



## **STOCK-TAKING REPORT:**

# **THE ROLE OF THE FINANCIAL SECTOR AND THE FINANCING ENVIRONMENT IN PROMOTING GREEN INVESTMENT PROJECTS & THE MAP OF THE KEY STAKEHOLDERS**

Ha Noi, 17 November 2023



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# 1. INTRODUCTION

## 1.1. Background (1)

- Green finance refers to a range of financial products, services, and investments that actively support the transition to a sustainable and low-carbon economy (UNEP, 2014).
- For the green finance market globally:
  - The green bond market has reached hundreds of billions of dollars in issuances annually;
  - In terms of investment, global sustainable investment has grown to over 30 trillion USD (Global Sustainable Investment Alliance, 2021).
- Viet Nam has recognized the critical need to establish and operate green finance to meet its net-zero commitment and targets outlined in its updated Nationally Determined Contribution (NDC) 2022:
  - To achieve net-zero emissions, Viet Nam requires an additional 368 billion USD between 2022-2040, approximately 6.8% of GDP annually (World Bank, 2022);
  - To achieve a 43.5% reduction in greenhouse gas (GHG) emissions by 2030, Viet Nam needs approximately 86.8 billion USD (World Bank, 2022)

# 1. INTRODUCTION

## 1.1. Background (2)

- **The Additional Scope of Work** for the National Green Cooling Program in Viet Nam is part of the Southeast Asia Energy Transition Partnership (ETP)'s interventions, to support the Department of Climate Change, Ministry of Natural Resources and Environment (MONRE).
- The objectives of this Assignment include:



Review the current legal, institutional arrangement and conditions governing green finance in Viet Nam



Conduct consultations with key stakeholders to identify main legal, and institutional gaps and practical challenges that hinder the effective implementation of green finance



Propose recommendations to promote green projects and green cooling initiatives to achieve the net-zero target in Viet Nam

# 1. INTRODUCTION

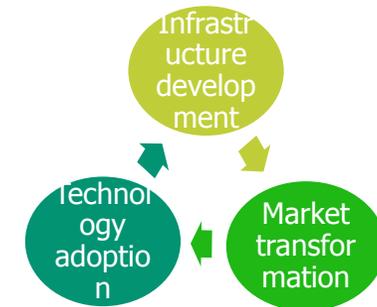
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## 1.2. Objectives and Scopes

- The “Stock-taking report: The role of the financial sector and the financing environment in promoting green investment projects & The map of the key stakeholders” will stock take and gain a deeper understanding of the existing legal, institutional arrangements, green finance products in Viet Nam, capture the needs, challenges and gaps related to green finance to accelerate the net-zero target.
- The report includes two tasks:
  - Task 1: Stock-take and literature review on the role of the financial sector and the financing environment in promoting green investment projects; and
  - Task 2: Mapping of the key stakeholders related to green finance initiatives.

## 2. GREEN FINANCE IN PROMOTING THE TRANSITION TO GREEN COOLING IN VIET NAM

- The Consultant estimated that the cooling sector in Viet Nam consumed a substantial 65.95 TWh of electricity, which represents a significant 25.2% of Viet Nam Electricity’s overall power generation and supply, projecting a threefold surge in energy use by 2050
- A transformative shift and proactive promotion of green cooling initiatives are imperative to achieve the NDC and net-zero targets
- Green finance is vital for advancing green cooling by supporting:
  - Research and development of energy-efficient cooling technologies with low GWP refrigerants;
  - Scaling up existing efficient cooling solutions;
  - Establishing and enforcing policies promoting green cooling adoption;
  - Conducting capacity building and training for cooling sector stakeholders; and
  - Funding awareness campaigns to educate consumers and businesses on the benefits of energy-efficient cooling.
- In-depth financing analysis for the green cooling sector is further conducted within the scope of “Task 7: Conduct a review and analysis of financing, implementation approaches & business models” of the National Green Cooling Program that will be included in Deliverable 3 of the Original Contract



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Key roles of green finance in green cooling



