

# Mid-Term Review Report of the “Green Growth Strategy Facility (GGSF) Project” in Vietnam

## Executive Summary

The climate change strategy of the Government of Vietnam rests on two main pillars: the National Climate Change Strategy (mainly adaptation) implemented under the responsibility of the Ministry of Environment and Natural Resources and the Vietnam Green Growth Strategy, VGGS (mainly mitigation), under the responsibility of the *Ministry of Planning and Investment (MPI)*. The VGGS, approved by the Prime Minister in 2012 has four main themes: (1) setting up institutions and formulating Green Growth Actions Plans (GGAPs) at the local level; (2) reducing the intensity of GHG emissions and promoting the use of clean and renewable energy; (3) greening of existing production processes and (4) greening lifestyle and promoting sustainable consumption. The latter three are the strategic tasks of the *Vietnam Green Growth Action Plan 2014-2020 (VGGAP)* adopted in 2014.

Within MPI, the Department of Science, Education, Natural Resources and Environment (DSENRE) is the principal agent for VGGS and VGGAP. With the *Green Growth Strategy Facility (GGSF) project*, the Government of Belgium’s Belgian Technical Cooperation (BTC) supports the DSENRE in setting up the GGSF and developing it into an effective entity capable of effectively supporting the implementation of the Vietnamese Green Growth Strategy and achieving GCF accreditation as National Implementing Agency (NIA). The project budget is 5.5 million euros; 5 million of which are provided by BTC, 0.5 million by MPI. The 6-years lifetime of the project, which started mid-2013 (effectively in January 2014), is split into four phases: *set-up* of 6 months; implementation of 60 months split into a *pilot-phase* of 18 months and an *operational phase* of 42 months including dissemination, replication and evaluation; *closure*: 6 months.

The objective of the Mid-Term Review of the joint Belgian Technical Cooperation (BTC) - Ministry of Planning and Investment (MPI) *Green Growth Strategy Facility (GGSF) project*, is to provide strategic guidance for the programme of activities during the remaining project period of the project until end August 2019. The MTR was to analyse the GGSF-project according to the conventional five DAC-evaluation criteria, and covering also horizontal and transversal issues. Specifically, the MTR was to look into the *raison d’être* of the GGSF: its relevance for attracting donor finance to climate change mitigation in Vietnam and achieve GCF accreditation; its ability to unlock barriers to local project finance and attract donor barriers for its activities; and the quality of the two main outputs until now - the Facility Operation Manual (FOM) and the six pilot projects selected in the first round in 2016.

The evaluation started with the desk study on 28 November 2016, which looked at the following information: (i) GGSF-project output documentation; (ii) operational minutes and (iii) information about the VGGS and the VGGAP found on the internet. It was supplemented by stakeholder interviews in Hanoi from January 9 to 20. The program of interviews was well prepared by the GGSF-PMU. Unfortunately, logistical problems prevented a visit to one of the Provinces where pilot projects currently are being implemented; nor did the MTR-team manage to meet representatives from the finance community and business associations.

The review confirms the high long-term value of the introduction of the green growth action plan concept as a transformative tool in Vietnam and the crucial role of the GGSF in driving the transformation process. The GGSF-project design has successfully withstood the test of time and reality. Both the outputs / specific results to be produced by the project and the institutional set-up of the GGSF – the close interaction with the Provincial Governments and the involvement of a cross-ministerial Technical Committee in the selection of pilot projects are proving their worth in practice.

As befitting for a project at mid-term, the cup is half full. The activities up to now had focused on developing and putting in place the operating structure and procedures for the future facility and demonstrating results on the ground through the implementation of pilot projects. In this, the project has succeeded and in terms of quantitative delivery, the project is performing well. Most outputs have been produced later than foreseen in the initial planning, but without major negative impacts. Spending progresses now as planned and the essential outputs are in place: the Project Operation Manual (POM), baseline report, the call for proposals mechanism, the Facility Operation Manual (FOM), the green procurement report, the Communication Strategy Report, the M&E and financial reporting system, the improvement of three Provincial Green Growth Action Plans, the launching of six pilot projects, capacity building for MPI and for PCU staff.

For the remaining period, the focus must change. For both tactical reasons, and for 'let's wait till we have learned from experience' reasons, the project so far has kept its options open and abstained from developing a theory of change, which convincingly demonstrates the institutional void, GGSF is to fill within green growth policy and green growth action. According to the purpose articles in the FOM, the GGSF is to apply its finance strategically to leverage finance for investments in green projects; yet, the composition of the staff for the future GGSF Secretariat reveals a simple challenge fund structure with no expertise in financial structuring. Although intended to be the key institution for attracting and channeling climate finance to priority green growth and climate change projects, the GGSF project has not involved finance experts in any activity – the original plan set out in the approved TFF included an International Expert Financial Matchmaking to help the PMU develop suitable financial structure for the Facility and identify potential investors to the Facility, but the position was not mobilized for some reasons and its budget was used for the extension of the ITA; blending, the dominant future GGSF finance mode has not been tested in any pilot activity; and the GGSF has not attempted to establish interactive collaboration links with the national finance community. Nor has an effective communication strategy for attracting donors been developed, the Communication Strategy report is a good manual for implementing GGSF's communication strategy, it is not a strategy as such.

