



Integrate Sustainable Consumption and Production (SCP) Into Fiscal Policy in Vietnam

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Abstract

Sustainable consumption and production (SCP) is about promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs and a better quality of life for all. Fiscal policy is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy. Fiscal policies are perhaps the most powerful instruments that can be used to promote green economic activity, including SCP. This paper describes the current status of fiscal policy in Vietnam, with the aim of identifying potential fiscal space for promoting green investment and SCP, thereby supporting the transition to a more sustainable and inclusive economy.

Keywords: sustainable consumption and production, fiscal policy, Vietnam



1. Introduction

One of the greatest global challenges is to integrate environmental sustainability with economic growth and welfare by decoupling environmental degradation from economic growth and doing more with less. Resource decoupling and impact decoupling are needed to promote SCP patterns and to make the transition towards a greener and more socially inclusive global economy (UNEP, Explore Topics). SCP has been indicated in one among 17 global Sustainable Development Goals (SDGs) set by the United Nations Development Programme - Goal 12: Responsible consumption and production. The UN explains: “SCP is about promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs and a better quality of life for all. Its implementation helps to achieve overall development plans, reduce future economic, environmental and social costs, strengthen economic competitiveness and reduce poverty” (UNEP, 2016).

In economics and political terms, fiscal policy is the use of government revenue collection (mainly taxes) and expenditure (spending) to influence the economy. In general, fiscal policies are focused on the most fundamental functions of government: how revenue is raised from taxpayers (taxation policies) and how revenue is spent to support businesses and households (for example, through subsidy policies or investment incentives). Fiscal policies generate domestic public resources and encourage more effective public spending, create fiscal space for priority investments and support broader fiscal reform. Fiscal policy is often administered by an executive under laws of a legislature.

Among the various policy interventions, fiscal policies are perhaps the most powerful instruments that can be used to promote green economic activity, including SCP. Fiscal measures can play an important role in the policy mix to encourage more efficient use of resources and support the circular economy. Upstream resource pricing can influence production choices, while downstream taxes and charges on specific products (e.g. fertilizers, packaging), pollution (e.g. CO₂ emissions) and waste disposal (e.g. landfill taxes) can help shift producer and consumer behaviour towards more circular, resource efficient practices. By pricing environmental externalities, green fiscal policies can also leverage additional resources, including from the private sector, and shift consumption towards environmentally friendly, socially inclusive activities (UNEP, 2016).

This paper assesses current regulations, status and a variety of fiscal policy reform opportunities, including the restructuring of taxes and incentives across key sectors to support the development of SCP pattern in Vietnam. The overall objective is to identify the potential fiscal space for green economy initiatives which could support the country's transition to a more sustainable and inclusive economy.

2. Overview of Regulations to Promote SCP in Vietnam

Since 2004 when the Strategic Orientation on Sustainable Development (Agenda 21) in Vietnam had been issued, the promotion of changing consumption and production patterns towards sustainable and friendly environment have been considered as priority activity. The Government has issued a series of policies to encourage the SCP.

Draft report of National Action Plan on SCP in 2014 has give the overview of a number of SCP activities in Vietnam, including the formulation and promulgation of related policies and guidelines. In 3 years (2014 - 2016) there have been many new activities being implemented at both central and local levels to support improving SCP as an important tool to implement green growth strategies, cope with climate change, enhance resource efficient use and sustainable development.



Prime Minister's Decision No. 622/QĐ-TTg dated 10th May 2017 on the "National Action Plan for the Implementation of the 2030 Sustainable Development Agenda" also stated, among others, Goal 12: Ensure sustainable production and consumption to achieve Viet Nam's SD overall goal of sustaining economic growth alongside with ensuring social progress and justice and environmental and ecological protection, effective management and utilization of natural resources, a proactive response to climate change.

The Article 44 of Law of Environmental Protection 2014 regulates: "Agencies, organizations, households and individuals have the responsibility to participate in the production and consumption of environmentally friendly products and services. Heads of units using state budget shall have priority use of environmentally friendly products and services, that are certified eco-label in accordance with regulations".

