Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 13-Feb-2019 | Report No: PIDISDSA26589
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Vietnam</td>
<td>P164938</td>
<td>Vietnam Scaling Up Energy Efficiency Project</td>
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<table>
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<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tr>
<td>Investment Project Financing</td>
<td>SOCIALIST REPUBLIC OF VIETNAM</td>
<td>Department of Energy Efficiency and Sustainable Development, Ministry of Industry and Trade</td>
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### Proposed Development Objective(s)

The Project Development Objective is to improve energy efficiency in Vietnam's industrial sector.

### Components

- Risk Sharing Facility
- Technical Assistance and Capacity Building

## PROJECT FINANCING DATA (US$, Millions)

### SUMMARY

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<tbody>
<tr>
<td>Total Project Cost</td>
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<tr>
<td>Total Financing</td>
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<tr>
<td>of which IBRD/IDA</td>
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<td>Financing Gap</td>
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### DETAILS

**Non-World Bank Group Financing**

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B. Introduction and Context

Country Context

1. Vietnam has experienced impressive economic growth and poverty reduction in the past 25 years. The country’s Gross Domestic Product (GDP) has grown from US$33.6 billion in 2000 to about US$240 billion in 2018 and access to electricity services - which was below 10 percent in 1986 - has grown to more than 98 percent in 2018, contributing to reducing poverty and boosting shared prosperity. Expanded grid electrification of rural households has been mirrored by a sustained increase in GDP per capita. Rural electrification has been a critical component of the government’s program to eliminate poverty, redress imbalances in development, and improve overall welfare levels by providing reliable lighting sources, better living conditions, health care, and other rural services. The percentage of people living in extreme poverty (US$1.9 per day) stands at less than 3 percent today.

2. Vietnam is one of the most energy-intensive countries in East Asia. Its energy intensity of GDP is steadily increasing, and its energy elasticity of GDP is estimated at 2, compared to less than 1 for most countries. As a result, the final energy consumption tripled over the past decade. Industrial growth has been one of the key drivers of Vietnam’s increasing energy intensity, accounting for 48 percent or almost half of the final energy use. Vietnam Energy Statistics 2014 shows that cement and constructional materials and food processing industries consumed the most energy. Because industry is the most energy-intensive economic sector, this increase in the industrialization of Vietnam’s economy by itself contributes to the increase in Vietnam’s overall energy intensity.

3. Vietnam’s emissions are expected to increase dramatically by 2030. Between 2010 and 2030, Vietnam’s overall GHG emissions will increase fivefold, per capita emissions fourfold, and the carbon intensity of GDP by 20 percent. The government recognized the importance of green growth and passed the Vietnam Green Growth Strategy for the period 2011–2020 with vision to 2050, which aims to restructure and improve economic institutions toward more efficient use of natural resources and improved competitiveness of the economy, which will be achieved through increased investments in technological innovation, natural capital, and economic instruments. This will contribute to responding to climate change, reducing poverty, and addressing sustainable economic development challenges. One of the important strategic objectives is to encourage energy efficiency, with a 2020 target to reduce the intensity of greenhouse gas (GHG) emissions by 8–10 percent as compared to the 2010 and reduce emissions from energy activities from 10–20 percent compared to business-as-usual case.
4. Vietnam has also pledged, in its Nationally Determined Contribution (NDC) submitted to the United Nations Framework Convention on Climate Change (UNFCCC), to reduce 8 percent of the GHG emission by 2030 compared to the business-as-usual scenario and to further aim at 25 percent reduction with support from the international community. One of the measures to achieve the mitigation target is to “improve effectiveness and efficiency of energy use; reducing energy consumption”, with a particular focus on manufacturing industries where energy consumption is high. Vietnam is currently revising its NDC target following sectoral approaches, and preparing new Power Sector Development Plan 8 (PSDP8) which aims to penetrate more renewable energy sources and scaling up demand side energy efficiency. The revised NDC target is planned to be submitted to UNFCCC by March 2019.

**Financial Sector Context**

5. Vietnam’s financial system is a bank-based system. According to the State Bank of Vietnam (SBV), by the end of 2015 the banks’ assets were almost 3.8 times of GDP and accounted for more than 90 percent of the financial sector’s total assets. By the end of 2016, the banking sector consisted of 97 banking entities including four fully state-owned commercial banks, 33 joint-stock banks, 51 foreign banks and branches, and two policy banks. The top 10 banks account for approximately 78 percent of the assets of the entire banking system. Much of the rapid credit growth in recent years has occurred through the banking system. According to SBV, credit growth was at approximately 18 percent during 2016, compared to the targeted 15-18 percent in the beginning of the year. However, continuing weaknesses include undercapitalization and a suboptimal allocation of resources. The level of non-performing loans (NPLs), which was high in the past, has lowered through recent debt restructuring and the establishment of the Vietnam Asset Management Company (VAMC). The NPL ratio across the sector was around 2.8% at the end of 2016. Nevertheless, there is still a concern that NPLs remain underreported and true asset quality is likely to be weaker than stated.

6. Capital markets in Vietnam remain small and underdeveloped but growing. As reported by the MOF, by the end of 2016, the combined stock market and bond capitalization was 71 percent of GDP, compared to 56.5 percent in 2014. Capitalization remains low compared to other countries in the region, such as 106 percent in Thailand and 136 percent in Malaysia in 2014. Total Government bond issuance volume in 2016 was estimated to reach VND280 trillion (i.e. more than USD12 billion). Vietnam’s formal market is highly retail in nature with more than 98 percent of accounts registered with the Vietnam Securities Depository.

