

VIETNAM

1 CDM investment climate index: regional comparison

CDM investment climate index (CDM ICI), Asia April 2009 (excerpt)

| Rank | Country | CDM ICI (max 100 points) | Regional classification |
|------|--------------|--------------------------|-------------------------|
| 1 | Malaysia | 91.7 | Very good climate |
| 2 | Korea (Rep.) | 90.2 | Very good climate |
| 3 | Thailand | 83.7 | Good climate |
| 4 | PR China | 83.3 | Good climate |
| 5 | India | 80.7 | Good climate |
| 6 | Indonesia | 80.1 | Good climate |
| 7 | Philippines | 79.5 | Good climate |
| ... | ... | | ... |
| 25 | Vietnam | 54.4 | Average climate |
| ... | ... | | ... |

Source: DEG - Deutsche Investitions - und Entwicklungsgesellschaft mbH
(For calculation method, see www.kyoto-coaching.cologne.net)

The CDM ICI measures the investment climate for CDM projects. It can range between 100 points (highest) and 0 points (lowest). Altogether, the climate is rated as 'average' in Vietnam. The reasons for the current assessment are the general investment conditions, intransparent administration, the taxation of CDM projects and the small number of registered projects to date.

2 General climate for foreign investments

| General economic statistics 2008 | |
|---|---|
| Population: | 86.0 million inhabitants |
| Nominal GDP: | US\$ 76.3 billion |
| Per capita GDP: | US\$ 887 |
| GDP growth (real): | +6.2% (forecast 2009: +4.5%) |
| Consumer prices: | +23.0% |
| Goods exports: | US\$ 63.0 billion |
| Goods imports: | US\$ 79.9 billion |
| Foreign direct investments: | US\$ 11.5 billion |
| Foreign debt (end of 2008): | US\$ 27.2 billion |
| Currency reserves (end of 2008): | US\$ 23.0 billion |
| Exchange rates (end of 2008): | EUR 1 = VND 24,338; US\$ 1 = VND 17,400 |
| Country credit rating acc. to Institutional Investor (March 2009) | 44.1 of 100 points (Rank 79; -7.0 points compared with previous year) |
| Corruption Perceptions Index 2008 (Transparency International): | 2.7 out of 10 points (Rank 121; 10 = free of perceived corruption) |

Locational advantages:

Highest GDP growth in South-East Asia in recent years, WTO member since 2007, low wage costs, flexible production capacity with pronounced export dedication

Locational disadvantages:

Lengthy bureaucratic approval procedures, infrastructure deficits (power supply, transport sector), shortage of skilled personnel, heavy dependence on exports and foreign direct investments, language barriers (local lack of English language skills)

3 Specific climate for CDM projects

3.1 Ongoing and planned CDM projects in the country

Although Vietnam already ratified the Kyoto Protocol in 2002 and is considered as affording large possibilities for CDM climate protection activities, the CDM Executive Board (EB), the UN body in charge of the international recognition of CDM projects, had only registered four projects by mid-April 2009. In terms of registered projects, Vietnam thus lagged well behind other South-East Asian states, such as Malaysia (45), the Philippines (27) or Thailand (16).

The four EB registrations comprised one measure for the extraction and use of natural gas at the Vung Tau oil field, a small hydropower project in Thanh Hoa, a landfill gas project in Ho Chi Minh City as well as a 30 MW windpark in Binh Thuan. Altogether, the four projects are expected to generate certified emission reductions (CERs) of about 0.89 million tonnes of carbon dioxide equivalent (CO₂e) a year.

The national CDM market, which had already set up a Designated National Authority (DNA) in 2003, has made very little progress to date, although there have been some developments as of 2008. By April 2009, the Vietnamese DNA had issued national letters of approval to 82 projects, to 62 of these since the beginning of 2008 alone. A list of the activities with national approval and further information on the CDM sector in Vietnam is available at the DNA website (www.noccop.org.vn). At the end of April 2009, 64 Vietnamese CDM projects were in the process of validation.