Key benefits of green finance in green cooling 6

## 3. REGULATORY AND INSTITUTIONAL FRAMEWORK GOVERNING GREEN FINANCE IN VIET NAM

### 3.1. Existing regulations related to green finance (1)

#### I. POLICIES

- **Decision No. 986/2018/QĐ-TTg** issued by the Prime Minister dated 08 August 2018 on approving the development strategy of the Viet Nam banking sector by 2025 and vision to 2030: Set the goal to promote the development of green credit and green banking to contribute to transforming the economy towards green growth, low carbon emissions, and adaptation to climate change for the period 2021 – 2025;
- **Decision No. 1658/2021/QĐ-TTg** issued by the Prime Minister dated 01 October 2021 on approving the national green growth strategy for 2021-2030: Outline the roles of State Bank of Viet Nam (SBV), Ministry of Finance (MOF), Ministry of Planning and Investment (MPI) related to green banking and credit and use of the state budget to promote green growth; and regulate the mechanism to mobilize financial resources for green growth;
- **Decision No. 882/2022/QĐ-TTg** issued by the Prime Minister dated 22 July 2022 on approving the national action plan for green growth in 2021-2030: Outline the roles of MOF, MPI, SBV, MONRE, and other relevant ministries and provincial People's Committees related to mobilizing financial resources and promoting investment for green growth;
- **Decision No. 1604/2018/QĐ-NHNN** issued by SBV dated 07 August 2018 on approving the scheme for green banking growth in Viet Nam: Set the goal to promote the development of green banking to contribute to transforming the economy towards green growth until 2025; identify solution groups for green banking development in Viet Nam;
- **Decision No. 1408/2023/QĐ-NHNN** dated 26 July 2023 on promulgating action program of the banking sector for implementing national strategy for green growth of 2021 – 2030 period and scheme for tasks and solutions for implementing results of the United Nations Climate Change Conference of the Parties – COP26: Regulate tasks, including: complete the legal framework on green credit in alignment with the goal of green growth; provide direction for operating monetary policy and bank credit to contribute to achieving national green growth goals; provide direction and assign tasks for units under SBV in international cooperation to promote resource mobilization for green growth.

### 3.1. Existing regulations related to green finance (2)

#### II. REGULATORY ENVIRONMENT

- **Law No. 72/2020/QH14 on Environmental Protection** issued by the National Assembly, dated 17 November 2020 (LEP 2020): Provide definitions of green bonds; regulate types of projects that are allowed to grant green credits and bonds;
- **Decree No. 95/2018/ND-CP** issued by the Government, dated 30 June 2018 on providing for the issuance, registration, depositing, listing, and trading of government debt instruments on the securities market: Provide the definition of green bonds; define that MOF collaborates with MPI and MONRE to develop the proposal for the issuance of green government bonds and submit it to the Prime Minister for approval;
- **Decree No. 153/2020/ND-CP** issued by the Government, dated 31 December 2020 on prescribing private placement and trading of privately placed corporate bonds in the domestic market and offering of corporate bonds in the international market: Provide the definition for green corporate bonds; outline principles for issuing and using funds from green corporate bonds; establish principles for disclosing information about green corporate bonds;
- **Decree No. 08/2022/ND-CP** issued by the Government, dated 10 January 2022 on elaborating several articles of the LEP 2020: Regulate the role of MONRE in establishing and submitting to the Prime Minister the green taxonomy; define incentive mechanisms for granting green credit and issuing green bonds; regulate the implementation roadmap for green credit; identify disclosure content and provision of information in green bonds;
- **Circular No. 17/2022/TT-NHNN** issued by SBV, dated 23 December 2022 on providing guidelines on environmental risk management in credit extension by credit institutions and foreign bank branches: Provide guidelines on environmental risk management in credit extension by credit institutions and foreign bank branches in Viet Nam.

## 3. REGULATORY AND INSTITUTIONAL FRAMEWORK GOVERNING GREEN FINANCE IN VIET NAM

### 3.1. Existing regulations related to green finance (3)

#### Legal gaps:

- **First, lack of specific regulation on green taxonomy.** According to Decree No. 08/2022/ND-CP, MONRE is in charge of establishing and submitting to the Prime Minister the green taxonomy before 31 December 2022, however, until now, the national green taxonomy has not been officially issued.
- **Second, lack of common definitions.** Currently, there is no definition for green credit, green stock and green insurance. Regarding the definition of green bonds, Decree No. 95/2018/ND-CP defines green bonds as government bonds issued to raise funds for environmental projects that are regulated in LEP 2020 and are part of the list of projects allocated public investment funds as per the Law on Public Investment and the Law on State Budget. However, the definition of green bonds in LEP 2020 suggests a broader scope, indicating that aside from government-issued bonds, green bonds can also be issued by local authorities and businesses.
- **Third, lack of incentive policies for credit institutions to promote green credits and green banking.** While numerous incentive policies have been issued to encourage credit institutions to promote green credits, they have thus far remained at the level of general encouragement.

