ENERGY TRANSITION PARTNERSHIP

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Advisory Services to Support the Strengthening of Green Financing Landscape

ANALYSIS OF GREEN FINANCE LANDSCAPE IN VIET NAM

PREPARED BY

DEPOCEN – better informed, better decisions – Development and Policies Research Center

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Executive Summary

The world is grappling with escalating challenges from climate change. Greenhouse gas (GHG) emissions continue to rise, increasing by 1.1% in 2023, setting another record high. Meanwhile, global temperatures have reached 1.48°C above pre-industrial levels, underscoring the critical need for decisive climate action. The Paris Agreement highlights the need to limit global warming to well below 2°C, with efforts to restrict it to 1.5°C to avoid the worst outcomes. Achieving the Paris temperature goals requires a dramatic escalation in funding - an estimated USD 4.84 trillion annually between 2024 and 2030. This is where green finance plays a critical role.

Defined in this report as the channeling of private funds toward green industries and sustainable development, green finance encompasses various instruments, including green bonds, green credit, green insurance, and green stocks. Green finance spans across several broad categories of sustainable development-focused activities, and the key sectors identified as priorities include renewable energy, energy efficiency, green buildings, carbon capture and storage, pollution control and prevention, sustainable land management, transport, water, and environmental protection. Currently, the global green finance market is on a strong growth trajectory. Green bond issuances, for instance, reached $872 billion in 2023, marking a 3% increase from the previous year and bringing the total issuance to over $4 trillion since 2018.

In the case of Viet Nam, a country both vulnerable to and contributing to climate change, the need to accelerate green finance is critical. Viet Nam's emissions reached 344 MtCO2eq in 2022 and are projected to rise further to 515 MtCO2eq by 2030. This trajectory underscores the urgency of aligning with the Paris Agreement's temperature goals and advancing global net-zero pathways – a commitment Viet Nam has formally adopted. The country has laid a certain foundation for green finance through the National Green Growth Strategy (2014–2020) (Decision No. 1393/QĐ-TTg). This framework has since been updated with the National Green Growth Strategy for 2021–2030 (Decision No. 1658/QĐ-TTg), which includes a vision toward 2050. These strategies prioritize integrating green finance into economic planning.

However, Vietnam faces challenges akin to other developing nations, including gaps in harmonized regulatory frameworks, limited funding sources, insufficient expertise, and low awareness of green finance, particularly in assessing environmental and social risks. These issues undermine investor confidence and stifle the growth of the green finance market. Beyond these local challenges, financiers also encounter broader systemic issues, such as difficulties in accounting for environmental externalities in financial decision-making and maturity mismatches for long-term green projects, as many investors prioritize short-term returns. Information asymmetries, driven by inconsistent market terms and standards, exacerbate the situation by hindering accurate measurement of current green finance flows and their impacts. This lack of clarity further deters investment, as it results in inadequate analysis and an uncertain understanding of green finance's true potential. Overcoming these intertwined barriers is essential to unlocking the power of green finance, ensuring Vietnam's alignment with global climate targets, and fostering sustainable development.

Recognizing the critical role of green finance in advancing sustainable development in Viet Nam, this report examines the current state and scope of green finance in the country. It explores the government's efforts to develop green financial markets, the interplay between macroeconomic conditions and green finance growth, and the various green financing instruments and mechanisms in use. The report also integrates international best practices while considering the local context. Its goal is to support the scaling up of green finance by providing market actors and policymakers with a comprehensive overview of the current landscape, along with actionable recommendations for aligning Vietnam’s green finance sector with global trends.

This report focuses specifically on green financial products and tasks under the purview of the Ministry of Finance (MOF). On August 15, 2024, MOF issued Decision No. 1934/QD-BTC, which promulgates the Action Plan for the Implementation of the National Strategy for Green Growth (2021–2030). This action plan outlines various tasks aimed at developing the green financial market. Among these tasks, there is an increasing emphasis on advancing instruments such as green bonds, green insurance, carbon-regulating tax revenue tools, financial incentives, and the carbon market.

In light of areas where research support is currently lacking, where renewed perspectives are needed, and based on consultations with stakeholders within the MOF, this report does not provide a comprehensive account of the full scope of Viet Nam's green finance landscape and aims to cover the following key areas:

i. Green bonds
ii. Green index
iii. Green insurance
iv. Green funds
v. Mandatory Environmental, Social, and Governance Disclosure
vi. Green financial incentives and disincentives to promote sustainable development

This report provides a general analysis of green finance in the context of climate change and across sectors such as renewable energy, environmental protection, water, and transport, recognizing its role in mobilizing resources for the overall transition to a green economy. In addition, it offers more detailed recommendations and analysis specifically for the energy sector. This focus is driven by the urgent need to mobilize significant financial resources for energy transition, which amounts to approximately 134.7 billion USD until 2030 and another 399.2 to 523.1 billion USD for the period from 2031 to 2050. Green financing initiatives are critical for accelerating Vietnam's energy sector, but reforms are necessary to facilitate progress.