7. Interest rates have been on a downward trend since 2013 and stabilized in 2016. While the caps on deposit rates were removed, deposits of six months and below are still subject to a cap of 5.5 percent per annum. Recently, a few banks have attempted to cut deposit interest rates owing to favorable macro-conditions, including good liquidity and low inflation, but smaller banks have kept the higher rates to maintain or expand market shares. Low inflation and declining deposit rates may also motivate many retail depositors to switch to higher-yield investment channels such as stocks and properties. The SBV used several monetary policy tools to lower lending rates, such as (i) requiring credit institutions to reduce lending rates by cutting and managing operation costs and (ii) keeping low discount rates, thereby encouraging low interbank rates. To date, Vietnamese dong lending rates to prioritized sectors are commonly set at 6-9 percent p.a. for short-term loans, while medium- and long-term rates charged by state-owned commercial banks remain in the 8-10 percent p.a. range. Lending rates to normal manufacturing/business sectors commonly range of 7-10 percent p.a. for short-term loans and 9-12 percent p.a. for long-term loans.
8. Access to finance is considered one of the significant barriers for the energy efficiency market. In the banking sector, only a few local financial institutions have dedicated energy efficiency lending as part of their green financing business line, which accounts for only a small fraction of the loan portfolio. Most of the existing energy efficiency lending is focused on a small number of large industrial companies with high creditworthiness. On the contrary, many industrial enterprises (IEs) and energy service companies (ESCOs) do not have the same creditworthiness or equity resources as the larger companies, and therefore have limited access to capital from the local banking sector. Local banks also have little incentive to provide long-term loans given the prevailing term structure of interest rates in Vietnam, which does not provide banks with much additional margin for longer tenors. In addition, many local banks lack experience and capacity to appraise energy efficiency investments or have a high risk perception of such investments, limiting opportunities to unlock the energy saving and climate mitigation potential of the industrial sector. Considering the various constraints together, local banks are currently not incentivized to expand their lending for energy efficiency purposes.

Sectoral and Institutional Context

9. Electricity demand has grown at a compound annual growth rate of 13 percent since 2000, and is projected to continue at 8 percent through 2030. Vietnam’s energy sector is facing two major challenges to meet future energy demand: (a) resource constraints and energy security; and (b) high energy demand and huge financing needs. Vietnam has achieved more than 98 percent electricity access rates connecting over 20 million households and industry and commercial customers – this is a remarkable achievement. Today’s biggest energy challenge is to provide those customers with reliable electricity services and meet future demand. Per capita electricity consumption remains relatively low (that is, one-third of China), and it is anticipated that electricity demand will continue to grow fast for the next two decades. Current demand projections show a dramatic increase from 47.9 GW of installed capacity in 2018 to 60 GW in 2020 to 129.5 GW in 2030.

10. Vietnam has limited domestic energy resources remaining and has been planning to rely increasingly on imported coal to meet future energy needs. Most of the larger hydropower projects are developed, and Vietnam will need to improve the regulatory and pricing framework to further develop smaller hydro and largely unexplored solar and wind potential. There is large potential to bring more gas into the market from domestic fields and LNG. There have also been substantial efforts to improve regional power trade, especially with Laos where up to 10 GW of hydropower generated electricity could be imported by 2030. Vietnam will increasingly rely on imported energy resources to meet its energy demand challenges, raising issues of energy supply security, vulnerability to international price fluctuations and subsequent impacts on domestic energy prices.

11. Meeting future energy demand by improving energy efficiency is the single best and lowest cost option to improve energy security, help consumers save and cope with potential rate hikes, reduce pollution, and mitigate climate change. If stronger programs and policies were put in place, current wasteful practices could be reduced and more efficient energy use technology could be adopted. This can meet a sizable portion of the business-as-usual demand for increased energy services, at costs which are typically one-fourth the cost of additional energy supply. The Bank’s Low Carbon Study has demonstrated that Vietnam could save up to 11 GW of new generation capacity by 2030 if comprehensive demand-side energy efficiency investments are carried out.

12. The Vietnamese government passed a Law on Energy Efficiency and Conservation, issued a series of decrees by the prime minister to promote energy efficiency, and set a target of 5–8 percent of energy savings
from 2012 to 2015 compared to the forecast energy demand. The set target of energy saving has been mostly achieved, overall energy saving for the period was 5.81%. With the Bank’s support, MoIT now is preparing a new national energy efficient program for period 2020-2030 setting energy saving target of 8-10% in comparison to demand projection in revised Power Development Plan 7 (PDP7). In addition to the government’s national programs, a number of parallel efforts have been initiated in direct cooperation with donor agencies. Also, to promote efficient use of electricity and reduce consumption, the government has introduced time-of-use electricity tariffs for medium and large customers and developed an energy efficiency standard and labeling road map.

13. In order to support the government commitments to energy efficiency, the Bank has provided many forms of technical assistance to MoIT related to demand side energy efficiency, including energy efficiency benchmarking for energy intensive industries, promotion of energy efficiency mandatory schemes, and development of an energy service companies (ESCO) market. Those efforts will help create market demand for energy efficiency and establish an enabling environment for energy efficiency investment, unlocking high energy efficiency potential in Vietnam’s industrial sectors.

14. To date, MoIT has issued energy efficiency circulars for six energy intensive industries which regulate minimum energy performance standards including chemical, iron and steel, pulp and paper, plastic, beverage and seafood processing. Those industries are mandated to achieve minimum energy performance set by MoIT’s circulars. Similar regulations will be promulgated for other industries including cement and sugar cane. MoIT has also issued guidelines for implementation of ESCO energy performance contracts which allow for an ESCO market to develop and scale up EE investment. Also, within the framework of the new national energy efficiency program, MoIT is setting EE targets for provincial administrations and industrial sectors, requiring energy users to be responsible for energy savings and emission reduction.

