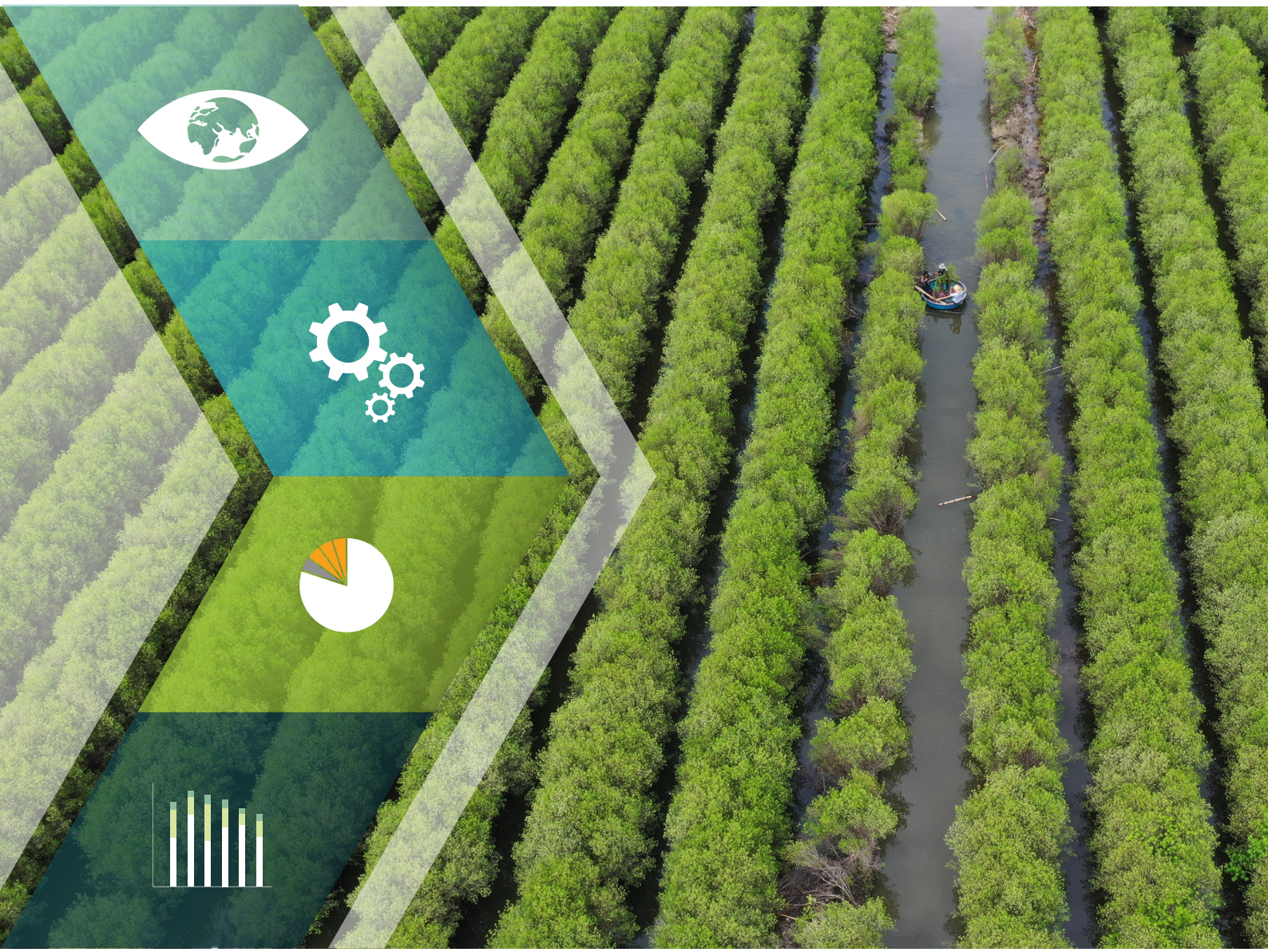

CLIMATE PUBLIC EXPENDITURE AND INVESTMENT REVIEW OF VIET NAM

SUMMARY FOR POLICY MAKERS

March 2022

Designed by: Phan Huong Giang/UNDP Viet Nam
Cover photo: Bui Thanh Trung

Detailed CPEIR report can be accessed at https://www.vn.undp.org/content/vietnam/en/home/library/