Incentives and support for investment activities of production of environmentally friendly products are stipulated in Decree No. 19/2015/ND-CP. According to the Article 40, investment projects for production of environmentally friendly products would be encouraged and favoured by land rent (under the Law of Land) similar to projects in the list of investment incentives. Moreover, in the Article 42, investment projects in production of environmentally friendly products would be got loans at preferential interest rates.

Simultaneously, the Article 47 of Decree No. 19/2015/ ND-CP stipulates: "The heads of agencies and units using state budget are responsible for giving priority to purchase environmentally friendly products in public procurement policy".

The Prime Minister has approved the Regulations on organization and operation of the National Technology Innovation Foundation in the Decision No 1051/2013/QĐ-TTg. This Foundation is the State financial institution operating with non-profit purpose, that have functions to provide preferential loans, support favour interest rate, guarantee for loans and support capital to organizations, companies and individuals to implement technology innovation, transfer and research.

Dated 11/01/2016, the Prime Minister have issued the Decision 76/2016/QĐ-TTg approving the National Action Programme on SCP to 2020 and vision toward 2030 with the goal of gradually changing production and consumption pattern towards enhancing efficiency of using resources and energy; promoting use of renewable energy and environmentally friendly products; reducing, reusing and recycling waste; maintaining the sustainability of ecosystem at all stages in product life cycle including from extraction and supply of raw materials till production, processing, distribution, consumption and disposal of products. The main task of promoting SCP during this period include:

- Developing and improving legal framework and policies to implement SCP;
- Promoting production and restructuring the economic towards sustainable;
- Greening distribution system and developing supply chain of environmentally friendly products and services;
- Improving access modes to markets and promoting export of key products of Vietnam towards sustainable;
- Changing consumer behavior and implementing sustainable lifestyles;
- Minimizing, recycling and reusing waste.

In addition, during 2015-2016, to implement the National Action Plan for Green Growth in period 2014 - 2020 (Decision No. 403/2014/QĐ-TTg), the ministries have issued sectoral action plans, stating in detail the activities related to the SCP through implementing 2 key tasks of the National strategy on green growth, namely (1) the Greening Production and (2) the Greening Lifestyle and Promoting Sustainable Consumption.



3. Key Fiscal Regulations Relevant for SCP in Vietnam

3.1. Environmental Protection Tax

The Law on Environmental Protection Tax (LEPT) was adopted by the National Assembly on 15 November 2010 (No 57/2010/QH12) and came into effect since 1 January 2012. LEPT is the only legal document directly regulates on products that causing environmental pollution.

Table 1: EPT rate in Vietnam

No	Goods	Unit	Tax rate range (VND*/ unit)	Curent tax rate (VND*/ unit)
I	Gasoline, oil, grease			
1	Gasoline, except ethanol	Liter	1,000-4,000	3,000
2	Aircraft fuel	Liter	1,000-3,000	3,000
3	Diesel oil;	Liter	500-2,000	1,500
4	Petroleum	Liter	300-2,000	300
5	Fuel oil	Liter	300-2,000	900
6	Lubricants	Liter	300-2,000	900
7	Grease	Kg	300-2,000	900
II	Coal			
1	Lignite	Ton	10,000-30,000	10,000
2	Anthracite Coal (anthracite)	Ton	20,000-30,000	20,000
3	Fat coal	Ton	10,000-30,000	10,000
4	Other coal	Ton	10,000-30,000	10,000
III	Hydrogen-chlorofluorocarbon liquid (HCFC)	Ton	1,000-5,000	4,000
IV	Taxable-plastic bag	Ton	30,00-50,000	40,000
V	Herbicide which is restricted from use	Ton	500-2,000	500
VI	Pesticide which is restricted from use	Ton	1,000-3,000	1,000
VII	Forest product preservative which is restricted from use	Kg	1,000-3,000	1,000
VIII	Warehouse disinfectant which is restricted from use	Kg	1,000-3,000	1,000

*Exchange rate: USD1 = VND23,000

Source: Law on Environmental Protection Tax (No 57/2010/QH12) & Resolution 888a/2015/UBTVQH13

The benefits of EPT implementation in Vietnam may include: Enhance the responsibility and awareness of organizations, individuals in environmental protection; Encourage environment friendly production and consumption; Encourage technology improvement; Increase state budget in environmental protection.