The following are our recommendations for the 2017-2019 project period.

## 1. Develop a communication strategy to convince donors and Government

The objective of a GGSF communication strategy is to convince the Government of Vietnam (Prime Minister and MOF in particular) and potential international climate finance providers to the GGSF of the strategic value of the GGSF and address concerns which would prevent them from providing support to the GGSF. We see several steps and intermediate results in this communication process.

The first is to very clearly define the future role, position and operating modality of the GGSF by developing the long overdue *Theory of Change (ToC)* for the GGSF concept. The ToC is an excellent visual communication tool liked by donors and the process of preparing it serves to strengthen the strategic focus of the PMU. The key message to convey and present graphically in the ToC, is that GGSF is not about providing investment finance; but about facilitating access to debt finance by providing support which can unlock barriers to finance. We recommend the work on the ToC to be done by the PMU, but using a reference group composed of the members from the TC and of a person from each of the three PCUs to discuss a first draft ToC before it is submitted to the SC for approval.

As a follow-up to the work on the ToC, we recommend that some of *the outcome and impact criteria in the baseline report* are reformulated, as our review of the baseline report identifies criteria of questionable value.

A second component is to *publish the website of the GGSF* with full information about (i) FOM, (ii) upcoming call for tender documents with application procedures, applications forms, selection criteria; (iii) list of accepted pilot projects; (iv) the Provincial GGAPs and a table summarizing the characteristics of the potential projects for selection and (v) M&E results and conclusions about the performed capacity building of GGSF.

Thirdly, *highlight the project financial and economic rate of return in project documents*. Green growth strategy and action is about identifying and promoting the implementation of win-win projects. The project pay-back period is a simple and effective indicator of win-win and of replication potential; meaning of follow-up leveraging. The PMU must in the grant agreements with project developers and in summaries of accepted project on its website include information about the financial and the economic rates of return very visibly upfront in the documentation.

Fourthly, the marketing strategy towards donors should focus on the essential buzzword in international climate finance which is “leveraging”; using limited amounts of public finance strategically to unleash a maximum of private and development bank finance to investments. We suggest that the PMU presents GGSF’s services and interventions in pre-investment and investment finance more or less as follows:

### Pre-investment Finance:

- Capacity building support to agents in the GGAP-planning and project development chain
- Support to applied research to collect core data needed for the design of specific green investment projects (GGSF grant may cover up to 85% of cost)
- Support to required improvement and updating of Provincial GGAPs
- Pre-feasibility and feasibility studies for priority GPs.

## Investment finance

- Financial structuring expertise to identify solutions for the financing of high risk and/or complex projects
- De-risking investment grants to pilot projects (max 50% of cost)
- De-risking finance instruments to enable bank loan finance to projects
- Incremental cost support as payment for public services

A fifth action is to *contact donors who still may be able to provide some finance to GGSF before end of 2019*. We recommend MPI to approach the EU Delegation to express strong need for allocation of EU fund to the GGSF and verify whether this is feasible and the steps needed to be taken to get available funding. We recommend BTC/Belgian Embassy to take contact with the Danish Embassy concerning the possibility to reallocate remaining funds from its Clean Investment Fund (CIF) project to a specific EE-window under GGSF.

Finally, GGSF specifically or MPI in general is to seek *GCF NIA accreditation*. The NIA accreditation process take about 3 years, the MPI needs to initiate the application process as soon as the official founding of GCF has taken place if any finance is to come from GCF by 2021.

The GGSF can pursue three future links with the international climate funds. (i) If GGSF and/or the MPI as such attain status as NIA for GCF, GGSF can submit program proposals of its own and channel finance to projects directly from its own bank accounts. This option is feasible only for relatively small finance requests, e.g. for supporting a range of innovative pilot projects. (ii) For larger investment programs, GGSF can partner with other domestic finance institutions such as VDB and submit joint proposals to GCF, with the partner bank channeling loan finance to projects under its due diligence responsibility and GGSF providing grant finance for capacity building, and pre-investment, de-risking and incremental cost finance support and undertaking M&E and annual progress reporting. This division of labor can be offered also to green investment lending from ADB, AIIB and World Bank. (iii) GGSF can prepare project proposals in collaboration with Provincial Governments and submit these to regional programs such as the EU's SWTCH Asia.