Introduction

The *Climate Public Expenditure and Investment Review* (CPEIR) report provides a review of climate change expenditures and budgets of 6 ministries (Ministry of Agriculture and Rural Development (MARD), Ministry of Natural Resources and Environment MONRE), Ministry of Transport MOT), Ministry of Industry and Trade (MOIT), Ministry of Construction (MOC), and Ministry of Science and Technology (MOST), and 28 provinces and one nationally managed city (Can Tho). This concerns public investment and recurrent expenditure with domestic resources as well as Official Development Assistance (ODA). It covers the period 2016-2020, and also includes some expenditure data for the period 2011-2015 on 5 ministries (MARD, MONRE, MOT, MOIT, MOC) and three provinces (An Giang, Bac Ninh and Quang Nam). It reviews relevant national, sectoral and province/city policies on climate change and green growth for the period 2011-2020.

The CPEIR makes recommendations on enhancement of climate change planning and budgeting. This includes a recommendation on climate change expenditure tracking of national and provincial/city budgets, to strengthen the climate change responsiveness of public finance management and inform climate change policy. The analysis can also contribute to mobilization and diversification of funding for climate change action. This Summary for Policy Makers highlights some findings and focuses on the recommendations.

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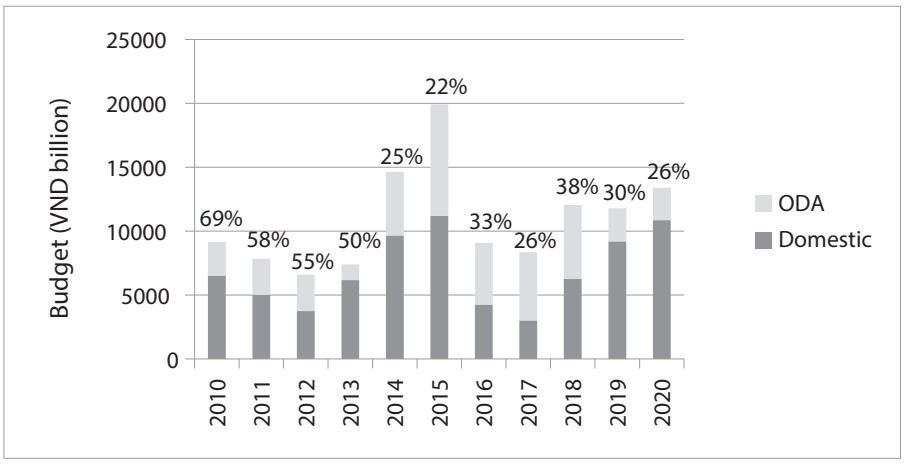
Ministry climate change budgets

The climate change budget of the 6 ministries combined was between 8,000 – 13,500 billion VND from 2016 – 2020, representing between 26 and 38% of the combined total ministry budget (see figure below). The focus was on adaptation, which is aligned to national policies, as mitigation is mainly in the private sector. Over 90% was towards "Climate Change Delivery"; the remainder was towards "Science, Society and Technology" and "Policy and Governance".

