GTZ's contribution to the mitigation of climate change in Vietnam

Providing effective policy advice on economic instruments allows for achieving large economic and environmental impacts. Advised by the GTZ Macroeconomic Reform Programme, on behalf of German Development Cooperation, Vietnam will set an example in South-East Asia and will become the first country in the region to levy taxes not only on energy in terms of refined fuels and coal but also on environmentally harmful substances such as chemicals and pesticides. This will create a promising win-win situation for Vietnam, as the introduction of an environmental tax will help increase state budget revenues. It will also reduce Vietnam's greenhouse gas emissions by between 3,000,000 to 9,000,000 tons within three years of implementation, depending on the tax rate applied. The additional tax revenues can be used for reducing the state budget deficit and/or for strengthening environmental protection activities.

In spite of the progress achieved so far in the area of tax reform, the potential of modern economic instruments to tackle climate change is not yet fully exploited in Vietnam. Economic instruments encompass a wide range of policy tools from pollution taxes, marketable permits and deposit-refund systems to performance bonds. All economic instruments are policy approaches that use market signals (prices) to stimulate environmentally friendly behaviour. This is remarkable because it shows that the Government of Vietnam – albeit firmly based on its model of a socialist market economy – remains committed to a reform process in line with market economy principles.

Policy approaches based on market signals are often contrasted to ‘command and control’ policies that determine pollution (reduction) targets and allowable control technologies, by-laws or regulations. In developing economies, which generally have low capacity for controlling the targets and for sanctioning the polluters, the former can be more easily implemented than the latter. When properly applied, economic instruments induce a high ecological steering function allowing for large greenhouse gas reductions and for setting the right incentives to invest in new technologies to reduce pollution and to increase energy efficiency.

The success factors for the effective implementation of the economic instruments approach in Vietnam so far are illustrated in the following sections.

Cooperation with the right partners

As German Development Cooperation has been providing technical assistance to the Ministry of Finance (MoF) since 1993, GTZ has been able to build a trusting relationship with the ministry’s high-level decision-makers. The Ministry of Finance (MoF) has been a dynamic key partner in applying economic instruments to tackle climate change, especially for the implementation of fiscal instruments. The Macroeconomic Reform Programme has supported the Tax Policy Department (TPD) within the MoF in introducing environmental tax reform.

With GTZ’s access to global networks, the project not only facilitated TPD’s participation in two important international conferences (OECD) on environmental taxation but also organised two study tours to Germany, Denmark, Sweden and Estonia to share the European and global experience on environmental fiscal reform (EFR). As a public sector non-profit enterprise, GTZ has been able to access the relevant expertise of practitioners from German ministries to meet the expectations of our high-level partners with a pragmatic perspective on what can be implemented. To ensure effectiveness in the advisory process, the successful transfer of international know-how is mandatory. GTZ therefore works only with international experts who are able to adapt to the Vietnamese context.

GTZ’s national staff is instrumental for effective cooperation. By mirroring the partners’ satisfaction and demands to the experts as well as returning their comments and recommendations back to the partners, they serve as the main communication bridge and ensure continuous improvement throughout the advisory process.

Achieving results with the right strategy

GTZ’s holistic approach to capacity development is a marked characteristic of its international cooperation activities. In view of that, the project activities aim at building capacities at three levels: at the regulatory level, by providing advice on the environmental tax law, at the organisational level by enabling the Tax Policy Department and at the individual level by providing training, workshops and study tours on environmental fiscal reform for decision-makers including members of parliament and operational staff. With the support of a German NGO, GTZ has developed training for trainers on environmental fiscal reform, which helped kick-start the process.

Effective processes for high-level policy advice

GTZ aims for highly effective processes. Consequently, a regulatory impact assessment (RIA) was carried out on the ecological tax reform in Vietnam analysing the economic, social and environmental impacts (CO, mitigation) and using state-of-the-art modelling techniques. This helped the Vietnamese partner to convince critics by identifying the win-win situation in terms of higher tax revenues and reduced environmental pollution. It also showed that no significant losses in economic growth need to be expected and that poor people will not bear the burden of the price increases that the tax will induce. The draft environment protection tax law was finally approved by the National Assembly on 15 November 2010 and is expected to come into force latest by 2012.

Joint steering to reach the goal

Strong ownership is the key to success in development cooperation. To ensure that the project activities reach the agreed goal, it is one of GTZ’s principles to jointly steer the project. Consequently, it was TPD and not the international expert who took the lead in drafting the environmental tax law, while GTZ acted as resource partner by commenting on the draft law and providing the requested know-how and access to international networks and debates.

Lessons learnt

Advising high-level decision-makers on economic instruments is a challenging business. The task requires several capacities, i.e. the ability to provide the right mix of modalities to customise international know-how to the local conditions, a trusting relationship with the relevant Vietnamese policy-makers and access to global networks.
Using modern economic instruments to tackle climate change