15. Energy tariff reform is being implemented toward cost recovery. Industrial enterprises are paying a time of use electricity tariff which is currently about 12 US cent/kWh during peak hours. Nominal average electricity tariffs have increased by 62 percent from 2010 to 2017. However, the current tariff level does not allow EVN to fully cover i) O&M costs and debt service; or ii) future investments. A Bank study showed that for EVN to achieve full cost recovery, average electricity tariffs needed to increase to US cents 12/kWh by 2020. The Bank continues providing technical advice on tariff reform toward efficient pricing and energy efficiency.

16. Despite numerous initiatives for energy efficiency investments from both the Government and donor community, significant barriers remain to implementing energy-saving measures. These binding constraints to investments are due to market failures and barriers rather than the financial viability or maturity of energy efficiency technologies. These constraints include: (i) limited public financing, (ii) limited availability of domestic or cross-border capital, (iii) unattractive financing terms, (iv) lack of awareness and capacity to identify and develop energy efficiency projects, (v) limited incentives to implement energy efficiency measures, and (vi) lack of IEs’ technical capacity to appraise projects.

C. Proposed Development Objective(s)

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17. The Project Development Objective (PDO) is to improve energy efficiency in Vietnam's industrial sector. The Project will thereby contribute to achieving the Government's overall energy saving and greenhouse gas emission reduction objectives. The PDO Level Indicators are: (1) Projected energy or fuel savings (MJ); (2) Net greenhouse gas emissions (ton/year).

D. Project Description

18. The Project comprises two interrelated and closely coordinated components. The Project complements the existing Vietnam Energy Efficiency for Industrial Enterprises Project (VEEIE) by supporting similar energy efficiency investments in the industrial sector and sharing implementation arrangements.

19. **Component 1: Risk Sharing Facility (RSF) (US$78 million in total, including US$75 million GCF Guarantee and US$3 million GCF Grant).** This component supports the establishment of the RSF, which will provide partial credit guarantees (RSF Guarantees) to participating financial institutions (PFIs) to cover potential defaults on loans (PFI Loans) provided by PFIs to industrial enterprises (IEs) and energy service companies (ESCOs) to finance eligible energy efficiency sub-projects (Sub-Projects). The RSF is being established by Vietnam as a government program and the Program Implementing Entity (PIE), acting as manager of the RSF on behalf of Vietnam, will issue RSF Guarantees. RSF Guarantees are expected to mobilize private sector lending and equity, and contribute to opening up a market for commercially financed energy efficiency investments. IE/ESCO borrowers would benefit from access to financing at competitive terms and with low collateral requirements. The RSF is expected to mobilize US$251 million of commercial financing. IE/ESCO borrowers are required to provide at least 20 percent of investment cost in a form of equity. Therefore US$50 million will be mobilized from IEs/ESCOs as equity, and US$201 million will come from PFIs as loans.

20. MoIT has a clear role to ensure the success of the RSF and good performance quality of the PIE. The government’s role in supervising the PIE will be documented in the Implementation Agreement between the Government and the PIE. Additionally, the GCF Grant Agreement will include obligations on the Government to ensure that it complies with the Implementation Agreement as well as remedies (suspension or cancellation of the GCF Grant) that the Bank may exercise if the Government fails to meet its obligations under the Implementation Agreement or takes actions that interfere with or impede the PIE’s ability to comply with its obligations under the Implementation Agreement or under the GCF Guarantee Agreement between the PIE and the Bank.

21. This component consists of two sub-parts:
Component 1(a) (US$75 million GCF Guarantee): Operation and management of the RSF by a Program Implementing Entity (the PIE), which will be a commercial bank appointed by MoIT. Under the RSF, the PIE will issue RSF Guarantees and would be required to make RSF Guarantee payouts to PFIIs if IE or ESCO borrowers default on PFI Loans which are covered by RSF Guarantees. Risk coverage includes defaults on scheduled principal and interest payments and/or accelerated loan balances with accrued interest. The RSF guarantee provides PFIIs with a comprehensive credit risk coverage of 50 percent of defaulted principal and interest on a pari passu basis with the uncovered portion of the loan. From the PFIIs’ perspective, they are exposed to the risk of the RSF failing to honor RSF Guarantee claims and government performance risk in overseeing the work of the PIE. To address this risk of a capital shortfall in the RSF, the facility will be backstopped by a guarantee issued by the Bank and capitalized by GCF (GCF Guarantee). A capital shortfall under the RSF could result if RSF Guarantee payouts exceed the capital available in the RSF’s accounts.

Component 1(b) (US$3 million GCF Grant): Provision of seed capital to support the operation of the RSF, through the financing of management fees (to be paid by MoIT to the PIE) and initial capital for the issuance of RSF Guarantees.

22. PFIIs would have the flexibility to use Component 1 or the IBRD Loan under VEEIE for three types of energy efficiency Sub-Projects: (i) “IBRD Loan only” Sub-Projects where the PFI is comfortable taking the full credit risk (and therefore does not need an RSF Guarantee) but for which it needs liquidity from the credit line provided under the IBRD Loan; (ii) “RSF Guarantee only” Sub-Projects for which the PFI would be willing to pay for credit enhancement (and therefore obtains an RSF Guarantee), but for which it does not need external liquidity (and therefore does not use the credit line under the IBRD Loan); and (iii) “blended IBRD/RSF” Sub-Projects for which PFIIs would need both risk mitigation and funding support from the two facilities. In this third type, Sub-Projects would receive support from both the IBRD Loan and the RSF, as long as the two facilities were supporting separate debt tranches. In the third type, debt tranching would be required as RSF Guarantees cannot be used to backstop PFI Loans on-lent from the IBRD Loan. Especially if the loan size is large, a PFI could be incentivized to finance some of it through the IBRD Loan, including co-financing as appropriate, and financing the balance from its own resources with risk mitigation support from the GCF-RSF. By combining two different tranches for a single Sub-Project, PFIIs can access liquidity through the IBRD Loan and also lower cost through credit risk mitigation from the RSF, with the extent of such benefits determined by the size of the individual tranches. For all the three types of financing combinations discussed above, IEs/ESCOs are also required to provide co-financing of 20 percent of the Sub-Project cost.