# 3. REGULATORY AND INSTITUTIONAL FRAMEWORK GOVERNING GREEN FINANCE IN VIET NAM

## 3.2. Stakeholder mapping in green finance in Viet Nam (1)

Actors		Functions in the green finance sector
Private sector – Financial institutions	Credit institutions (BIDV, Vietcombank, VP bank, HSBC bank, etc.)	<ul style="list-style-type: none"> <li>• Execute finance debts (credits, bonds, etc.);</li> <li>• Develop a green banking strategy;</li> <li>• Establish and conduct an environmental and social risk; management system for green credits;</li> <li>• Develop specific lending policies for sensitive environmental sectors (agriculture, leather, renewable energy, textiles, etc.).</li> </ul>
	Insurers	Execute tech and normal risk measures.
Private sector – Industry	Project owners (borrowers)	Execute green projects through green credits/green loans.
	Project customer/ other players	Invest in green bonds, green stocks, and other types of green finance products.
	Standard setters	<ul style="list-style-type: none"> <li>• Execute certification standards;</li> <li>• Execute independent verification of technology;</li> <li>• Execute safety assessment.</li> </ul>

<sup>[1]</sup> In Viet Nam, although certain types of green insurance products have surfaced and green insurance was mentioned in Decision No. 1658/2021/QĐ-TTg, detailed regulations regarding green insurance have not yet been regulated.

<sup>[2]</sup> Standard setters play a vital role in green finance, which lies in establishing and maintaining benchmarks and guidelines ensuring the credibility, reliability, and sustainability of labeled "green" financial products and investments. In Viet Nam, despite their roles not being clearly defined, acknowledging their importance in the initial stage of assessing green finance is crucial. The Consultant plans to conduct stakeholder consultations to gain clarity on their roles and positions in green finance sector in Viet Nam.

### 3. REGULATORY AND INSTITUTIONAL FRAMEWORK GOVERNING GREEN FINANCE IN VIET NAM

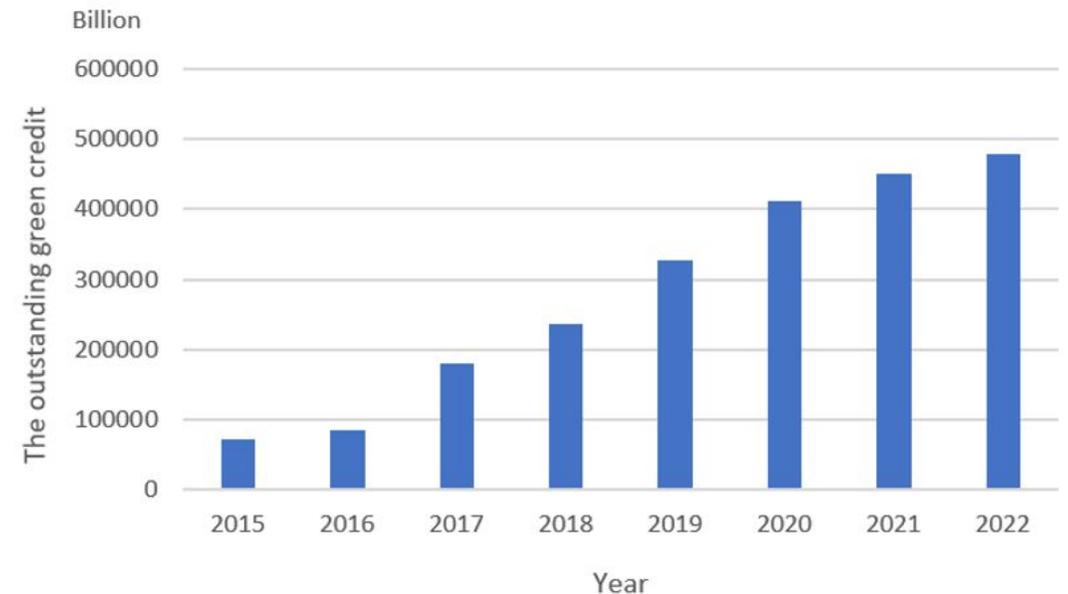
#### 3.2. Stakeholder mapping in green finance in Viet Nam (2)