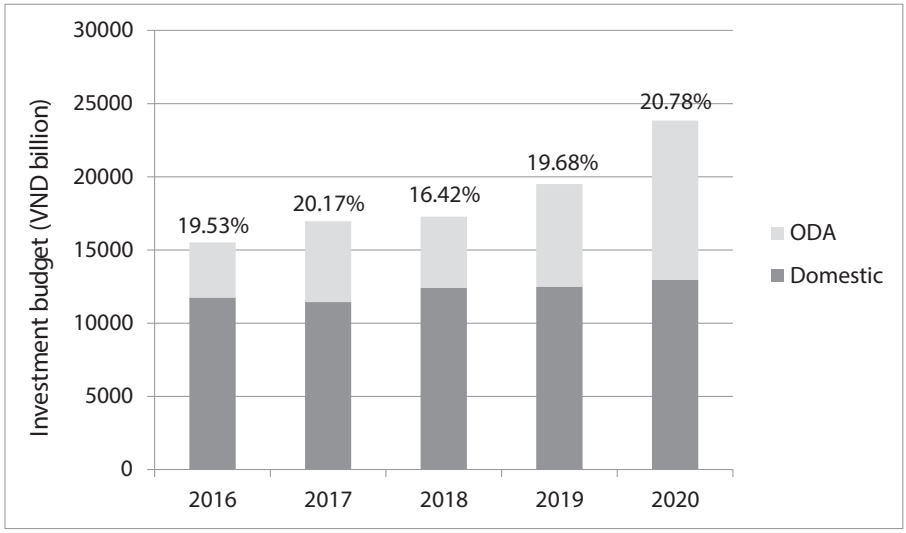


The climate change related budget of 6 ministries divided into ODA and domestic sources. The figures above the bars are the % climate budget of the combined total ministry budgets. Data prior to 2016 was taken from the CPEIR of 2015 and is indicative only.

MARD and MOT dominate the climate change budget with together about 8,000 billion VND per annum expenditure from 2016-2020 (e.g., irrigation and roads). The other ministries have more diverse expenditures, covering adaptation, mitigation and mixed adaptation and mitigation activities. The diversity of climate related activities of ministries reflects the climate interventions identified in policy.

Provincial climate change budgets

The average climate budget of the 29 provinces/city increased from about VND 15,000 billion in 2016 to almost VND 24,000 billion in 2020 (see figure below). The domestic budget allocation was stable, but ODA tended to increase. The climate change budget represented a relatively stable proportion of the total provincial budget, varying between 16 – 21% of the total budget.



The average climate investment budget for the 29 provinces/city, with ODA and domestic sources (figures above bars are the % climate investment of the total provincial investment budget).

Adaptation was the dominant expenditure, representing over 90% of the climate budget, which is consistent with policy priorities for public investment, whereas mitigation expenditure is mainly in the private sector. Over half of "Climate Change Delivery" was on Transport, Residential and City Area Resilience, Irrigation, and River Dyke and Embankments, i.e. infrastructure. Inter-annual volatility of provincial climate change budgets was high, because of fluctuations in ODA flows relating to the start or ending of large projects. Analysis of trends in three provinces (2010–2020) demonstrated an increase in the climate related budget, i.e., climate change is increasingly funded. There is evidence of differential targeting between provinces in climate expenditures which is related to different local context and needs.

Allocation of climate change budgets to policies

The linkages between the climate-related investment budgets and climate change-related policies were assessed, i.e., the National Climate Change Strategy 2011-2020 (NCCS), Green Growth Strategy 2012-2020 (GGS) and Plan for Implementation of the Paris Agreement (PIPA), as well as related provincial action plans. Budget allocations were linked to the "strategic actions" (NCCS), "solutions" (GGS) and "tasks" (PIPA). The CPEIR typology and classification of expenditures were linked to these high-level results of policies, determining climate budgets in a quantitative manner.

This revealed methodological limitations, as the transport budget tended to be linked to adaptation whereas policies in the transport sector focus on mitigation. Furthermore, the GGS and PIPA are broader than the climate change typology, whereas the GGS does not address all climate change challenges, so that not all the actual climate expenditure could be linked to these policies. Of all the climate investment budget a total of 64% of the ministry investment budget for ministries, and 45% of provinces could be tracked onto GGS solutions. This demonstrates that much care in codification should be taken if a regular and systematic climate finance tracking is developed.