23. While part of Sub-Projects submitted for RSF Guarantees under Component 1, particularly the above-mentioned second type, could be marginally less creditworthy than those under the IBRD Loan, the same appraisal and credit standards will be applied for both Component 1 and the IBRD Loan to ensure that all projects meet the minimum requirements. Under Component 1, PFIIs will only be given RSF Guarantees to enable risk sharing between them and the RSF and to incentivize the PFIIs to undertake the loan appraisal as diligently as they would for any loan.

24. The decision on which modality of support to use ultimately falls to the PFIIs. All energy efficiency Sub-Projects need to meet the same eligibility requirements to be considered for either Component 1 or the IBRD Loan but their financing needs can vary. The IBRD Loan provides relatively longer-term financing in US dollars whereas
more price compression can be expected through the RSF. PFIs will need to assess the needs of candidate energy efficiency subprojects and their own constraints before seeking support from the RSF or the IBRD Loan.

25. The RSF would be managed by the PIE appointed by MoIT and it would issue RSF Guarantees, which are partial credit guarantees, to eligible PFIs to support their loans for eligible energy efficiency subprojects undertaken by IEs. Guarantee coverage would only be available for loans made from the PFIs’ own resources, made in addition to 20 percent Sub-Project co-financing by the IEs/ESCOs, and would be partial to enable risk sharing with the PFIs and incentivize them to carefully appraise the underlying loans. RSF Guarantee coverage is set at 50 percent of the PFI Loan, although the PIE would have some flexibility to change it based on market needs. RSF Guarantees would cover credit defaults on underlying PFI Loans. PFIs would be required to pay upfront and recurring RSF Guarantee fees towards costs associated with RSF program implementation and GCF Guarantee, and towards a loss reserve to pay for possible RSF Guarantee calls. RSF Guarantees fees have been set to balance program cost recovery with attractive pricing for PFIs. The fees come in addition to the US$3 million seed grant, which will also be used towards RSF operating costs and guarantee payouts.

26. The RSF pays RSF Guarantee claims to PFIs if the underlying credit risks materialize, the PFI experiences a loss and there are insufficient Government funds in the RSF to front such a loss. The first RSF Guarantee claims in the event of losses would be paid from the Government’s RSF resources coming from the GCF seed grant and guarantee fee collections. If capital in the RSF fell short to meet all claims, which would only happen if actual RSF Guarantee payouts exceeded expected payouts, the GCF Guarantee would be called for up to US$75 million to meet the additional claims. The GCF Guarantee provides additional capital only in case of a shortfall of RSF and government capital to honor guarantee claims. Based on financial scenario analysis, such shortfall of capital is considered a very low likelihood event, arising either from unexpectedly high level of credit defaults on the guaranteed Sub-Loans or from the PIE’s non-performance in adequately managing portfolio risks, or the Government’s non-performance in exercising its oversight duties.

27. In practice, proactive risk management of the RSF means that the PIE will take corrective action if actual guarantee payouts exceeded expected payouts, for example by limiting the issuance of new RSF Guarantees. The requirements for guaranteed loan appraisal will be included in the OM, which the PIE is required to follow, and will include similar appraisal procedures as for Sub-Projects supported by the IBRD Loan and making sure that PFIs apply at least the same care and due diligence on RSF guaranteed loans as they would on their own loans. The partial nature of the RSF Guarantee coverage would further incentivize PFIs to do that.

28. Component 2: Technical Assistance (US$8.3 million GCF Grant). Provision of technical assistance for: (a) MoIT and relevant government agencies responsible for energy efficiency policies and targets, to support the implementation of voluntary agreements with relevant industries, the improvement of incentives for industry to carry out energy efficiency investments, and the development of mandatory energy efficiency standards and benchmarks in energy-intensive industries; (b) PFIs to support the identification, appraisal, and implementation of energy efficiency lending projects in the industrial sector and business development to generate energy efficiency lending deal flows; and (c) IEs, ESCOs and other energy efficiency service providers to support the development of bankable energy efficiency projects. This component will leverage the results of CPEE project\(^4\) on developing energy efficiency policies and industry voluntary agreements.

\(^4\) Clean Production and Energy Project supported by the World Bank with total financing of US$2.3 million. The project
29. Under the CPEE project, the Bank financed TA to key energy-consuming IEs to develop voluntary agreements, which could form a key part of the pipeline. In addition to the ongoing TA activities including development of a mandatory energy efficiency regime and an ESCO market, this component will support:

(a) TA and capacity building to the MoIT will support (i) implementation of the next phase energy efficiency target program period 2020–2030; (ii) strengthening of the policy and legal and regulatory framework for energy efficiency in IEs; (iii) development of relevant energy use standards and establishment of energy efficiency industrial benchmarks; and (iv) development of the ESCOs, scaling-up and encouraging energy efficiency voluntary agreement, and conducting a communication campaign to raise awareness on energy efficiency for IEs. In addition, as the adoption of Energy Management Systems (ISO 50001) is considered the most effective practice for industrial eco-systems to generate energy efficiency and GHG reduction projects on a sustaining basis, TA will support MoIT to promote and strengthen capacity of enterprises in application of ISO 50001 or Energy Management System.

