate strategies to pursue.

24. **Component 2:** Policies review, studies and development of user-friendly guidance materials on SFC reform for REDD+ service provision.

In 2010, 157 State Forest Companies (SFCs) managed about 2.27 million ha of forests and forestland, and 164 Forest Management Boards (FMB) are responsible for protecting 3 million ha of special-use and protection forests. As these SFCs still manage so much of Vietnam's forest estate - much of which is under poor management - they will be important in any efforts to reduce deforestation and forest degradation. Vietnam continues to gear up the renovation process of the SFCs to ensure effective forest management with active participation of local communities and households. To complement this, REDD+ could offer further financial incentives for some SFCs to improve their operations to access possible carbon financing mechanisms through REDD+. The Government wants to explore different opportunities and approaches that the FMBs and SFCs could participate in and assist local authorities and communities in the REDD+ and PES implementation. The SFCs and FMBs may serve as the intermediaries between the relevant government agencies and local households and communities. These issues will be explored as part of this Component. Among them, the benefit distribution system and providing communities with forest protection contracts will be further examined to propose a more appropriate performance based mechanism.

25. **Component 3:** Stakeholder consultation and regional cooperation; and Strategic Environmental and Social Assessment (SESA) in connection with the refinement of national and sub-national REDD+ strategy options.

To ensure broad stakeholder participation in all REDD+ processes, including the formulation, implementation and refinement of the NRAP, Provincial REDD+ Action Plan (PRAP), policies and future investment options, the FCPF Grant will support a multi-stakeholder consultation process, regional cooperation and communication activities.

As part of the implementation and improvement of the National REDD+ Action Program, a SESA will be carried out to help integrate social and environmental considerations into policy-making processes, leading to sustainable REDD+ strategy options. The steps to follow have been outlined in the detailed ToR for SESA that appear in Annex 4. The SESA provides a participatory platform for stakeholders to build an understanding of current situation/ issues regarding REDD activities already take, and identify future options/ opportunities. SESA-specific consultation and participation events also help the vulnerable groups and forest-dependent communities (especially ethnic minorities) receive culturally appropriate benefits from future REDD+ activities, while ensuring that the National REDD+ Action Program does not adversely affect these communities. The SESA will be complemented by an Environmental and Social Management Framework (ESMF), which will guide potential investments in REDD+ Demonstration Activities toward compliance with safeguards policies.

26. **Component 4:** Project management and monitoring and evaluation

This Component is designed to support project management activities in close coordination with the UN-REDD Vietnam Programme and other relevant REDD+ projects to avoid overlap and

enhance effectiveness of the support from different development partners. Implementing the grant activities will require dedicated staff to manage and administer the grant as well as support for the Project Management Unit (PMU). In order to enhance effectiveness of the FCPF support, improve the capacities of national staff and encourage the contracted staff to engage in working long term for VRO and maintain the office capacities, it is advised that the qualified contracted staff of VRO will be paid by the FCPF grant and shall provide support to Project Management. This component would support a general monitoring and evaluation of the FCPF grant and coordinate with the M&E facilities of the NRAP.

Key Results

27. The key results from the proposed REDD+ readiness preparation grant will contribute to Vietnam’s ability to document the extent of its readiness for REDD+ and will include the following:

- Strengthened technical and institutional capacities, and human resources for effective management, implementation and coordination of REDD+ Programs, projects and policies in Vietnam as well as improved understanding (through relevant analytical studies) of drivers of deforestation in Vietnam and via displacement in surrounding countries;
- Support for the development of roadmaps (which would include identification of the barriers, drivers and issues) as building blocks for preparation of provincial REDD+ Action Plans;
- A sound understanding of the possibilities and modalities of possible sub-national interventions which could be appropriate for a REDD+ ER Program that is eligible for support by the FCPF Carbon Fund or other funding mechanisms;
- Environmental and social safeguards integrated into the REDD+ implementation framework; Elements of the NRAP are refined with a view to greater social and environmental sustainability; ESMF prepared;
- Appropriate social inclusion in REDD+ through consultations at the national, provincial, and especially the district and community levels, and through proposed measures to enhance benefits to and avoid or mitigate potential impacts on local forest-dependent communities. A national grievance redress mechanism for REDD+ implementation is established.

IV. Safeguard Policies that might apply

| Safeguard Policies Triggered by the Project | Yes | No | TBD |
|--|-----|----|-----|
| Environmental Assessment (OP/BP 4.01) | X | | |
| Natural Habitats (OP/BP 4.04) | X | | |
| Pest Management (OP 4.09) | | | X |
| Physical Cultural Resources (OP/BP 4.11) | X | | |
| Involuntary Resettlement (OP/BP 4.12) | X | | |
| Indigenous Peoples (OP/BP 4.10) | X | | |

| | | | |
|--|---|---|--|
| Forests (OP/BP 4.36) | X | | |
| Safety of Dams (OP/BP 4.37) | | X | |
| Projects in Disputed Areas (OP/BP 7.60)* | | X | |
| Projects on International Waterways (OP/BP 7.50) | | X | |

V. Tentative financing

| | | | |
|-------------------------------------|-------|--|----------------|
| Source: | | | (\$m.) |
| Borrower/Recipient: Gov. of Vietnam | | | |
| IBRD | | | |
| IDA | | | |
| Others (FCPF) UD\$3.8million | | | |
| | Total | | US\$3.8million |

VI. Contact point

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Web: <http://www.worldbank.org/infoshop>