

ANNEX 1. Background to the Assessment of Country's Readiness and International experience for Carbon Trade Exchange Design

Vietnam Carbon Trade Exchange Development

1. The Technical Assistance is an intervention among a series of ETP's support to Ministries of Finance (MOF) and Natural Resources and Environment (MONRE) in the development of the carbon market in Vietnam. In this technical assistance, the consultant, in a close cooperation with MOF and relevant government agencies, will conduct assessment and consultations with relevant governmental authorities, international development agencies, exchange and financial institutions, potential market makers and players and relevant key stakeholders to evaluate the existing legal and infrastructure conditions of Vietnam and to identify the gaps to be fulfilled for development of the carbon market and carbon trade exchange (CTX) in Vietnam. The appropriate legal, institutional and technical solutions, which are developed based on international experience, shall be recommended to the government of Vietnam to facilitate the full legal framework for CTX establishment by 2025 and its physical operation by 2027.
2. Over the past few years, Vietnam has achieved many important achievements in socio-economic development. However, this development comes with a rapid increase in carbon emissions, which tends to increase even faster than the economic growth rate. The main reason is due to rapid industrialization and high demand for supply and use of energy from fossil fuels. Vietnam's updated National Determined Contribution (NDC) in 2022 has forecasted that emissions will more than triple over the period from now to 2030 and reach an estimated amount of 927.9 million tons of CO₂eq compared with the results of the national GHG inventory in 2014.
3. After the Kyoto Protocol, in 2015 Vietnam joined the Paris Agreement on Climate Change and submitted its NDC to the Secretariat of the UNFCCC. In the latest updated NDC in 2022, Vietnam has committed to reduce total GHG emissions by 15.8% by 2030 compared to the normal development scenario with domestic resources and can reduce up to 43.5 % when there is international support through bilateral and multilateral cooperation and implementation of new mechanisms under the Paris Agreement.
4. At the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26), Vietnam pledged to achieve net-zero emissions by 2050 and phase out coal use by 2040. In his speech at COP26, Prime Minister Pham Minh Chinh presented *"Vietnam, as a country with potential of renewable energy, will develop and implement bold measures to reduce GHG emissions with its own resources, along with the cooperation and support of the international community, especially developed countries, both in terms of finance and technology transfer, including the implementation of mechanisms under the Paris Agreement, to achieve net-zero emissions by 2050"*. In addition, Vietnam's pledge at COP26 also made a commitment to reduce methane emissions by 30% by 2030 as well as joining the Glasgow Leaders' Declaration on Forests and Land Use.

5. Along with the implementation of National Programs and Strategies to promote GHG emission reduction in different sectors, Vietnam's efforts are also reflected in the promulgation of the Law on Environmental Protection in 2020 (effective from January 1, 2022 to replace the Law on Environmental Protection in 2014) and Decree 06/2022/ND-CP dated January 6, 2022 on GHG emission reduction and ozone layer protection to institutionalise measures for GHG emission mitigation in post-2020 period. One of those measures is the organisation and development of the national carbon market, implemented in two phases: a pilot phase from 2025 to the end of 2027 and an official phase from 2028. Accordingly, the Ministry of Finance is assigned the leading role in the development and establishment of a CTX, and formulating a financial management mechanism for the operation of the carbon market.
6. In Decision No. 1658/QD-TTg dated October 1, 2021 on approving the National Strategy on Green Growth for the period 2021-2030, with a vision to 2050, the Prime Minister assigned the Ministry of Finance to establish a national carbon market which allows the development of emission allowance exchange mechanism according to market mechanism.
7. The Minister of Finance issued Decision No. 1134/QD-BTC dated June 14, 2022 promulgating the Action Plan of the Ministry of Finance to implement Resolution No. 54/ NQ-CP dated April 12, 2022 of the Government on the Action plan to implement the National Assembly's Resolution on the Economic Restructuring Plan for the 2021-2025 period, in which the **Legal Department is assigned to** *"build and establish a carbon trade exchange based on blockchain technology and promulgate a financial management mechanism for the operation of the carbon market"*.
8. This technical assistance project, among a series of ETP's relevant interventions, is designed upon the request from the Ministry of Finance for support in development of the legal framework and financial mechanism for the establishment and operation of the CTX in Vietnam by 2025 and to prepare for the CTX physical operation by 2027.
10. During the project implementation, close coordination and cooperation with relevant ministries, including MONRE, MOIT, international development agencies, exchange and financing institutions, potential market makers and players and other key stakeholders shall be maintained to ensure the best benefit for all stakeholders and harmonisation with other activities supported by ETP and the international development partners community.
11. The project will include gender consideration in design and implementation to mainstream women in the project activities.