(b) TA and capacity building to the PFIs include (i) business startup support, including creation, organization, staffing, and initial business plan of the energy efficiency lending business unit (or team); (ii) capacity building and training, including support for the development of necessary financial instruments, procedures, and the creation of an adequate knowledge base to evaluate and extend energy efficiency loans; (iii) marketing and development of an energy efficiency Sub-Project pipeline; (iv) support for due diligence of eligible PFI Loans for energy efficiency, including financial, technical, social, and environmental assessments; and (v) development of financing instruments and risk management tools related to energy conservation.

(c) TA and capacity building for IEs will include support to (i) identify energy efficiency projects and prepare relevant energy audits, technical design, and energy efficiency project preparation and (ii) raise awareness through a communication campaign organized jointly with relevant industry associations. Capacity building on safeguards for the PFIs, ESCOs, and IEs as well as on-the-job training will be provided. TA to ensure adequate capacity for the review and implementation of safeguard issues will also be considered.

30. Detailed TA and capacity-building programs will be further developed in consultation with the direct beneficiaries, including MoIT, PIE, PFIs, and IEs. The associated procurement plan for the first 18 months will be also developed accordingly.

31. The Korea International Cooperation Agency (KOICA) has parallel TA activities during the Project implementation. KOICA has allocated US$1.9 million to support IEs and ESCOs in Vietnam for identifying energy efficiency investment opportunities and developing implementation plans for them, which initially targets energy intensive industrial enterprises in Bac Ninh Province as a pilot site. KOICA’s activity is expected to facilitate access to capital under Component 1 of the Project and the IBRD Loan by making ESCOs and IEs ready for accessing loans from PFIs. In the long term, KOICA’s contribution is expected to enhance the business environment for energy efficient investments. The Project will be closely coordinated with KOICA’s planned activities.

The development objective is to strengthen the capacity of the Socialist Republic of Vietnam and other key stakeholders for the effective delivery of the national energy efficiency program in key industrial sectors, thereby improving energy efficiency and reducing associated greenhouse gas emissions.
E. Implementation

Institutional and Implementation Arrangements

32. **Ministry of Industry and Trade.** MoIT will be responsible for overall Project coordination, implementation, and monitoring and evaluation. MoIT’s existing Project Management Board, which is responsible for the implementation of the VEEIE Project, will be responsible for: (i) planning and managing the day-to-day implementation of the TA activities under Component 2 of the Project; (ii) ensuring coordination among all relevant departments and agencies; (iii) monitoring and reporting; and (iv) overseeing and supporting the activities of the PIE appointed to manage the RSF under Component 1 of the Project.

33. **Program Implementing Entity.** To facilitate the carrying out of Component 1 of the Project, MoIT will enter into an implementation agreement with the PIE (the “Implementation Agreement”), setting forth the responsibilities and obligations of the PIE with respect to the management of the RSF. The PIE will operate under the oversight of MoIT, and will provide regular reports to MoIT and the Bank on the performance of the RSF. The PIE’s responsibilities include (i) sub-project identification and pipeline development, (ii) RSF Guarantee review, approval and issuance, (iii) risk management and monitoring and (iv) cash management. If the PIE fails to perform in accordance with its obligations under the Implementation and/or the GCF Guarantee Agreement, this may give rise to MoIT’s right to replace the PIE, in accordance with the terms of the Implementation Agreement.

34. **Participating Financial Institutions (PFIs).** To be accredited as a PFI for the RSF, financial institutions will be required to satisfy the eligibility criteria for PFIs provided in the Operational Manual (OM). Ten financial institutions have satisfied the eligibility criteria and are expected to be approved as PFIs, and additional financial institutions may apply to join the RSF during Project implementation provided they meet the eligibility criteria. PFIs will have full responsibility for the energy efficiency lending process and approvals, following the criteria and procedures in the OM. PFIs will also be required to monitor the performance of Sub-Projects and provide regular reporting to the PIE on such performance.

35. **Operations Manual.** An OM has been developed, with input from the PIE, to govern the day-to-day operations of the RSF. The OM includes details on, *inter alia*, roles and responsibilities of the various RSF stakeholders, eligibility criteria and approval processes, funds flow and cash management procedures, procedures for RSF Guarantee issuance and claims, and a risk management framework (the “RMF”). The OM also includes templates for key RSF agreements and documentation. The OM will be finalized, subject to the Bank’s no-objection, as a condition to the effectiveness of the GCF Guarantee and may be a condition for first disbursement of the GCF funds allocated to the RSF. Compliance with the OM by the PIE will be covenanted in the legal agreements governing the PIE’s performance.

36. An overview of the Project implementation arrangements is provided in the figure below.
F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project will be implemented by the selected ESCOs and Industrial Enterprises located in the whole country.

G. Environmental and Social Safeguards Specialists on the Team

Giang Tam Nguyen, Social Specialist
Thuy Cam Duong, Environmental Specialist
Thong Trung Le, Social Specialist

<table>
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<th>SAFEGUARD POLICIES THAT MIGHT APPLY</th>
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<td>Environmental Assessment OP/BP 4.01</td>
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social impacts associated with the guarantee operation of subprojects under Component 1, and certain TA activities under component 2, requiring the identification, assessment, mitigation and monitoring of such impacts. On the positive side, the Project will bring about important benefits to industries and the environment by contributing to the reduction of GHGs and pollutants, increasing energy savings, and encouraging the promotion of environmentally good industry practices.