About 70% of the CDM projects approved by the DNA till now involve hydro power plants. The scope for more measures of this type is, however, limited. Good CDM prospects are seen in renewable energies, particularly windpower and biomass projects. Also promising are activities to raise energy efficiency, landfill gas projects, methane gas projects in livestock farming and projects for switching to low carbon or carbon-free fuels.

Experience is, however, still lacking with the set of CDM instruments at all levels. At present, the opportunities afforded by CDM are hardly known in Vietnam. The largest obstacles to implementation are a lack of technical know-how and English language skills. Many prospective project initiators have great difficulties calculating emission reductions and submitting the requisite evidence of 'additionality' as compared with the business-as-usual scenario. In many fields, the methodological groundwork (ascertaining emission factors and baseline data, etc.) has not been done. Moreover, none of the local consulting firms seems able as yet to design viable project models without foreign partners.

Support in local capacity building is in part provided by UNEP, the Asian Technology Institute and GTZ. Under the Climate Protection Initiative of the German Federal Environment Ministry (BMU), GFA Envest in Hamburg has been contracted to implement a Programme of Activities (PoA) in Vietnam for the application of biogas facilities based on liquid pig manure in micro-enterprises. On behalf of the BMU, the German Kreditanstalt für Wiederaufbau (KfW) is promoting a portfolio of feasible PoAs in various countries, including Vietnam. Together with Vietnamese partners, it is planning a PoA for improving energy efficiency and fuel switching in small and medium-sized enterprises (SMEs).

Buyers or prospective purchasers of Vietnamese CERs so far have been large energy companies (RWE, Tohoku Electric Power, Tokyo Electric Power, Kyushu Electric Power, Essent Energy Trading BV, Shell International, etc.) along with various carbon funds and brokers (e.g. KfW Carbon Fund, Tricorona AB or EDF Trading). Vietnam is therefore also interesting for CDM investors to avoid overconcentration on individual target markets for a broader risk spread.

Vietnam is also generally predestined for climate protection measures in the so-called voluntary market, but it has not yet succeeded in positioning itself for projects combining climate protection with aspects of poverty reduction, for example. This market segment is, however, currently suffering in particular from the drop in certificate prices as a result of the global financial and economic crisis.

3.2 Mode of operation of Designated National Authority (DNA)

The main national contact point for CDM projects is the DNA. In Vietnam, this function is performed by the Department of Meteorology, Hydrology and Climate Change in the Vietnamese Ministry of Natural Resources and Environment (MONRE). The Vietnam National Steering Committee for the UNFCCC and KP (VNNSC) also plays a major advisory role in national decision-making procedure on CDM projects. This consists of fifteen members representing a total of fourteen ministries and agencies.

The approval procedure is primarily regulated by Circular No. 10/2006/TT-BTNMT issued by the Environment Ministry on 12 December 2006, Guidance on the formulation of CDM projects under the Kyoto Protocol in Vietnam. If investors need a Letter of Endorsement (LoE), they must submit the Project Idea Note (PIN) as a first step. Otherwise, the Letter of Approval (LoA) can be applied for directly with the Project Design Document (PDD).

Sixteen copies each of the PIN and the PDD must be submitted in English and Vietnamese. The DNA even requires additional documents for the PDD, in particular the Environmental Impact Assessment (EIA). A validation of the PDD is not stipulated for the LoA. The DNA appraises the completeness of the documents and their compliance with the Vietnamese CDM criteria and goals. After that, it passes it on to the VNNSC. Based on the assessment by the VNNSC and the DNA, the Vietnamese Environment Minister issues the LoE or the LoA directly.

Provided the documents are submitted in full and no more changes are required, the decision on the LoE shall be made within 25 working days. A maximum period of 50 working days is scheduled for the LoA. In practice, however, issuing the LoA can take up to one year. One reason for this delay is that the DNA only meets every three months for an approval briefing.