It also can be seen the role of environmental tax law in improving fiscal status and in promoting SCP: in year 2016, the environmental tax revenue was VND 42,393 billions, accounted for 4.1% of state budget revenue and equal to 0.9% of the country's GDP; increase the green investment since energy consumption and energy intensive will be affected most by the tax that



encourage the increase of green technology or energy efficiency use technology; increase in gasoline price positively influences investment for renewable energy, etc.

3.2. Corporate Income Tax (CIT)

CIT is a direct tax levied on the profits earned by companies or organizations. CIT is levied on the taxable income of companies established in Vietnam including foreign invested companies. Law on CIT (No 14/2008/ QH12) and Law No. 32/2013/QH13 amending and supplementing a number of articles of the Law on CIT; The Decrees Guiding the implementation of Law on CIT (Decree 218/2013/NĐ-CP and Decree 12/2015/NĐ-CP) stated that the project such as waste water and solid waste treatment project in large industrial zones would enjoy preferential CIT in the framework of preferential CIT legislation.

The standard CIT rate is 20% of the taxable income as of 1 January 2016 (previously 22%). Enterprises operating in the oil and gas industry are subject to CIT rates ranging from 32% to 50%, depending on the location and specific project conditions. Enterprises engaging in prospecting, exploration, and exploitation of mineral resources are subject to CIT rates of 40% or 50%, depending on the project's location. Beside, preferential CIT rates of 10% and 20% apply to a number of investment projects which satisfy certain conditions, among them are: development of water plants, power plants, water supply and drainage systems; and environmental ones.

Decree No. 218/2013/ ND-CP of the Government dated 12/26/2013 detailing and guiding the implementation of the EIT Law provides in Article 15 and Article 16: "Corporate income from the implementation of new investment projects in the fields of: production of renewable energy, clean energy, energy from waste incineration, environmental protection, including production of equipment for environmental pollution treatment, environmental monitoring and analysis; pollution treatment and environmental protection; collection and treatment of waste water, waste gas and solid waste; recycling and reuse of waste "is applicable for income tax rate of 10% within 15 years, CIT exemption in 4 years, prefer 50% of the tax payable in the next 9 years.

3.3. Special Consumption Tax (SCT)

SCT is a type of excise tax that applies to the production or importation of specific goods and the provision of certain services.

By SCT Law (No. 27/2008/ QH12, dated 14.11.2008), high tax rates, particular in goods and services caused a negative impact on the environment will contribute to guide the consumers' behaviour, especially the consumers' responsibility to the environment. The tax with higher rates on some goods that cause negative impacts on the environment would have the effect of limiting the production, trading and consumption of these goods.

Law on SCT was amended in 2014 (No. 70/2014/ QH13, dated 26/11/2014), came into force since 01 January 2016 provides new excise tax rate, given the lower rate of 30-50% for cars running by bio-fuel and gasoline combined with electric energy, bio-energy compared to the vehicles with the same cylinder capacity in order to encourage the use of renewable energy. Other goods such as beer, alcoholic beverage and cigareters are subjected to the high tax rate, from 30 to 75%. The high tax rates aim at reduction of production and consumption of these environmental and human health harmful products.

3.4. Green Credit

In order to implement the National Strategy for Green Growth and the National Action Plan on Green Growth for period 2014 - 2020, the State Bank of Vietnam (SBV) Governor issued Directive No.03/CT-NHNN dated March 24, 2015 to "promote green credit and social & environmental risk management in the credit activities".