It is anticipated that most of sub-projects will be category B, with typical impacts which are assessed as localized varying from small to moderate scale, and which can be mitigated via good management practices and readily designed mitigation measures. The subprojects under the Bank’s partial guarantee will not be identified by appraisal. In addition, the nature and location of investments under the original VEEIE and the Scaling Up Project are the similar. Therefore, during project preparation, the Environmental and Social Management Framework (ESMF) for the original VEEIE has been updated to be pertinent for the Scaling Up Project. By appraisal, public consultation and disclosure of the ESMF for the Scaling Up Project have been conducted in line with the Bank’s safeguard policies and national requirements.

| Performance Standards for Private Sector Activities OP/BP 4.03 | No |
| Natural Habitats OP/BP 4.04 | No |
| Forests OP/BP 4.36 | No |

The exact locations of guaranteed subprojects are unknown prior to appraisal. However, similar to the original VEEIE, it is noted that most of the subprojects? work will take place within existing premises of existing facilities and industries; hence they will be unlikely to cause negative impacts on natural habitats. In a rare case, the subproject may involve land acquisition, which takes place as an extension from the existing facilities. In that case, locations for land subprojects will be carefully considered in order to avoid potential adverse impact to natural habitat. The policy therefore is not triggered.

Similar to the VEEIE, the project is not anticipated to involve forests and/or impact on the rights and
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<td>Physical Cultural Resources OP/BP 4.11</td>
<td>Yes</td>
<td>The subproject under Project guarantee may involve relocation of graves and other physical cultural resources (PCRs). The subprojects may also be located in the vicinity of the PCRs that may have potential impacts to those. In addition, some unknown PCR may be found during the subproject implementation as they include excavation activities. Therefore, the policy is triggered. The updated ESMF include the chance find procedure and measures to mitigate impacts to PCRs.</td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>Yes</td>
<td>The policy is triggered due to the potential presence of ethnic minorities or their collective attachment to land/natural resources in the subproject areas. The project will ensure that ethnic minority communities will fully benefit from the project and that they will be fully informed and consulted about the project, its potential impacts and mitigation measures. Ethnic Minority Planning Framework (EMPF) will be prepared by appraisal to guide the compliance with the World Bank’s OP 4.10. The EMPF will include an Annex with guidance for the preparation of SA among Ethnic Minority communities or alternatively include OP 4.10, Annex A - Social Assessment at the end of the document.</td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>Yes</td>
<td>The types of EE projects to be financed under this project could include: (a) adoption of energy saving industrial technologies (e.g., efficient industrial boilers, kilns, and heat exchange systems); (b) recovery and utilization of wastes and waste heat; (c) installation of highly efficient mechanical and electrical equipment (e.g. motors, pumps, heating and ventilation equipment); and (d) industrial system optimization to reduce energy use. It will be likely that the EE subprojects financed under the GCF-RSF will be within the existing premises of</td>
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</table>
industrial facilities. However, this policy is triggered due to the possibility of the involuntary taking of land required for subprojects implementation cycle. The Resettlement Policy Framework (RPF) will be prepared to guide the compliance with the World Bank’s OP 4.12. Given the slightly different institutional arrangements between the GCF-RSF and VEEIE, the RPF will be revised to reflect the specific activities financed under this project and the institutional arrangements, including the roles and responsibilities of the IFIs and MOIT respectively.

<table>
<thead>
<tr>
<th>Safety of Dams OP/BP 4.37</th>
<th>No</th>
<th>The Project will not finance or provide guarantee for construction or rehabilitation of any dam. The project is also not dependent on any existing dam or dam under construction. The policy is not triggered.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>No</td>
<td>None of the project activities will be implemented on areas of international waterways. The policy is therefore not triggered.</td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td>No</td>
<td>The project is not implemented in any known disputed areas. The policy is therefore not triggered.</td>
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</table>

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

**Environment.**

Under Component 1, the Project will provide partial credit guarantee to PFI to cover potential defaults on loan (PFIs Loans) provided by PFIs to IEs and ESCOs to finance eligible EE subprojects. These subprojects are under energy intensive industries such as cement, iron and steel, and pulp and paper. The following potential energy saving measures will be used: (a) adoption of energy saving industrial technologies (e.g., efficient industrial boilers, kilns, and heat exchange systems); (b) recovery and utilization of wastes and waste heat; (c) installation of highly efficient mechanical and electrical equipment (e.g. motors, pumps, heating and ventilation equipment); and (d) industrial system optimization to reduce energy use. Under component 2, the Project will provide different technical assistance and capacity building activities to MOIT, IEs, PFIs to leverage the energy efficiency policy development, commercial involvement, and industries voluntary agreements.

OP/BP 4.01 Environmental Assessment is triggered due to the potential adverse environmental and social impacts associated with the guarantee operation of subprojects under Component 1, requiring the requiring the identification, assessment, mitigation and monitoring of these potential impacts. On the positive side, the Project will bring about important benefits to industries and the environment by contributing to the reduction of GHGs and pollutants, increasing energy savings, and encouraging the promotion of environmentally good industry practices.
On the negative side, the Project will cause potential environmental impacts during the construction and operation of guaranteed sub-projects under Component 1. The potential impacts and risks associated with the subprojects during construction/installation of new equipment could be noise, dust, air emission, domestic waste, labor safety, and disposal of old parts and equipment which may contain hazardous waste and, in rare cases, the oil extracted from transformers which may contain PCBs.

The possible impacts during operation period of new equipment and facilities may include safety issues; air emission, solid waste, and wastewater. For example, there may be some issues of combustion gas emissions associated with the installation of new boilers, kilns or other types of heat treating equipment. These are long-term impacts, however, the magnitude and amount of pollutants generated from the new energy efficiency facilities are assessed as lower than those from the old technologies and equipment.

It is anticipated that most of Sub-Projects will be category B, with typical impacts which are assessed as localized varying from small to moderate scale, and which can be mitigated via readily designed mitigation measures and good management practices.