The allocation of climate budget to the NCCS showed that over 50% of the budget was linked to food and water. Provinces were focused on concrete interventions, such as food and water, sea level rise, and forest development. The infrastructure expenditures dominate and "soft" aspects such as awareness raising and capacity building are small expenditures but are included in climate-related policy. There are opportunities for better alignment between plans and climate change budgets, e.g., in relation to expenditures in road and waterway transport which may have adaptation and mitigation benefits but that is not clear in respective policies.

Using the CPEIR results effectively

The CPEIR information can be used to strengthen the climate change responsiveness of the public finance management system, and promote climate-related interventions through provinces and line ministries. It can also be used to adjust policies, and to raise finance from different sources.

It is recommended to use the results of CPEIR as follows:

a) ***Inform future policy formulation with expenditure analysis, and demonstrate Viet Nam's commitment to implementing the Paris Agreement on Climate Change, including achieving net-zero emissions by 2050; for this, the CPEIR can be repeated periodically***. The CPEIR provides a snapshot of public climate change investment and expenditure by sector ministries and provinces, including a list of projects, programs, total investment, capital sources, the proportion of climate change investment against total annual or medium-term public investment plan, etc.

b) ***Focus budget-policy linkage analysis on sectors with the biggest improvement potential***. Sectors with the largest allocations are water management in agriculture and transport infrastructure. Strategic consideration is also needed in the distribution of funds between

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sectors, to ensure that sector-based allocation reflects priorities.

c) ***Prepare, adjust and supplement the annual budget in line with the 5-year medium-term public investment plan related to climate change***. Through the CPEIR data on climate change expenditure, ministries and provinces could identify whether the investment rate for climate change adaptation and mitigation is reasonable or not, and whether it is aligned with relevant climate change policy and plans, and adjust the investment list and budget allocation accordingly.

d) ***Inform the use of financial instruments to achieve climate change targets***. For example, the CPEIR information can be used to promulgate financial instruments to synergise the climate change response through tax exemptions or subsidies, or discourage undesirable behaviours with e.g. carbon or other environmental taxes. Public sector bonds may be issued for areas of financial paucity. Feasibility of such instruments should be explored by MPI and MoF.

e) ***Establish a basis for mobilizing and diversifying domestic and international funding sources to address climate change***. The expenditure data generated in this CPEIR demonstrate the difference between areas of climate change expenditure, including between hard and soft interventions, adaptation and mitigation per ministry and province. Ministries and local governments can compare that to their climate change and green growth priorities and can adjust allocations and/or mobilize additional investment. This can include ODA and innovative financing modalities, as international finance partners are realising the value of climate finance mapping.

f) ***Establish a basis for improving citizens participation in responding to climate change***. The climate budget supply-side analysis can help to meet demand-side perceptions of effectiveness of climate expenditures, from NGOs, communities, parliamentarians, and auditors. The creation of accessible summary budget documents and sharing with the wider community will help advance the climate narrative and promote strengthening of the climate response.

Mainstreaming climate change and strengthening climate change resource allocation

The 10-year Socio-Economic Development Strategy (SEDS) and the 5-year Socio-Economic Development plan (SEDP) provide national and local priority policies. The public budget estimation and allocation is based on them. However, there are different strategies and plans related to climate change, which identify targets, and only some indicate budget requirements. Climate change is relevant to many sectors, and climate change responses must also be mainstreamed in policies and plans of sector ministries and provinces. For provincial annual investment budgets, priority projects are selected by the provincial People's Council and put in the provincial Medium-Term Public Investment Plan (MTPIP), and after appraisal some of these projects are funded, including climate change investments.