Actors		Functions in the green finance sector
Public sector	MPI	<ul style="list-style-type: none"> <li>Act as a state management on ODA source, preferential loans, and foreign non-governmental aid;</li> <li>Take responsibility as national focal point for mobilizing funding sources for green growth and responding to climate change;</li> <li>Mobilize resources and coordinate domestic and foreign sponsorships, and sources of climate finance; develop national green classification standards/criteria;</li> <li>Develop policies for green public procurement.</li> </ul>
	MOF	<ul style="list-style-type: none"> <li>Revise and amend policies on management and use of funding for state budget expenditures to promote green growth;</li> <li>Formulate and revise incentive policies, programs, and solutions for promoting green capital and insurance markets.</li> </ul>
	SBV	<ul style="list-style-type: none"> <li>Develop the green banking model;</li> <li>Issue incentive credit policies for green investment projects;</li> <li>Take responsibility for "greening" the investment capital flows for sustainable development.</li> </ul>
	MONRE	<ul style="list-style-type: none"> <li>Establish and submit to the Prime Minister the green taxonomy;</li> <li>Collaborate with MOF, MPI, and SBV to complete the legal framework for green bonds and green insurance in 2022 – 2025;</li> <li>Collaborate with MOF and other line ministries to develop preferential financial policies for green investments, green credit, and climate finance activities in 2022 – 2025.</li> </ul>
	Other line ministries	Collaborate with MPI, MOF, and relevant ministries to enhance the management policies and prioritize the use of resources from the state budget for programs, projects, initiatives, and tasks related to green growth and green transition.
	Government financiers (Vietnam Environmental Protection Fund, Vietnam Development Bank)	Provide preferential interest rate loans, sponsorship, co-financing, interest support for programs, projects, activities, tasks related to environmental protection and climate change response, not within the national budget plan
Multilateral/ Bilateral financial institutions	World Bank, ADB, etc.	<ul style="list-style-type: none"> <li>Provide financial investment/technical expertise for green projects;</li> <li>Offer capacity-building programs for related stakeholders in green finance in Viet Nam and create partnerships to mobilize additional resources.</li> </ul>

## 4. LANDSCAPE OF GREEN FINANCE PRODUCTS IN VIET NAM

### 4.1. Green credit (1)

- LEP 2020 identified investment projects that are entitled to grant green credits, including: (i) Efficient use of natural resources; (ii) Adaptation to climate change; (iii) Waste management; (iv) Pollution remediation and environmental quality improvement; (v) Natural ecosystem restoration; (vi) Nature and biodiversity conservation; (vii) Creation of other environmental benefits.
- By the end of 2021, the outstanding green credit reached nearly 500,000 billion VND, accounting for about 4.2% of the total outstanding credit in the economy. During the period from 2017 to 2021, the outstanding green credit experienced an average annual growth rate of over 25%, surpassing the average credit growth rate of the overall economy (Nguyen Chi Tin, 2023).



The development of the outstanding green credit in the period of 2015 – 2022

Source: Nguyen Chi Tin, 2023

## 4. LANDSCAPE OF GREEN FINANCE PRODUCTS IN VIET NAM

### 4.1. Green credit (2)

#### 4.1.1. Public financial institutions

##### Vietnam Environmental Protection Fund (VEPF)

- VEPF established in 2002 is a state financial institution attached to the MONRE.
- Although providing green finance is not introduced explicitly in the functions and tasks of VEPF, the function defined is very much in line with the purpose of green finance “VEPF has the function of lending preferential interest rates, grants, co-financing, interest rate support for programs, projects, activities, environmental protection tasks and coping with climate change are not included in the national budget plan”.
- Until 2022, with a preferential interest rate, VEPF has loaned about 400 projects with a total capital of 3 trillion VND, contributing positively to the cause of environmental protection and reduction of greenhouse gases (GHGs). In parallel, VEPF also provides financial support to those operating in waste treatment.