Under component 2, the Project will provide different technical assistance and capacity building activities to MOIT, IEs, PFIs to leverage the energy efficiency policy development, commercial involvement, and industries voluntary agreements. These activities usually do not have potential adverse environmental and social impacts and risk.

Potential Impacts on Physical Cultural Resources
The project would not involve significant excavations, demolition, moving of earth, flooding, or other environmental changes. It is not expected that the Project will affect any known PCR. However, there is a possibility that some unknown PCR may be found during the subproject implementation as they include excavation activities. Therefore, the policy is triggered and a chance finds procedure and measures to mitigate PCR impacts have been prepared and included in the ESMF, and will be included in the site-specific subproject safeguards instruments, bidding, and contractual documents.

Social.
The project is expected to have overall positive social benefits because it promotes EE and thus reduces greenhouse gas emissions and other pollutants into the atmosphere. It will also have positive impacts from the perspective of consumers, and workers who are employed by the participating IEs. Through EE investments, the company’s energy cost will be reduced per unit of output with positive impacts on final prices of consumer products and services. This will also make IEs more competitive and ensure job security and potential expansion of the workforce.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
   n/a

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
   During the project implementation, the locations of proposed subproject will be carefully considered to reduce environmental and social impacts and avoid the potential impacts to natural habitats. Environment and social performance of IEs for sub-project eligibility will also be undertaken.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower
capacity to plan and implement the measures described.

Environment.

During the preparation, the ESMF for the original VEEIE project has been updated by MOIT to ensure that it is pertinent for Scaling Up Project. The ESMF provide guidance and sets out the requirements to ensure the safeguard compliance of the Project during implementation period. The ESMF is in accordance with the Bank’s safeguard policies and national legislations on environmental protection. It will be adopted by MOIT and integrated in the Project Operation Manual. The ESMF lays out procedures which includes: (i) screening mechanism to exclude ineligible subprojects, (ii) identification of environmental and social impacts associated with the EE project and the mitigation measures; (iii) procedures for preparation and approval/clearance of EA documents per GoV regulations and Bank safeguard policies which include an environment and social due diligence of existing facilities/IEs as part of the ESMF; (iii) monitoring, institutional arrangement and financial sources for ESMF implementation; and (iv) public consultation and information disclosure requirements in accordance to the Bank safeguard policies.

The ESMF also covers TA under Component 2. Concretely, it provides requirements for TA activities identified by appraisal stage. The ESMF also refer to the “Interim Guidelines on the Application of safeguard Policies for TA activities in Bank-financed Projects” to screen the other TA activities during implementation period for their implications on environmental and social impacts and determine the appropriate safeguard instruments.

The key stakeholders participate in ESMF implementation include PIE, IEs, PFIs and MOIT. The Project Management Board (PMB) set up under MOIT will provide support to enhance capacity for PFIs staff on safeguard screening and management via TA activities.

Each PFI will form a Project Implementation Unit (PIU) teams, supported by technical, safeguard and procurement experts. The PIU will implement the sub-lending activities and act as the PFI’s focal point to interact with the Bank, MOIT, PIE, PMB and other stakeholders. The PIU with dedicated safeguard specialist to carry out the safeguard screening, appraisal, clearance and monitoring of subprojects under its management. The WB will associate with PMB to provide technical support to enhance capacity of PFIs as needed.

As set out in the ESMF, the IEs will have to prepare all necessary documents in line with the national regulations on environmental assessment and protection. In addition, the category of the subproject will be classified in accordance to the Bank’s safeguard policies and appropriate instruments will be required as necessary. The results of subproject screening by PFIs will be reviewed by the WB.

The TOR for EIA and the EIA report for category A project shall be prior review and cleared by the Bank. For category B subprojects, one EMP shall be prepared by IE in line with the Bank’s safeguard policies. The Bank will selectively review about 30% of EMP report of category B subproject. In the case that the EA report of category B subprojects is available when the IEs approach the loan, an internal due diligent of EA reports may be conducted and could be followed by an EMP preparation as necessary.

During subproject implementation, the IEs will have the overall responsibility to carry out mitigation measures as set out in subproject EMPs. The IEs will be responsible for inclusion of ECOPs into the bidding documents of construction contracts. The IEs and its construction supervision consultant (CSC) will carry out internal monitoring to ensure the contractors implementation of mitigation measures. The PFIs, PMB and WB and local authorities will carry out external monitoring on IEs safeguard implementation on periodical basis. The PIE, before issue the guarantee approval shall check to ensure that the PFI guarantee proposal include the confirmation that safeguard documents of the
subprojects have been: (i) approved by the relevant competent authority, (ii) either cleared by the Bank (for category A and some selected category B projects that are under the Bank prior reviewing) or confirmation that it is acceptable to the Bank’s standards (for category B subprojects appraised and cleared by PFIs).

Social.

Resettlement Policy Framework (RPF). During the preparation stage, RPF was prepared in accordance to OP 4.12 Involuntary Resettlement to guide the policy compliance during the project implementation. It lays down the principles and objectives, eligibility criteria of displaced persons, modes of compensation and rehabilitation, participation features and grievance procedures, review and clearance process of subproject's RP etc. in implementation phase, where relevant, the RP (full resettlement plan or abbreviated resettlement plan) will be prepared in accordance with the policy principles and planning and implementation arrangements set forth in this RPF, and established appropriate mitigation measures as appropriate for all categories of adverse impacts. Each RP will include, among others: description of the subproject; census and baseline socioeconomic characteristics of the DPs; details of impacts on assets, livelihood and incomes; eligibility; valuation and compensation for losses; suggested mitigation measures; site selection, site preparation and relocation, where necessary; income rehabilitation measures; Grievance Redress mechanism; implementation schedule; and estimated resettlement cost. Draft version of RPs will be prepared by IEs and reviewed by PFIs, PMBs and be submitted to the World Bank for review and clearance before the subproject appraisal.