Recommendations from the CPEIR are that:

g) ***The Climate Change and Green Growth strategies and their action plans should be reflected in objectives and targets of many sector***

policies as well as the overall SEDP.

h) ***The Ministry of Planning and Investment (MPI) should issue guidelines for integrating climate change-related plans and projects into an annual consolidated public investment plan of ministries and provinces/cities.***

i) ***The Ministry of Finance (MOF) should provide instructions on allocation of recurrent expenditures on climate change tasks in the annual budget plan.***

j) ***An annual consolidated action plan of climate change investment and recurrent budget will be the basis for allocation of climate change budget to ministries and cities/provinces.***

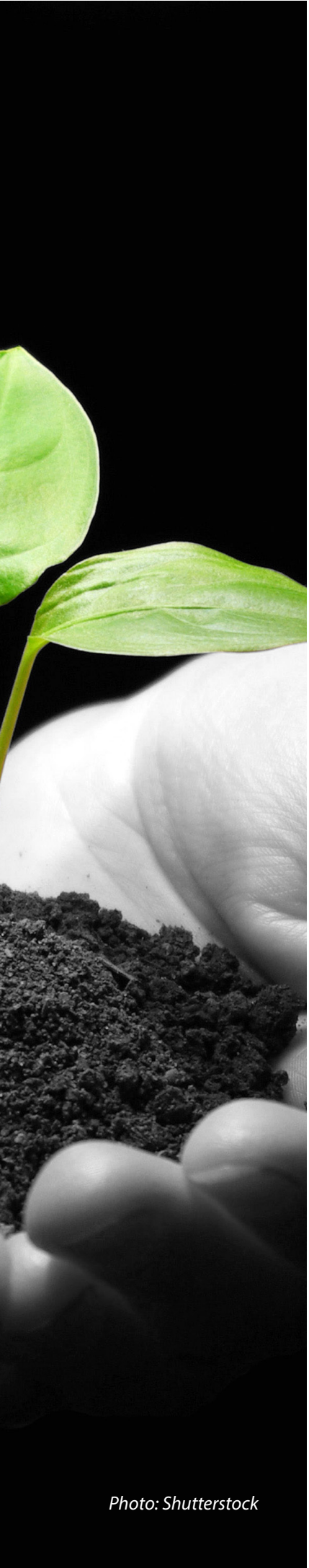
Thus, the 5-year SEDPs should reflect the priorities in the climate change policies with estimated financial resources and direction for the (investment and recurrent) state budget allocation.

SYSTEMATICALLY TRACK AND REPORT CLIMATE CHANGE BUDGET AND EXPENDITURE

Viet Nam has made strong efforts to reduce greenhouse gas (GHG) emissions and strengthen climate change adaptation in the past decade, and commitments for the period to 2030 are reflected in the updated Nationally Determined Contribution (NDC) of 2020. Viet Nam has undertaken CPEIRs over the past years to provide a "snapshot" of the public investment and expenditure on climate change. This provides information for policy makers, but it is retrospective and is not useful for real-time decision making. Some private investment projects are entitled to preferential policies such as tax incentives, or concessional loans from state funds (e.g. the Environmental Protection Fund, National Technology Innovation Fund) but this was not included in the CPEIR as data were not accessed. National climate change expenditure includes private sector spending too but there is no tracking system, and it was also not included in the CPEIRs.

The investment budget and the recurrent expenditure budget are managed separately, by MPI and MOF and local affiliated departments. The state budget expenditures on climate change by ministries are reflected in the central budget and provincial/city authorities decide on climate change response expenditures at the local level; and central and provincial levels track and report their own expenditures. Most public investment is aimed at climate change adaptation, and public expenditure for mitigation is mainly recurrent (e.g. scientific and technological research; capacity building). Any system to track climate finance needs to capture these diverse flows.

In addition to building a Measurement, Reporting and Verification (MRV) system of GHG emissions and adaptation activities and report to the United Nations Framework Convention on Climate Change (UNFCCC), Viet Nam must also monitor climate change expenditure. Tracking and reporting climate change spending will be useful in assessing the effectiveness of policy and formulating new climate change policy. To be able to generate accurate information this should be undertaken by proponents in provinces and ministries instead of external experts. A monitoring and reporting system must integrate data at the central and local levels, and it should include both investment and recurrent expenditure.



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It is important to develop a comprehensive monitoring and reporting system, to improve climate change budgeting, inform climate change policy and planning, and to communicate climate expenditure to the international community. This should include investment and recurrent expenditure at the central and provincial levels, off-budget public spending, and possibly private investment too.