## **2. Get Government decision to establish GGSF as legal entity by 2019**

One cannot expect donors to commit funding before the Government has demonstrated its willingness to put own funding into the GGSF. To secure the sustainability of post 2019 GGSF we recommend MPI to take action to have within a year's time a Government decision on the official legal setting up of GGSF as a legal institution under MPI. This will establish GGSF as a "permanent institution" firmly anchored within the Vietnamese climate finance set-up and enable GGSF to receive Government funding from the MPI's general budget from financial year 2019 forward.

The communication strategy towards the Government must take into account that the words "grant to private investment" and "setting up a new public fund" are an absolute turn-off in Vietnamese Government circles.

Since the Provincial GGAPs include public, private and public-private investment projects, private investors will receive support from GGSF when needed to get a high value project implemented. Not all projects are "pure win-win" projects. Some projects with a high economic

rate of return from Vietnamese society's point of view may not have a financial rate of return from the private investor's point of view which is high enough to motivate the investor to undertake the investment. Yet, because the economic rate of return for the project is very high; GGSF can channel a grant payment to the private investor to move the project's financial NPV from the negative figure into a positive one. It must be clearly communicated to the Prime Minister and the MOF that such incremental cost cover support from GGSF to private investment, is not a "grant" but a "public benefit payment" for the delivery by a private investor of a desired social/green service.

The Government's resistance to the setting up of new Government institutions is due to two concerns: concern about institutional duplication and concern about the cost consequences of increased Government employment and operation. The first can be addressed by clearly indicating the institutional void which the GGSF is to fill: (i) that it is to help generating a large pipeline of high quality investment projects and by doing so attract international climate finance to such projects; (ii) that GGSF will not engage in lending operations; climate loan finance is to be channeled from the international finance community to projects via the VDB and commercial banks. The second is to present a financing proposal that foresees only a small core staff and basic operational expenses to be financed by MPI's general budget; whereas additional staff required for the carrying out of project support work will be financed out of the budget provided by donors for GGSF-project work.

### **3. Operational decisions**

PMU is to update the *FOM* to fully reflect the ToF's view concerning GGSF's position and functions; including also specific points identified in our review in section 3.1.2 above.

In order for the upcoming call for pilot project proposals to provide a more realistic demonstration of GGSF's financing modality, the GGSF must *test blended finance in the upcoming pilot projects*.. At least one of the projects should have a financing structure composed of investor equity, debt finance from a bank and GGSF de-risking and/or incremental cost cover support.

The team believes that the PMU in the preparation and implementation of its blended finance approach would *benefit from technical cooperation with the Global Partnership for Output Based Aid (GPOBA)*, managed by the World Bank. GPOBA has already an OBA-project in Vietnam; in the education sector and -like green growth - GPOBA is multi-sector, managing projects in the energy, water supply, water treatment, waste management, transport, health, education, agriculture (irrigation). GPOBA has superb financial structuring expertise and would go in with a longer-term collaboration objective in mind. Potentially, the initiation of a collaboration could evolve into the development of a GPOBA project; where GPOBA brings in its own money. Typical GPOBA grant money in a GPOBA project budget is from US\$3-6 million. If this happens, it would demonstrate that GGSF can bring in green finance to Vietnam. Finally, GPOBA has co-financing collaboration links with IDA and World Bank. As it collaborates closely with World Bank country programs; there is the prospect of larger WB loan finance coming up at one point in time.

We recommend GGSF in collaboration with some Provincial Governments to *prepare a project proposal to the EU's regional program SWITCH Asia*.<sup>1</sup> If GGSF succeeds in preparing a winning proposal, this would be proof of that GGSF with its close links to the Provincial GGAPs can submit "above average quality proposals" to the international climate finance community and thereby facilitate finance for green growth projects in Vietnam.

*Information about capacity building effort and its results.* We recommend that the M&E officer produces a short summary report about what kind of capacity building and training courses have been organized so far, who participated, what the intended objective of the training activity was and what feed-back participants gave about the value of the activity. The report is to be published on the GGSF website.

*Check IMF's criteria for green lending classification.* The IMF and the World Bank in their green bond issues and associated green on-lending programs have given much thought to the development of operational criteria for accepting an investment, requesting a loan, as green. The GGSF-project has developed excellent criteria of its own. Yet, exchanges of opinion and of experiences in a new field are always useful. We, therefore, recommend PMU staff, including the M&E expert to pay a visit to the green loan expert at the IMF office in Hanoi.

*Gender.* We recommend the PMU to restructure the criteria of screening projects in the way that gender women and men, boys and girls are addressed equitably, e.g. with regard to education, health, economic benefits. In the future, the PMU should consider taking the gender equality issue stronger into account when selecting participants for training/workshops organized by GGSF project.

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<sup>1</sup> <http://www.switch-asia.eu/>