Some key findings include:

1. **Macro-economic situation in Viet Nam affecting green finance and current state:**

- The current macro-economic situations in Viet Nam, including increasing GDP and private sector and foreign direct investment (FDI) and stable domestic revenues, implicate a relatively attractive investment environment for investors. However, there are certain concerns, particularly related to slower growth in public investments for large-scale green infrastructure projects. For example, in the energy sector, public utilities, such as EVN, often lack the financial capacity to invest in green infrastructure or purchase renewable energy. This financial capacity issue stems from persistent losses, significant accumulated debt, and reduced equity capital.
- Green projects often have long investment horizons (up to 20 years) and high capital costs, while available credit sources typically offer short- to medium-term funding. This mismatch limits the flow of capital into green initiatives and affects project bankability by complicating revenue streams and increasing perceived risks. Issues like restrictive commercial terms, limited creditworthiness of project counterparts, and lengthy licensing processes further delay the launch of new green projects.
- Therefore, innovative financing instruments are necessary to attract private and international support, with green finance playing a key role in this process

2. **Green finance system and initiatives in Viet Nam**

- Vietnam's green finance governance has evolved through a comprehensive strategic and legal framework, starting with the National Green Growth Strategy (2014–2020) and updated for 2021–2030, which emphasizes integrating green finance into economic planning.
- Various government bodies, such as the MOF and the State Bank of Vietnam (SBV), lead green finance development through policies, financial incentives, and market mechanisms. The MOF focuses on improving fiscal policies, mobilizing resources, and developing green financial markets, including green bonds and carbon markets. Efforts to promote green finance include policy development, resource mobilization, capacity building, and international cooperation.
- From international experience, scaling up green finance requires coordinated, multidimensional efforts from governments, businesses, and individuals, as green technologies and industries demand diverse funding sources. Governments play a key role by creating regulatory frameworks, offering policy incentives, and mobilizing public investments to reduce risks and attract private capital. Central banks and regulators support green finance through measures like climate risk assessments and the issuance of green bonds. Private investors, while cost-sensitive, are crucial, and public sector participation can catalyze substantial private investment. Commercial and development banks act as intermediaries, offering green loans and blended finance to de-risk projects. Institutional investors, including pension funds, are increasingly focusing on ESG assets but need strong policy frameworks to shift investments toward green finance. Lastly, international financial institutions and

multinational organizations provide concessional loans, technical support, and global best practices to promote consistency and transparency in green finance markets.

- In the case of Viet Nam, we highlight that **effective government leadership and coordination are crucial in removing barriers to green financial development.** MOF should collaborate with other important actors, including SBV, Ministry of Planning and Investment, Ministry of Natural Resources and Environment, to eliminate obstacles to green finance across sectors. Engagement with financial institutions, institutional investors, international institutions, multinational organizations, and private sector is also crucial to level the play field for green finance, thereby incentivizing further investment.

3. **Application of and recommendations for green finance instruments in Viet Nam**

- Developing and expanding a range of green finance instruments would attract diverse investors. This diversification would broaden access to green finance across various enterprises and sectors. However, the pros and cons of each instrument need to be considered thoroughly to ensure effective implementation.

i. **Green bonds:**

- A major barrier for the improvement of the green bond market is the insufficient market depth, with a limited investor base, particularly among institutional investors who are less familiar with green bonds. Additionally, low liquidity, lack of a clear regulatory framework, and high issuance costs deter potential market participants. The absence of standardized definitions and verification processes also raises concerns about "greenwashing," undermining investor confidence.
- To overcome these barriers, recommendations include increasing investor awareness, expanding public-private partnerships, enhancing liquidity through improved secondary markets, and streamlining regulations to align with international standards. Additionally, developing a stronger pipeline of eligible green projects and providing technical support to issuers are crucial for market expansion

ii. **Green index:**

- The development of green indices in Vietnam, such as the Vietnam Sustainable Development Index (VNSI), presents both barriers and opportunities. On one hand, the country faces challenges such as limited ESG Environmental, Social, Governance) data disclosure from companies, a lack of standardized reporting practices, and a low level of investor awareness about sustainable investment. Additionally, the absence of robust index formulation methods hinders the growth and influence of green indices.
- Oportunities exist in leveraging international expertise, particularly from developed markets, to improve Vietnam’s green evaluation systems. Collaborations with foreign index institutions can introduce best practices, while enhancing ESG data disclosure can boost the credibility and relevance of green indices. Institutional investors, including social security funds and insurance asset management firms, could play a significant role in promoting green investment by integrating green indices into their portfolios. Furthermore, developing a diverse range of green investment products

tailored to the needs of the Vietnamese market, such as themed funds and separately managed accounts (SMAs), would deepen the market's engagement with sustainability and expand green finance's reach.