Recommendations:

k) ***Review and update the Guidelines on Classification of Public Investment for Climate Change, both the 2014 CPEIR methodology (for both investment and recurrent expenditure, but lacking detail) and the 2018 guidance in Decision 1068 of MPI (only for public investment).*** Updated guidelines should become more scientific and detailed, easier to apply, and enable classification of both investment and recurrent expenditure on climate change.

l) ***The requirement to provide information on climate change relevance in investment policy reports and project feasibility studies should be integrated into legal documents (e.g., on ODA and investment) and guidance for public budget planning and estimation.*** This will enable the budget monitoring and reporting system to track projects from the project proposal phase to completion, as information on disbursement should be included in the annual project implementation report.

m) ***For recurrent public expenditure, a single task code for climate change spending should be included in the budget index in order to track climate change spending through the Treasury and Bank Management Information System (TABMIS).*** Climate change spending covers all sectors, so it is necessary to define how much of a budget is climate change relevant in each sector. As per the state budget index, classification is based on expenditures for national programs, targets, and projects that are tracked separately, climate change spending needs to be coded to be tracked through the TABMIS.

n) ***A unified software system should be upgraded to integrate the tracking of climate change disbursements of central and provincial public investment projects, providing annual information***. This can be a new function in existing software for public investment projects reporting that MPI is managing, based on international experiences in climate finance tracking.

o) ***Monitor off-budget State expenditures through incentive funds that provide e.g. low interest loans to private investors for energy efficiency investments, and some businesses benefit from tax exemptions and/or subsidies with relevance to climate change***. This concerns public expenditure and requires special efforts to map retrospectively, or to monitor on a real-time basis. It requires data from the special funds and from tax and custom agencies on tax exemptions.

p) ***New regulations might be introduced for (large) businesses to report on their climate change adaptation and emissions mitigation investments and expenditures as part of their annual financial statements, encouraging them to follow similar typology and methodology to public expenditure monitoring.*** This could include mandatory estimates of planned climate change relevant investments as they apply for investment licences. This would provide important data on national climate change expenditure.

q) ***The data on public climate change expenditure, including off-budget State expenditure, as well as some private sector climate expenditure, should feed into the national climate change MRV system.***


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Strengthen capacity on climate change policy and finance

Review of public climate change investment and expenditure and planning by ministries and provinces should be strengthened to ensure a clear and comprehensive analysis of public sector tasks and prioritized expenditure. Simultaneously, ministries and provincial People's Committees, and provincial Departments of Planning and Investment must have a solid understanding of climate change and green growth policies and the ability to assess the impacts of climate change and necessary responses.

Recommendations:

r) ***Strengthen the capacity of officials on climate change and green growth policies, and on the guidelines for climate change investment and expenditure review such as classification, coding, analysing and preparing reports.*** The roll-out of a climate change tracking system will need to be promoted through capacity building workshops coupled with Training-of-Trainer courses.

s) ***There is a specific need to build capacity to implement the proposed expenditure monitoring system of MPI to allow provincial and ministry representatives to undertake this independently.*** The monitoring system must be fully operational in provinces to capture their climate budgets and would be strengthened by annual reporting on climate change and green growth action plans.

Capacity building should include:

- Capacity of ministries on climate change expenditure, as a basis for determining priority targets, actions, solutions as well as mainstreaming of climate change across relevant sectors.
- The National Assembly and provincial People's Councils make the final decisions about budget allocations so building their capacity on climate finance is important.
- Capacity of provinces to establish links between vulnerability, planning and budgeting in the context of strengthening policy development and implementation of the National Adaptation Plan (NAP) and NDC, and the VGGS and NCCS for the period from 2021 onwards. As provinces shape their MTPIP, building capacity to embed climate change priorities is vital.
- Given the strong role of businesses in mitigation activities, capacity building activities should also cover climate change relevant private investors.