General objectives and duties of green credit are: focus resources to provide credit for projects and business plans that are social and environmentally friendly productions; review, adjust and complete the credit mechanisms/ institutions in accordance with the objectives of green growth. The Directive requires credit institutions: (1) increase the proportion of green credit in the structure of credit portfolio; provide credit priority for green economic sectors implementing conservation, efficient development and use of natural resources, energy saving and efficiency, development of clean and renewable energy, use of environmentally friendly technology and equipment, producing environmentally friendly products; (2) assess social and environmental risks (such as abuse of natural resources and energy, pollute the natural environment, causing ecological imbalances, climate change, damage to the cultural heritage, threatening safety, security and human health...) and their impacts on capital efficiency and ability to repay when evaluating lending.

3.5. Fiscal Policy on Green Public Procurement (GPP)

In Vietnam there are two key windows of public procurement: (1) Procurement of goods or services for the operations of public agencies, including public administrative agencies and other agencies, which use the funds from the state budget; and (2) Procurement of goods, services or civil works for implementing development investment interventions. The funds for public procurement are allocated by the Government to procuring agencies or to the respective public investment project owners.

GPP could be defined as *“a process whereby central and local government organizations seek to procure goods, services and works with a reduced environmental impact (in particular the impact on greenhouse gas (GHG) reduction and energy efficiency) throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured.”* (Vu Xuan Nguyet Hong, 2015)

The GPP process in Vietnam should follow both regulations related to public procurement in general and regulation related to GPP specifically. There are several steps/ stages of public procurement, where “green” aspect either was or potentially can be mainstreamed.

The Law on Public Investment (2014) requires that in order to be included in the List of Public Investment Projects to be funded by state budget, the proposing agencies have to carry out (i) Initial analysis and selection of technologies...; (ii) Initial analysis and selection of investment options and items; and (iii) Initial estimates of the project/ program social and environmental impacts and economic efficiency.

Decree 136/2015/NĐ-CP (dated December 31, 2015) on Guiding Law on Public Investment Implementation is unclearly defined about the “green” aspect to be mainstreamed at all stages of investment process. Only in Article 23 “Contents of evaluation on investment policy for public investment programs”, item 5 asks for the evaluation of effectiveness on socio-economic, environmental protection and sustainable development issues. In Article 24 “Contents of evaluation on investment policy for public investment projects”, item 5 asks for the evaluation of technology options and environmental protection solutions; item 6 asks for the evaluation of effectiveness on socio-economic, environmental protection and sustainable development issues.

The Law on Environment Protection (2014) defines the environment protection activities to be encouraged for procurement (Article 6). In addition, Articles 18 and 29 of the Law require for investment projects, Environmental Impact Assessment (EIA) or Environmental protection plans are required. The EIA is applied for the potentially environmental endangered investment projects while the later is applied for other types of projects. Article 44 of this law stipulates that “The Head of state budget-funded institutions shall bear their responsibility for preferring eco-friendly products and services that have been recognized as eco-labeled under legal regulations” and Article 45 says: “Owner of manufacturing or business establishments must be



responsible for reducing, reusing and recycling wastes, and generating the energy from wastes”. Apparently the requirements of articles 44 and 45 will be related to the public procurement implementation process.

The Law on Economical and Efficient Use of Energy (2010) states that the application of energy efficiency measures for socio-economic development is of first priority. Chapter 7 of this law provides several articles to regulate energy economic and effective use in public investment and organizations using state budget.

- Article 29 stipulates that investors of state-funded projects to build or upgrade infrastructure and construction works shall comply with this Law suitable to each operation domain and other relevant laws on economical and efficient use of energy in all project stages;

- Article 30 indicates several measures applicable to state budget-funded agencies and units. These are: i) heads of line ministries, chairpersons of provincial governments take responsibility in directing their subordinates and agencies to formulate and implement economical and efficient use of energy plans, to implement internal regulations on energy saving and use of energy saved appliances; ii) agencies and units with major energy users are subject to energy audit; iii) promulgate a list of energy-saving devices and equipment permitted for furnishing and procurement; and notify lists of state budget-funded agencies and units which are rewarded for, or sanctioned for violations of regulations on, economical and efficient use of energy.