iii. **Green insurance:**

- The insurance market in Vietnam, comprising life, non-life, and auxiliary services, has significantly contributed to the country's economic and social development, supporting macroeconomic stability, complementing social welfare policies, and promoting investor confidence. Despite steady growth in total assets, with a notable rise of 11.12% in 2023, the green insurance sector remains underdeveloped, hindered by limited recognition and low awareness of environmental protection coverage. While some firms offer insurance products for renewable energy, environmental liabilities, and green construction, the lack of a comprehensive legal framework, limited product diversity, and low insurance penetration impede market expansion.
- Opportunities exist, particularly in green insurance for sectors like electric vehicles, as Vietnam's electric vehicle market is expected to grow significantly by 2028. Government initiatives, such as the national green growth strategy, provide a foundation for promoting green insurance. However, further policy interventions are needed, including compulsory pollution liability insurance for high-risk industries, clearer risk assessment standards, and public-private risk-sharing mechanisms. Additionally, incentives like tax benefits for insurers managing climate risks and penalties for fossil fuel investments could help align the insurance sector with national climate goals, driving the growth of green insurance products.

iv. **Green funds**

- The development of green funds has seen many challenges; the lack of a clear regulatory framework and diversified revenue sources have hindered the effectiveness of existing green funds like Vietnam's Environmental Protection Fund (VEPF). The fund's reliance on limited financial channels, such as state budget allocations and environmental fines, restricts its capacity to scale up its impact, especially in the renewable energy sector. Additionally, the absence of a finalized structure for the fund complicates its operations, making it difficult to attract sufficient private capital or optimize project outcomes.
- If green funds are to be implemented, proper legal frameworks, capacity-building programs, and stronger monitoring mechanisms should be in place.

v. **Mandatory Environmental, Social, and Governance Disclosure:**

- Vietnam's progression towards mandatory ESG (isclosure presents both barriers and opportunities. The country's current regulatory framework, introduced through Circular No. 96/2020/TT-BTC, mandates reporting on key sustainability metrics such as greenhouse gas emissions and resource consumption, but it remains limited in scope compared to more comprehensive frameworks in the EU or Singapore. A key barrier to effective implementation is the absence of a finalized ESG taxonomy and standardized reporting framework, which hampers the comparability and reliability of disclosures.

- However, this also presents an opportunity for Vietnam to strengthen its regulatory infrastructure and align more closely with international standards, attracting foreign investment and fostering greater corporate transparency. To enhance the effectiveness of ESG disclosures, Vietnam must establish clear reporting guidelines, improve consistency across sectors, and address challenges related to ESG rating agencies' methodologies. By doing so, Vietnam can unlock the potential for sustainable business practices and solidify its position in the global market.

4. **Green financial incentives and disincentives to promote sustainable development**

- MOF has implemented various fiscal incentives and disincentives to support renewable energy development. These measures include tax exemptions and reductions on corporate income taxes (CIT), import duties, and value-added tax (VAT), particularly for new renewable energy projects. For instance, renewable energy enterprises can benefit from a reduced CIT rate of 10% for 15 years and exemptions from land rent and import taxes on essential equipment for the first four years of operation. Furthermore, preferential loans and government funding for research and development (R&D) in renewable energy are available, providing crucial financial support. These incentives help offset high initial investment costs, thus encouraging both domestic and international investments in the sector.
- In terms of disincentives, there are effective and evolving systems in place. There are some challenges, however. For example, while the Environmental Protection Tax (EPT) has seen increased contributions to the national budget, it still represents a relatively small portion of the fiscal landscape, and its coverage is limited to only a few sectors. This restricts its ability to drive broad environmental change. The Environmental Protection Fee (EPF), aimed at penalizing polluting activities, has similarly contributed modestly to the national revenue and has had limited success in influencing consumer behavior or promoting sustainable practices. To strengthen the renewable energy transition, MOF could expand the scope of these taxes and fees to cover more sectors and introduce measures such as carbon taxes, which could better align with international climate commitments.
- To further improve existing incentives and disincentives, MOF should consider key criteria such as: alignment with existing policy context, ensuring the incentives would lead to investment that would not otherwise occur (additionality), resource-efficiency, targeting incentives to address specific risks without excessive coverage, transparency and predictability, and involving diverse stakeholders in the design and implementation process.
- These steps will help create an environment conducive to green investment while avoiding distortions that could undermine private sector participation. Another important strategy is detailed coordination frameworks outlining the roles of different agencies in managing resource extraction, including tax authorities and environmental agencies. This would clarify responsibilities for leading and collaborating on specific issues, ensuring accountability in enforcement.

The next report will focus on mapping green financing collaborations between MOF and development partners, with an emphasis on priority areas. It will include a review and assessment of past and ongoing initiatives, identifying areas that require additional focus and support. Based on this analysis, the report will offer strategic recommendations to MOF for structuring and advancing green financial development efforts.