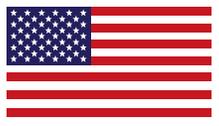




**POLICY BRIEF:**

# Engaging the Private Sector in Climate Adaptation Policies

A VIETNAM CASE STUDY



Private Investment for Enhanced Resilience project



## Climate Adaptation and the Private Sector

Consensus is growing on the need for global climate change adaptation despite lack of agreement on how to fund it. According to the Adaptation Finance Gap Report produced by the United Nations Environment Programme (UNEP) in 2016, by 2030 adaptation costs will range between \$140–300 billion per year (UNEP 2016). These costs cannot be covered by the public sector alone; data from the Climate Policy Initiative show public sector spending on adaptation in 2014 was just \$25 billion (CIF 2016), which underscores the need for increased funding in the coming years. The private sector must therefore be engaged to develop adaptation solutions and help mitigate this finance gap.

One way to enhance private sector engagement is through policy initiatives that incentivize or require businesses to address resilience in their existing operations. Environmental impact assessments (EIAs) provide one such opportunity. EIAs are currently undertaken in many countries and require the private sector to identify the environmental, social, and economic impacts of a project prior to decision-making. However, EIA processes rarely include specific requirements related to climate change or climate risks. UNEP's report "Assessing Environmental Impacts: A Global Review of Legislation" calls for integration of climate change into impact assessments, to fully recognize the cumulative impacts of a project on the climate and ensure full consideration of adaptation options to enhance overall climate resilience (UNEP 2018). Despite this call, examples of EIA processes integrating climate risk are limited to a small number of developed countries (i.e., Canada, the Netherlands, and Australia).

To assess the potential for integration of climate risk into EIAs, the Private Investment for Enhanced Resilience project (PIER), funded by the United States Department of State, worked with the Vietnam Ministry of Natural Resources and Environment (MONRE) to integrate climate risk assessment into the national-level EIA process in Vietnam and to engage the private sector in addressing these risks.

## Climate Adaptation and the Private Sector in Vietnam

Vietnam is among the top five countries most affected by climate change, according to the World Bank (World Bank 2020). Its population and economic assets are exposed to typhoons, floods, droughts, and landslides with increasing frequency and intensity. The Government of Vietnam has developed plans and strategies to implement adaptation solutions; these include the National Adaptation Plan (NAP) and the National Strategy on Climate Change. However, available funding is insufficient to implement these initiatives (NAP Global Network 2020). It is crucial to engage Vietnam's private sector to reduce its vulnerability to climate change and finance these investments. The NAP, targeting the period of 2021–2030 and approved by the prime minister in July 2020, acknowledges the need for private sector participation. However, the NAP and other relevant policies treat businesses as a group to be managed rather than as viable partners for climate change adaptation and financing.

Vietnam's economy is growing rapidly and businesses are incentivized and willing to contribute to adaptation solutions. Disruptions from climate impacts cost Vietnamese businesses \$280 million each year on average

(Rentschler et al. 2020). According to findings of a recent Asia Foundation survey of over 10,000 enterprises across Vietnam, businesses are willing to make investments in adaptation, specifically to improve environmental compliance. In fact, on average, “Businesses are willing to pay up to 7.32% of operating costs for becoming more environmentally friendly” (TAF 2020). However, most businesses do not have a clear understanding of the actual climate risks or appropriate adaptation investments that could address these risks.

Therefore, incorporating climate risk considerations into Vietnam’s EIA process offers a clear way to engage the private sector and generate adaptation solutions.

## Vietnam’s Approach

Since its inception in 1993, Vietnam’s EIA process, which is a part of the Law on Environmental Protection (LEP), has undergone numerous amendments. As of 2020, however, it did not incorporate climate change risks. The Government of Vietnam began the process of updating the LEP in February 2020, including relevant guidance for the EIA and climate change response. MONRE and PIER leveraged the process already underway to promote the inclusion of adaptation as an enhancement to the EIA process in Vietnam.

To support MONRE in drafting new legislation the PIER team used the following approach:

**1 Review of existing global practices and relevant case studies.** The research team conducted a study of lessons learned from developed countries including Australia, the Netherlands, Japan, and Canada to develop steps to integrate climate change into the EIA process in Vietnam.

**2 Stakeholder interviews.** The research team interviewed stakeholders including provincial officers from five provinces and representatives from 40 Vietnamese businesses to assess baseline awareness and capacity to address climate challenges. The interviews included questions on key thematic areas including climate risk and disaster; policy and institutional analyses; the private sector’s role in disaster management and climate change adaptation; and small- and medium-sized enterprises’ supply chain resilience.

**3 Assessment of Vietnam’s relevant policies.** The research team analyzed relevant laws and policies including broader environmental laws and policies related to disaster risk reduction, along with the EIA process, to identify entry points and barriers.