- Article 31 specifies responsibilities of heads of state budget-funded agencies and units, including: i) elaborate energy-saving plans and measures; issue energy use regulations of their agencies or units; ii) register energy use plans and publicize them to their cadres, civil servants and employees; iii) examine, evaluate and reward or discipline cadres, civil servants and employees of their agencies or units in implementing energy use plans.

Under the Law on Economical and Efficient Use of Energy, some under law regulations were issued on GPP. For example, Prime Minister’s Decision No 68/2011/QD-TTg dated 12/12/2011 on the “List of energy saved commodities purchased by state budget users” regulates that the public organizations using state budget should procure commodities listed in the Decision with eco-label or energy saved labels. There are 13 commodities were listed, which are: compact lamps, electronic ballasts for fluorescent lamps, air conditioners, refrigerators, electric fans, electric cables, TVs, electric transformers, public fighting equipments, computer screens, printers and photocopiers.

Law on Procurement (2013) regulates all stages of procurement process to be applied for investment and public procurement of goods, services for state organizations projects. According to this Law, the selection of contractors in procurement should be based on i) price only, ii) technical only or iii) combine price and technical criteria.

Based on this Law, Decree 63/2014/ND-CP has provided detailed regulations on contractor’s selection. However, in order to promote GPP for both investment and public procurement of goods and services for state budget users, it is important to include the “green” aspect as contractor selection criteria, or this aspect should be considered as one aspect in technical criteria selection.

Prime Minister’s Decision No 1393/2012/QD-TTg on Vietnam’s National Green Growth Strategy (VGGs) has stipulated several measures to promote GPP in Vietnam, including: i) encourage eco-labeling and disseminate environmentally friendly products information to society; formulate roadmap to ward 2020 to initiate green procurement for construction materials, foods and foodstuff, transportation, energy, computers and office equipment; textile and garments, paper and printing, wood products, detergents, and medical equipment; ii) public expenditure should lead in using green standards: +) from 2015: all public works and projects should adhere to



green standards (energy consumption, materials, eco-design, incorporate the effects of climate change); +) from 2017: all motorized vehicles purchased by state budget will meet emission standards, priority is given to using clean fuels, and hybrid vehicles.

Prime Minister's Decision No 403/2014/QD-TTg on Vietnam's National Green Growth Action Plan (VGGAP) has indicated 66 activities which should be undertaken during the period 2014-2020 to implement VGGs. Among those, activity No 64 specifies concrete public expenditure measures to be carried out by green standards, including: i) issue regulations on green public expenditure; of which public investment and recurrent expenditure of state budget should give priority to green labeled, recyclable goods and commodities; ii) from 2015: public investment projects should be implemented under green standards; iii) from 2017: all motorized vehicles purchased by state budget will have to meet emission standards of Euro 4, priority is given to using clean fuels, and hybrid vehicles.

It is obvious that GPP regulations have not been addressed in all public procurement stages. This provides the potentials for further improvement of GPP regulations toward a more comprehensive legal framework for GPP in coming years, in particular, the mainstreaming green aspects in all public procurement stages.

4. Key Challenges To Be Considered In The Existing Fiscal Legislation For The Best Possible Implementation of SCP

4.1. Challenges/ Restrictions in Current Tax Policy

There are certain restrictions in current tax policy of Vietnam:

- In the current tax policy, environmental protection objectives to integrate only a goal, not the main target, so their effects are limited. Encouraging investment in the production of environmentally friendly products and in environmental clean-up projects, not collect import tax or low-tax revenues when purchasing products and related environmental equipment to environmental protection activities that would contribute to the goal of protecting the environment, rather than a direct impact on consumer behavior and production of products that cause adverse environmental impacts.
- Provisions to encourage businesses to exploit and use the savings, resource efficiency, ecological environmental protection, pollution restrictions are still scattered in the tax policy, have not demonstrated the meaning of protecting the environment and reduce pollution, not to encourage businesses in the effort to minimize damage to the environment.
- In respect of business and society, recognizes the role of tax policy in protecting the environment, boosting production and sustainable consumption is blurry, so, in the development of policies and activities policy implementation, despite this aim, but how to understand and implement social communities have not thoroughly.
- The LEPT has missing a number of products that could be harmful to environment like: industrial detergents, cigarettes, etc. So far, there still lack of comprehensive supporting policies/ standards/ regulations to implement the law properly (plastic bag, gasoline, etc). There are also threats for the LEPT: Top-down approach of the Government of Vietnam led obstacles in implementation; Horizontal harmonization was not in place (lack of coordination mechanism particularly among ministries); Social welfare could be affected creating social instability; Tax-induced increase of price could reduce the competitiveness of Vietnam in global economy (especially in trade).

4.2. Challenges/ Restrictions in Current Regulations on GPP

- Vietnam's current policies directly related to GPP mainly regulated in PM's decisions and line ministries' circulars. Some GPP policies have been recently adopted and not yet have much time to be realized in practice (i.e. VGGs and VGGAP).



Monitoring procurement performance is one part of public investment project/ program implementation monitoring. The monitoring of public investment project/ program implementation has been regulated by the Decree 84/2015/ND-CP, issued by the Government in September 2015. The Decree specifies the responsibilities of project/ program proposing agencies, project/ program owners, project/ program executing agencies, and the agencies, responsible for public investment state management. Within the content to be monitored by those agencies, the impacts of project/ program on environment have to be monitored also. However, there is no requirement for monitoring the implementation of the green commitments made by contractors/ suppliers during procurement, such as use of green technology, techniques, equipment, delivery of green goods, services...

- There have been almost no incentives or supporting policies to promote GPP application. In fact within framework of VNEEP (National Energy Efficiency Program), there was a policy to provide a small grant of 1 million to each solar water heating system purchased but now that incentive policy has stopped. Almost all GPP regulations have been compulsory for application by state agencies and state budget users while the monitoring of GPP process is very weak. Given the lack of incentives and legal enforcement, it would be difficult to expect GPP is well practiced in Vietnam.

- It is clear that up to now, regulations requiring GPP in both investment and regular procurement for operation of state agencies have not been comprehensive. There are several stages in procurement process where the requirement for GPP is missing. Current criteria for contractor selection in GPP mainly based on low price and combination of low price and technical requirement. However, criteria on green aspect were not considered to be integrated in technical criteria. Although VGGs and VGGAP has indicated the requirement for GPP for both public investment and regular procurement projects, but in order to realize them in practice, these requirements should be institutionalized by the related line ministries in accordance with their state management mandates.

- The categories of goods, service required for GPP in Vietnam has been limited. Current regulations require GPP to be applied mainly for procurement of eco-labeled goods and services. Dimension of current regulations on GPP have been limited and mainly concentrated in the purchase of certified green goods rather expanded to services and works; not many green recognized goods, services and works available in Vietnam presently. In fact, there have been some eco-label programs and projects currently undertaken, but it is still in a pilot stage.

4.3. Gaps of Current Legal Framework, Policies And Processes for GPP

At present, there have been limited regulations relating to green procurement of goods, services for public agency operations.

- According to VGGs and VGGAP, it can be expected that from now until 2020, Vietnam will apply GPP to green labeled, recyclable goods and commodities. However, in order to realize this it requires a lot of works to be done in term of further regulations and standards to be issued; capacity building and awareness raising etc.

Until now, Vietnam has not yet formulated and approved a GPP plan. Without this plan, it would be difficult to coordinate related government authorities and organizations in GPP policies and push GPP process in reality. In fact, MONRE plans to formulate the Law on GPP but it is still in process of study. In the case of Thai land this plan served as an important legal framework for implementation of GPP in practice.

- Based on the international experience, for promoting green consumption in general and GPP in particular, it is important for the government to issue system of criteria and standards on green goods, services and works. In Vietnam however, this system is still lacking, although MONRE has



the standards and criteria for a limited types of goods and commodities and MOIT has issued few technical standards in term of energy use of 13 types of products. Without this system, it would be hard to promote green consumption and GPP.