All regulations of relevance for CDM are summarised in the DNA's Vietnamese-English booklet, 'Mot so van ban quy pham phap luat'. More detailed information and the necessary forms are also available there. An English version of Circular No. 10 (without annex) is available on the Internet at 'http://vfu.edu.vn/ar-cdm/attdoc/webdoc/monre_circular_2006-2010.pdf'.

3.3 Local consultants, validators and verifiers

In the estimation of market analysts, hardly any local consultants are able to support a project from the beginning up to registration, particularly for new project types in need of new methodologies and baselines.

Leading local CDM consultants are RCEE and Vietnam Energy and Environment Consultancy (VNEEC), both based in Hanoi. Others include the Vietnam Institute of Energy, Electricity of Vietnam (EVN) or also the Investment and Trade Consultancy Co. Ltd, (INTRACO). Various foreign consultancy firms are also engaged on the market, the German GFA, for example.

The well-known international validators and verifiers are engaged on the market as Designated Operational Entities (DOEs). In terms of the number of project validations, TÜV Rhineland and DNV play a leading role, but TÜV Nord and TÜV Süd are also well positioned. At least three to six months must be planned for the validation process, more likely up to a year. The accredited validators and verifiers generally lack enough local experience and have their validation experts flown in from abroad. Some experts even refer to a validation trap, in which many Vietnamese CDM projects are caught.

One reason for the delays according to a representative of the local consultancy firm, RCEE, are ongoing changes in major technical and economic parameters in practice, necessitating amendments to the submitted documents. Project operators are frequently unaware that these changes need to be reported, to the detriment of validation and verification procedures.

3.4 Local legal requirements and taxation aspects

The following guidelines or decrees make up the legal framework for CDM: Circular No. 10, already mentioned above, Directive No. 35/2005/CT-TTg of 17 October 2005 on the implementation of the Kyoto Protocol, Decision No. 47/2007/QD-TTg of 6 April 2007 on approving the Kyoto Protocol implementation plan for the period 2007 to 2010 and Decision No. 130/2007/QD-TTg of 2 August 2007 on financial mechanisms and policies applicable to investment projects under the CDM, the latter including regulations for CDM projects on taxation, land use or depreciation.

Interministerial Circular No. 58/2008/TTLT-BTC-BTNMT of 4 July 2008 on the implementation of the Kyoto Protocol implements initial regulations from Decision No. 130. The country has introduced taxes on the sale of CERs and their transfer abroad. Depending on the sector to which the project is assigned, the charges range between 1.2% and 2% of the CER sales price or the current market price for transfer abroad. The proceeds are paid into the Environmental Protection Fund. Under certain conditions, the Circular also provides for CDM projects that generate power from wind, sun, geothermal energy, methane gas extraction or tidal movements to apply for subsidies in the form of project-specific surcharges on feed-in compensations.

The same legal provisions generally apply for foreign direct investments in CDM projects as for other projects in the relevant sector. The national conditions for approving CDM projects are modelled on the international criteria. The current Decision No. 158/2008/QD-TTg of 2 December 2008 on the 'National Target Program' in response to climate change has not played a role in CDM till now.

3.5 CDM partnership agreements

Vietnam works with many partners on climate issues, with Austria and Japan or also with Germany, for example. A new cooperation agreement was signed with Denmark in December 2008 with a financial framework of EUR 40 million. Vietnam cooperates with the Japan International Cooperation Agency in afforestation under CDM (for more information on this, see 'www.vfu.edu.vn/ar-cdm').

3.6 Opportunities for CDM projects in the energy sector

Due to growing energy needs, highly inefficient energy use and a large potential for renewable energies, Vietnam is a promising candidate for CDM projects in this sector. In the last few years, demand for electricity increased by about 15% a year (2008: +13.7%), about twice as fast as GDP. Representatives of the state power supplier, Electricity of Vietnam (EVN), predict that the increase in power demand will exceed GDP growth by about double in the next five to ten years.