**4 Draft policy and corresponding training materials.** The research team worked with stakeholders across relevant agencies to develop materials that will help guide implementation, including circulars and decrees, to help socialize the policy changes and explain procedural modifications. The draft policy includes requirements to:

- Assess the impact of private sector projects on climate change;
- Assess the impact of climate change on the projects; and
- Propose appropriate adaptation measures.

After conducting stakeholder interviews and reviewing relevant policies, decisionmakers opted to target the broader LEP rather than just the specific chapter on EIA. This allowed more opportunities to integrate climate adaptation throughout the broader law.

## Vietnam’s Result: An Updated Law on Environmental Protection

On Nov. 17, 2020, the National Assembly of the Socialist Republic of Vietnam passed the revised LEP. This newly enacted law includes 16 chapters and 171 articles and was enacted on Jan. 1, 2022.

By supporting revisions to the LEP, PIER helped to foster integration of the following key changes relevant to adaptation:

Addition of a new, distinct chapter on Climate Change Adaption (Chapter VII), which includes the requirement to assess climate change impacts on any investment, including those made by either the private and public sectors (Article 90). The language clearly explains what is included and expected in terms of adaptation for private sector companies undergoing the EIA process, specifically requiring “assessment of impacts, vulnerabilities, risks, loss, and damage caused by climate change to sectors, regions, and residential communities based on the climate change scenario and socio-economic development forecast.”

The section regarding construction was updated to stipulate that “construction planning must comply with requirements for environmental protection and climate change adaptation” (Article 64).

Developers from both the public and private sector are now required to integrate climate change adaptation including risk assessment into strategic planning for economic development (Article 93).

Green bonds are encouraged for use by local authorities and enterprises to raise capital for climate change adaptation (Article 150).

Overall, the updated LEP will help to mainstream adaptation and improve engagement of the private sector in Vietnam. The next step to fully address adaptation in the EIA process is for MONRE to use PIER's technical recommendations to provide guidance to law enforcement. PIER transferred relevant technical materials to the Department of Climate Change (under MONRE) to support the development of circulars and decrees, as well as development of articles in the LEP on climate change adaptation (Article 90, point c, clause 3; Article 91, point c, clause 4; Article 92, point b, clause 3; Article 92, clause 6).

## Impact and Scaling Up

The updated LEP in Vietnam will support businesses in selecting appropriate project investment sites, safe technologies, and materials for their project life cycle given climate risks. In addition, it will minimize risks caused by climate change during project implementation and help businesses reduce costs to adapt and increase competitiveness. Finally, the law will improve climate resilience in the private sector by providing an innovative, previously untapped finance stream to increase the country's resilience as companies begin investing in their own operational resilience. This also will help avoid potential risks while gaining public sector support.

Vietnam has already seen some progress in this area, with substantial increases in investments in Vietnam's energy sector that support climate change adaptation. For example, GWEC invested \$6.7 billion in wind power, while the Xuan Thien Group committed to investing \$1.7 billion beginning in 2022 to support climate change adaptation in the livestock industry.

EIAs are arguably the best-known and most frequently used environmental planning tool, with countless examples, case studies, and lessons learned available for study from around the world. UNEP's report takes stock of common challenges and identifies trends for future enhancements, including the wide call for integration of climate risk into the EIA process. By integrating climate risk and encouraging adaptation solutions in decision making, businesses can strategize risk mitigation solutions and resilience benefits at the onset of new projects, while also contributing to the overall resilience of individual countries. Given their popularity and accessibility, continued learnings from EIAs, as well as from this activity, can be scaled to other country contexts, opening new avenues for adaptation innovation and financing by mainstreaming private sector engagement in the national planning process.

---

## Sources

CIF 2016. Private Sector Investment in Climate Adaptation in Developing Countries: Landscape, Lessons Learned and Future Opportunities. Climate Investment Fund.

Jun Rentschler, Sophie de Vries Robbé, Johannes Braese, Dzung Huy Nguyen, Mathijs van Ledden, and Beatriz Pozuerta Mayo. 2020. Resilient Shores: Vietnam's Coastal Development Between Opportunity and Disaster Risk. World Bank, Washington, DC.

NAP Global Network (GN) 2020. Engaging the Private Sector in Vietnam's NAP process. NAP GN.

TAF 2020. Adapting to Succeed: Assessing the Impact of Climate Change on Vietnamese Businesses. The Asia Foundation. Hanoi, Vietnam.

UNEP 2016. The Adaptation Finance Gap Report. UNEP, Nairobi, Kenya.

UNEP 2018. Assessing Environmental Impacts—A Global Review of Legislation, UNEP, Nairobi, Kenya.

World Bank 2020(a). Climate Change Knowledge Portal, Vietnam Country Profile.

### Private Investment for Enhanced Resilience

PIER is a 5-year (October 2017– August 2022) technical assistance project, funded by the United States DOS, that aims to address barriers the private sector faces to increasing investment in climate-resilience activities in 12 developing countries. The objective of PIER's technical assistance is to influence enabling environments for investments that reduce long-term environmental risks while increasing resilience in development sectors prioritized by counterpart communities.