- Law on Environmental Protection, VGGs and VGGAP provided general policy directions for GPP, but currently Vietnam lacks a supporting program to promote GPP. The situation now is state agencies do not have any incentives for GPP except they have to obey the regulations on GPP which are compulsory. According to international experience, GPP featured by high costs and long time for investment return. Greener goods, services and works would be more expensive than other similar ones which will not be attractive to state agencies once they do not have an environmentally friendly behavior. Moreover, current regulations on contractor selection in public procurement has based on low price criteria rather than on green aspect. This would make the GPP even more difficult to be implemented by the state budget users.

- Vietnam lacks the integration of green aspect consideration in all stages of public procurement processes. More importantly, while regulation enforcement is very low, the monitoring and evaluation on GPP has not been properly undertaken. This makes GPP even more difficult to be realized in practice. At present, there is no any provision of the Law on Public Investment and Law on Public Procurement or their under law legal documents stipulating on how to mainstream green procurement considerations into the steps of project concept note/ pre-feasibility study report preparation, appraisal and approval.

5. Some Opportunities To Integrate SCP Under The Financial Regulations Of The Government

The process of a green economy transformation requires the creation of key enabling conditions for a shift to more SCP modes (UNEP, 2011). On the path towards sustainable development and poverty eradication, the government should have a variety of policy instruments at their disposal, including fiscal incentives and disincentives, targeted public investments, and sound-regulatory frameworks - which can play a crucial role in shaping future trends and directing the economy towards the achievement of sustainability and inclusiveness goals. In particular, green fiscal policies have the potential to include environmental externalities in the price of goods and services, thereby creating fiscal space for green investment, and driving the reallocation of public and private investments to clean technology and resource efficient production.

Environmental fiscal policy reform (EFR) refers to a continuum of taxation and pricing measures that raise public revenues to finance the green economy transformation, while furthering environmental and sustainable development goals. EFR seeks to reform two key elements of public financial management, namely:

- Tax revenue systems, through measures that internalize social and environmental externalities by increasing taxes on environmentally harmful products and production processes, while possibly reducing taxes on activities and products that are beneficial to the environment and society; and
- Public spending strategies and approaches, through the phasing out of potentially harmful subsidies and the reallocation of investment priorities in order to level the playing field for green products and businesses, and to support clean technology development and inclusive, sustainable growth.

Also, specific political economy considerations need to be evaluated when implementing EFR. In particular, policy measures should be based on an understanding of the context in which they are to be implemented, and the associated political, social and administrative constraints. A shift in the tax base is not something that can be achieved quickly, but it is rather a



long-term process, which should be implemented using a gradual approach that addresses these constraints. In this regard, an essential component of any EFR assessment is the identification of potential winners and losers, and the evaluation of economic, social and environmental costs and benefits across sectors and actors. EFR should ensure that policy interventions are pro-poor, or at least do not place a disproportionate burden on low-income groups.

Thus, opportunities to integrate SCP under the financial regulations of several sectors in Vietnam may include:

In agriculture: The government could consider a reform subsidy programme for improving access of smallholder farmers to agricultural inputs towards ecological inputs, such as organic fertilizers, in order to reduce the impact of chemical fertilizers in terms of soil degradation and water pollution (UNEP, 2014).

In fisheries: EFR interventions might focus on reallocating public spending from harmful subsidies towards incentives for livelihood diversification in fishing communities. Such measures could allow total fish catch to be maintained below the sustainability level, at the same time protecting the well-being of fishing communities. In any case, such measures should be introduced only after assessing their impact on households, especially poor households.

In water: At the industry level, water intensive sectors should be provided with fiscal incentives for the adoption of water efficient practices and technologies, while also being penalized for overconsumption (i.e. through penalties or tariff increases). At the household level, cost recovery policies should be designed in a way that does not compromise the capacity of poor communities to have access to sufficient water. Ideally, tariff levels could be set on the basis of income and overall consumption levels. However, tariffs based on consumption could be problematic to implement in the case of communal dwellings and where households are reliant on water traders with passthrough tariff.

