[REPORT TASK I.7.1] ANALYSI OF EXISTING AND POTENTIAL FINANCING SOURCES, INSTRUMENTS AND INCENTIVES TO SUPPORT MITIGATION ACTION IN VIETNAM'S CEMENT SECTOR

EXECUTIVE SUMMARY

There is a large variety of already existing and potential financing sources, instruments and incentives, which could be applicable to the financing of NAMAs. The report identifies them and assesses their potential to be utilized to implement the mitigation activities involved in the cement industry NAMA in Vietnam.

The paper is based on a review of publicly available information, existing reports and consultations with stakeholders in Vietnam on 11-13 March 2015.

The main objective of the report, implementation approach and key sources of information are presented in the introductory chapter.

Chapter 2 highlights the importance of incentives to encourage the implementation of mitigation actions. The decision to implement such actions is usually the result of a commercial risk-reward determination that is catalysed through the availability of the tangible incentives, which can be commercial (i.e. an increase of the coal-price), created via fiscal policy instruments (i.e. a carbon tax or subsidy), carbon market mechanisms (an attractive price for carbon credits) or command and control regulation (i.e. a mandatory energy efficiency standard).

Therefore, NAMA design needs to be based on a) a detailed understanding of the domestic policy objectives that NAMA implementation supports, b) identification of the public sector stakeholders that are responsible for achieving these policy objectives, and c) assessment of their willingness to pay/current spending to achieve these policy objectives. Once these key public stakeholders are identified, they need to be involved in the design process of the NAMA institutional / regulatory framework as well as NAMA financial architecture with the objective of creating a jointly funded incentive package that complies with international NAMA rules.

As a result of having created an interesting commercial investment environment and incentive package, the bulk of the required investments can then come from the national private sector and international donors. The bottom line is that domestic incentives and support instruments, as well as funding from the national budget will help attract international donor funding and create the conditions for sale of carbon credits, which in turn will **leverage** national and international private funding.

Chapter 3 provides a mapping of potential sources of financing for a cement-sector NAMA in Vietnam, which were grouped into four main categories:

1. **Domestic public:** Domestic policy-driven and climate policy-driven public finance, government budget allocations and national targeted programs, government budget allocations to national development institutions and funds, tariffs, tax incentives and penalties, government guarantees and loans, user fees, public-private partnerships (PPPs), pricing mechanisms and regulations.

2. **Domestic and international private**: Indications suggest a high potential for the development of PPPs and energy efficiency projects implemented by state-owned enterprises as a great platform to demonstrate best practices and replicable examples.

3. **International public and public-private:** Multilateral and bilateral development financial institutions, international organisations including UN, international public-private entities, climate and green energy funds, etc.;

4. **Revenues from domestic and international carbon markets**: Vietnam has built substantial capacity within the CDM context. This experience can be leveraged within the context of using scaled-up carbon market instruments inside NAMAs.

Chapter 4 gives an analysis of the existing and potential sources of finance with the view of the best international experience and stakeholder consultations in Vietnam. While this report does not yet rule out the use of any of the identified financial instruments to incentivise mitigation actions in the cement industry, it highlights/prioritizes three instruments that appear to have high relevance, based on a preliminary assessment of international best practices and as a result of stakeholder consultations:

1. **Domestic and international results-based finance** that is transferred against the delivery of outputs determined in terms of GHG mitigation or co-benefits, including carbon credits but without project-level additionality requirements.

In fact, MOIT has already been offering a payment of 1 UScent/kWh from wind power to incentivize the reduction of coal consumption. This instrument could be expanded to the avoided use of electricity, which creates the same benefit (in relation to avoiding coal consumption) as a green kWh (the level of support needs to be assessed in more detail).

Additional co-financing of this nature could come from MARD – in relation to biomass-use related projects (considering their interest to increase rural income) – or from agencies in charge of waste management, in relation to alternative fuel projects.

2. **Performance guarantees for EE investments from domestic public sources.** Feedback received from the cement factories is that there is no trust in the performance of energy efficiency interventions. Performance guarantee instruments would overcome this barrier.

3. **Capex support for state owned companies** (via Green Climate Fund or domestic allocation from budget): State-owned companies do not have access to the financial means required to carry out larger EE investments, even if the financial returns meet commercial thresholds.

The above financial instruments could be refinanced through international public and public-private support for climate change mitigation and energy efficiency actions provided by development financial institutions, international organisations and individual countries through numerous specialized funds and other financing mechanisms.

The potential sources of finance for the future mitigation activities by the cement industry in Vietnam, the requirements of the donors and access modalities are presented in Annex I to this report. The most promising of them are ODA channelled by individual developed countries through various development institutions, funds and cooperation programmes including Multi-annual Indicative Programme (MIP) for 2014-2020 between EU and Vietnam, JICA, ICI, NDF, KfW, ICF; various multilateral funds and facilities like ADB's CCF, CEFPF and CEF, World Bank's CPF and ESMAP, GEF, CTF, NAMA Facility and recently launched GCF; as well as public-private clean energy investment platforms such as CTI-PFAN.

The access requirements to these international sources of finance, especially the new GCF, shall be assessed in more detail in subsequent tasks. Then, relevant readiness activities should be undertaken during Consultation and Readiness phases of the project in order to prepare funding applications according to these requirements.

Based on the findings of this report it is suggested to engage other line ministries that were identified as key stakeholders/potential beneficiaries (MOIT, MARD, MONRE) into design of the cement sector NAMA.

The report was developed under the framework of the Nordic Partnership Initiative Pilot Progamme for Supporting Up-scaled Climate Change Mitigation Action in Vietnam's Cement Sector.

The Nordic Partnership Initiative (NPI) established in December 2011 to support climate change mitigation efforts in developing countries and funded by Denmark, Finland, Iceland, Norway and Sweden. The budget of the NPI Programme in Vietnam is €1.6 million, and it is financed by Nordic Development Fund (NDF) and the Ministry of Construction of Vietnam. The implementation of the Vietnam cement sector Pilot Programme started in March 2014, by a consortium led by NIRAS A/S (Denmark) in collaboration with Perspectives GmbH, South Pole Group, VNEEC JSC and NIRAS Vietnam.

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