Ethnic Minority Planning Framework (EMPF). During the preparation stage, EMPF was prepared, conforming to the OP 4.10 on Indigenous Peoples, ensuring that the development of subprojects fully respects the dignity, human rights, economies, and culture of affected ethnic minority peoples. The IEs must be able to demonstrate that it has obtained broad community support for the subproject through a process of free, prior, and informed consultations with the affected ethnic minority communities. In this regard, the EMPF sets out guidelines to: (a) ensure that the ethnic minority peoples receive social and economic benefits that are culturally appropriate; (b) avoid potentially adverse effects on the ethnic minority communities; and (c) when such adverse impacts cannot be avoided, minimize, mitigate, or compensate for such effects. The IEs is in charge of preparing EMDP with the technical support of qualified social consultant. The EMDP will be prepared in a flexible and pragmatic manner, and its level of detail varies depending on the specific project and the nature of effects to be addressed.

Borrower Capacity

The MOIT has the overall project coordination responsibility for the project and is responsible for the implementation of capacity building to MOIT under Component 2. MOIT has gained significant safeguards experiences in execution of a number of Bank-financed projects including Vietnam Demand-Side Management and Energy Efficiency Project (DSM-EE Project), Clean Production and Energy Efficiency Project (CPEE), Renewable Energy Development Project (REDP), and Distribution Efficiency Project (DEP). MOIT is also implementing agency of Vietnam Energy Efficiency for Industrial Enterprises (VEEIE) which is similar to this project in term of project nature and type of subproject investment.

The Project will provide partial guarantee to Participating Financial Intuitions (PFIs) for its loan to eligible industrial enterprises under Component 1. The PFIs have full responsibility for the EE lending process and approvals including oversight of safeguards compliance of the project. Each PFI will form a Project Implementation Unit (PIU) with dedicated teams, supported by technical, environmental and social safeguards, and procurement experts. The selection of PFIs will be completed soon.
Some of the selected PFIs may not have such a safeguard capacity. It is anticipated that most ESCOs and Industrial Enterprises, which will bear the primary responsibility for environmental management of the project, may not have previous experiences with the Bank’s safeguards policies or lack capacity in this area. By now, the original VEEIE Project just has been recently put under implementation. No capacity building on safeguard implementation and subproject proposal have yet been conducted. The knowledge and experience of key stakeholders for VEEIE and VSUEE regarding safeguard implementation i.e. IEs, PFIs and MOIT at this current stage are still considered limited. Close guidance and tailored training program will be developed and implemented under Component 2 to enhance capacity of those stakeholders in performing the safeguard policies.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

All safeguard frameworks under VEEIE were updated for use of VSUEE. During the preparation of the project safeguard instruments, a consultation workshop on ESMF, EMPF and RPF was conducted on May 29, 2018 with the aim to collect feedback/comments on the frameworks developed under the Project. The workshop was attended by representatives from the Ministry of Industry and Trade (MOIT), Ministry of Environment and Natural Resources (MONRE), local consultants, Non-governmental organizations, State Bank of Vietnam, Petroleum of Vietnam (PVN), and potential PFIs participants. Comments received in the workshop have been fully addressed in the final versions of the ESMF, RPF and EMDF. The Vietnamese versions of the ESMF, RPF, and EMDF were disclosed at the MOIT’s website on May 23, 2018 before the consultation workshop. Prior to appraisal, the revised ESMF, RPF and EMDF were disclosed at MOIT’s website, and at the World Bank’s Infoshop on June 7, 2018. The final approved ESMF, RPF and EMDF will be disclosed at the MOIT’s website in Vietnamese language and at the World Bank's Infoshop in English language. Public consultation and information disclosure of the subproject safeguard instruments under the VSUEE project will be conducted in compliance with the ESMF, RPF, EMDF, government regulations, World Bank safeguard policies, and the Bank’s policy on access to information at the subproject level during project implementation.

B. Disclosure Requirements

<table>
<thead>
<tr>
<th>Environmental Assessment/Audit/Management Plan/Other</th>
<th>Date of receipt by the Bank</th>
<th>Date of submission for disclosure</th>
<th>For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors</th>
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<tbody>
<tr>
<td></td>
<td>07-Jun-2018</td>
<td>07-Jun-2018</td>
<td>--------------------------------------------------------------------------------------------------</td>
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"In country" Disclosure

Vietnam
23-May-2018

Comments
### Resettlement Action Plan/Framework/Policy Process

<table>
<thead>
<tr>
<th>Date of receipt by the Bank</th>
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<tr>
<td>01-Jun-2018</td>
<td>04-Jun-2018</td>
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"In country" Disclosure

### Indigenous Peoples Development Plan/Framework

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"In country" Disclosure

### C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

#### OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?  
Yes  
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?  
No  
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?  
Yes

#### OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?  
Yes  
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?  
Yes

#### OP/BP 4.10 - Indigenous Peoples
Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?
Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes

If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?
NA

**OP/BP 4.12 - Involuntary Resettlement**

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
No

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
NA

**All Safeguard Policies**

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes
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APPROVAL

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Joonkyung Seong
Jukka-Pekka Strand
### Approved By

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
<th>Date</th>
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<tbody>
<tr>
<td>Safeguards Advisor:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Practice Manager/Manager:</td>
<td>Julia M. Fraser</td>
<td>13-Feb-2019</td>
</tr>
<tr>
<td>Country Director:</td>
<td>Achim Fock</td>
<td>13-Feb-2019</td>
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