In forestry: A more comprehensive package of fiscal policies could be designed, including, for example, additional incentives for certified timber licence activities and for the participation of local forest communities in certified timber production. At the same time, fiscal support could be provided to encourage forest-planting activities for production purposes.

In Energy: Reforming fossil fuel subsidies – which represent an important share of total national expenditure and create market distortions that discourage investments in the renewable energy – is a particularly important step. The government should implement the process of fossil fuel subsidy reform and together with reforming in the electricity sector. In both cases, it will be important to ensure that subsidies are completely removed and the success of the reform are monitored. The government should also ensure that the impacts on vulnerable sections of society are identified and addressed.

On the revenue side, the government could review the structure of taxation and consider whether a levy that expressly targets environmental objectives should be implemented or whether any future increases in revenues should be directed towards environmental goals.

On the expenditure side, other potential actions in the energy sector include monitoring the implementation of the feed-in tariff for renewable energy to ensure that it meets its objectives in a cost-effective manner. The development of renewable energy may also require further fiscal measures such as tax waivers for imports of renewable energy equipment. Finally, government expenditure to support the energy industry, for example in the provision of physical infrastructure for electricity distribution and training facilities to ensure availability of skilled technicians may also be worth exploring.

On the energy efficiency side, incentives or penalty payments could be considered to encourage the electricity industry to minimize system losses. At the user level, financial incentives could also



be employed to encourage energy efficiency in industries and households. This would build on the efforts in raising awareness regarding energy efficiency and setting standards for electrical equipment.

In mineral resources: Specific environmental economic policies, such as pollution charges, could be imposed on mining corporations, in order to explicitly account for environmental, social and economic costs of extractive operations. Moreover, clearer distributional mechanisms could be established for improving access of local communities to mineral revenues. Another potential option is the introduction of payments for ecosystem services (PES) as a means to incentivize mining companies to preserve ecosystems and biodiversity.

In waste management: A “polluter pays” incremental levy system could be designed in order to distribute costs of waste pollution across all polluters, on the basis of pollution margins. Also, additional incentive measures, such as feed-in tariffs, could be provided to companies willing to invest in waste-to-energy infrastructure.

The government should extend the charge to cover all types of plastic carry bags. At the same time, the level of the charge could be raised, as the present overall effectiveness of this charge in terms of its impact on behaviour has been limited.

The development of a policy for collecting fees for the disposal of hazardous wastes should continue and rates should be set high enough to cover both the costs of collection and disposal as well as the associated environmental externalities.

In transportation: The complete removal of subsidies on transport fuels could lead to a considerable reduction in the number of road trips, in turn reducing air pollution levels. The government also should consider the possibility of introducing a total ban on the import of over-aged vehicles. This policy intervention, which is likely to bring further benefits in terms of reduced pollution, could be complemented with fiscal incentives to domestic transporters using low-emission cars and electric vehicles. Finally, the government could consider congestion charging as a means of further reducing traffic and pollution, particularly in urban areas.

In any case, measures to encourage greening in the sector need to consider the impact on the population. In the first place, increasing the cost of transport fuels is likely to be politically unpopular and needs to be accompanied by measures to improve acceptance. In particular, the impact on the incomes of the poor needs careful consideration, and mitigation measures such as concessionary public transport fares may be necessary.

In construction: For the public investment projects (such as infrastructure, buildings, urban development projects...), there are a number of steps in pre-implementation stage where green procurement considerations can be mainstreamed, including: Initial analysis and selection of technologies, techniques, and conditions for delivering equipment, materials, energy, infrastructure...; Initial analysis and selection of investment options and investment items; Initiation estimates of the project/ program social and environmental impacts and economic efficiency. In the project documents/ feasibility study reports preparation, appraisal and approval stage, green procurement considerations can also be mainstreamed in the similar steps as during project concept notes/ pre-feasibility study reports preparation, appraisal and approval stage.



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