Energy and environmental data

| | Vietnam | Asia ¹⁾ | OECD |
|--|------------------------------|--------------------|-------|
| Primary energy supply (Mtoe 2006) | 52.3 | | |
| of which from renewable energy sources ²⁾ | approx. 12% ³⁾ | | |
| Electricity consumption (TWh 2006) | 50 | | |
| of which from renewable energy sources | approx. 30-40% ³⁾ | | |
| CO ₂ emissions from fuel combustion (Mt, 2006) | 83 | | |
| Electricity consumption/capita (kWh/capita, 2006) | 598 | 667 | 8,381 |
| CO ₂ /Primary energy supply (t of CO ₂ /toe, 2006) | 1.58 | 2.04 | 2.32 |
| CO ₂ per capita (t of CO ₂ per capita, 2006) | 0.98 | 1.28 | 10.93 |
| CO ₂ /GDP (kg of CO ₂ /US\$, purchase power parity 2000; 2006) | 0.34 | 0.35 | 0.41 |

1) without PR China; 2) without traditional biomass use, one of the main sources of primary energy in rural areas; 3) mainly hydropower

Sources: IEA, dena

Apart from hydropower, the scope for CDM activities in renewable energy has been largely left untapped. The natural conditions for these kinds of activity are exceptionally good (2,400 hours of sunshine per year, 3,000 km of windswept coast, etc.). According to an EVN publication, Vietnam could install generating capacities of 513 GW in windpower alone. A particularly promising option in biomass is power generation from residue in the production of sugar (bagasse) and rice (rice straw and husks) as well as other agricultural produce.

The dissemination of renewable energies and the implementation of measures for raising energy efficiency are, however, hampered in Vietnam by the present regulatory framework, insufficient support measures and government administered electricity prices. A problem for

CDM projects in the energy sector is also the lack of reliable official data on the Vietnamese power grid, making it much more difficult to calculate viable emission factors and baselines for ascertaining CO₂ savings.

3.7 Finance facilities for CDM projects

Maturity-matched long-term project finance for private enterprises is difficult to obtain locally in Vietnam. Although Vietnamese banks are obliged to provide the capital market with liquidity for investments in the business downturn, appraisal procedures are often intransparent, especially for foreign investors. Some Vietnamese private equity funds are also interested in providing capital for CDM projects.

The Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG) has been engaged in Vietnam since 1994. It offers long-term project finance on commercial terms (including long-term loans, mezzanine finance, equity contributions and guarantees). It is one of the few institutions in the country that provides long-term finance for the private sector. Drawing on CDM know-how available from the Kyoto Coaching Cologne (KCC) network, DEG seeks ways to account for CER proceeds in project calculation.

Moreover, DEG can cofinance pre-investment or support measures with beneficial developmental impacts under the PPP programme of the Federal Ministry for Economic Cooperation and Development (BMZ) with up to EUR 200,000.

4 Recap

Despite general good external support, the Vietnamese CDM market has only developed very slowly till now, lagging well behind its potential. Past constraints have been the frequent lack of know-how and inordinate financial expectations at provincial level or on the part of project operators. This is one reason why competent and trustworthy project developers are needed locally.

Of crucial importance for the future will be whether Vietnam can establish itself as an interesting alternative to the CDM 'giants' China and India. Thailand, Indonesia and the Philippines in particular have set an example. Important here is increasing local experience in preparing and implementing CDM projects, ensuring efficient and transparent approval procedures and reducing the relatively high transaction costs as a result.

5 Advice/Service

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Imprint

Published by:

Germany Trade and Invest

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Headquarters: Friedrichstraße 60, 10117 Berlin

Chief Executive: Michael Pfeiffer

Registered at Local District Court: Charlottenburg · Registration Number: HRB 107541 B

Germany Trade & Invest is supported by the Federal Ministry of Economics and Technology and by the Federal Ministry of Transport, Building and Urban Affairs in accordance with a German Parliament resolution.