## 4. LANDSCAPE OF GREEN FINANCE PRODUCTS IN VIET NAM

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### 4.1. Green credit (3)

#### 4.1.1. Public financial institutions

##### **Vietnam Development Bank (VDB)**

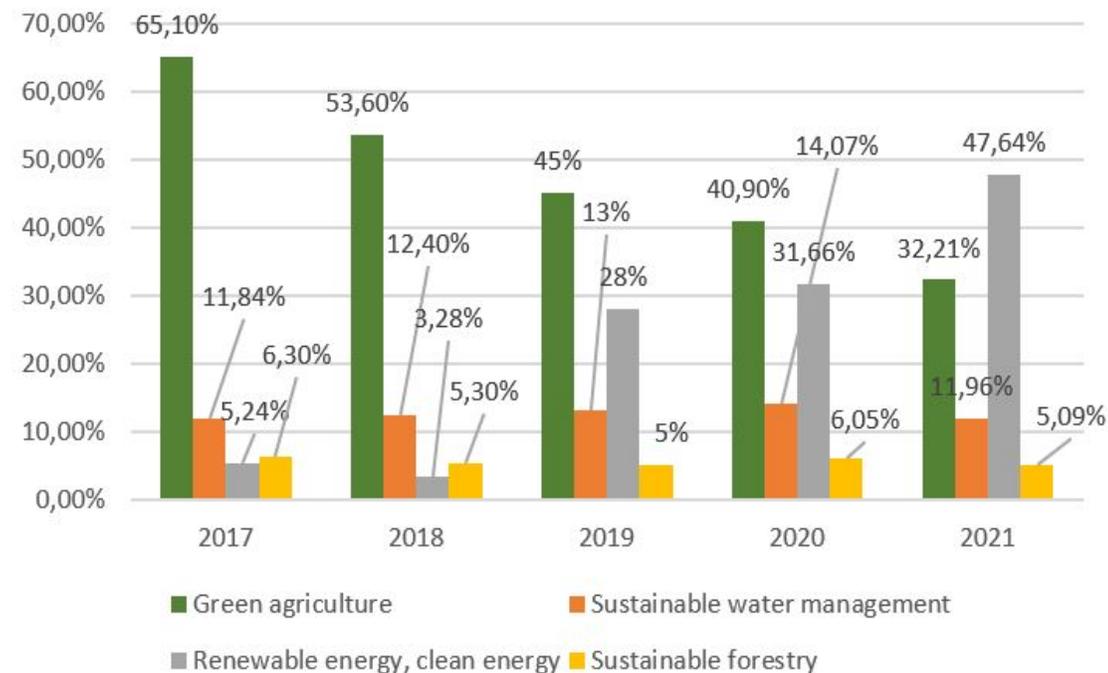
- VDB, a government-owned credit institution, was established according to Decision No. 108/2006/QĐ-TTg by the Prime Minister of Viet Nam on 19 May 2006.
- Similar to VEPF, green finance is not explicitly mentioned in their operation, but the targeted clients defined are in line with the purpose of green finance.
- Currently, VDB is further refining its green credit policy framework, focusing on customer policies, credit terms, collateral management, and environmental/social practices to entice impactful green initiatives. The target is to boost the green credit portfolio by 20-30% compared to 2021 by the end of 2023. By 2025, VDB aims to substantially raise this portfolio to encompass 50-80% of its total credit outstanding (Hong Ha, 2023).

## 4. LANDSCAPE OF GREEN FINANCE PRODUCTS IN VIET NAM

### 4.1. Green credits (4)

#### 4.1.2. Commercial banks

- Green credit from commercial banks is considered a common tool among debt instruments to provide financial resources for businesses and implement green projects (Luu Anh Nguyet, 2020)
- The green outstanding loans have been primarily directed to renewable and clean energy, along with green agriculture.
- Financial institutions apply varied interest rates for green projects, typically lower than conventional lending rates. Short-term green sector rates range from 5-8% per year, while medium and long-term project rates range from 9-12% per year (Nam A Bank, 2022)
- Some green credit packages are currently being implemented: BIDV provides a green credit package valued at 4.2 trillion VND for textile and garment enterprises. Vietcombank provides Energy efficiency project loan products for the Vietnamese industry with a total value of 158 million USD



The distribution of green credits across various sectors in Viet Nam from 2017 to 2021

Source: SBV, 2022

### 4.1. Green credits (5)

#### Gaps:

- **There is a lack of incentive mechanisms for banks to develop green credit.** While various support policies have been implemented to encourage financial institutions to advance credit, some remain insufficient in providing the necessary capital for these institutions. Investing in green sectors, especially in renewable energy, requires significant upfront investment, a long payback period, and high market risks. Mobilizing funds for green credit is also limited, and accessing preferential funding for green credit from international financial institutions faces challenges.
- **The number of banks actively interested in and issuing internal procedures for green banking and green credit, as well as the assessment process for green projects, is still limited.** Bank staff often lack in-depth, comprehensive training to conduct assessments, evaluations, and environmental risk management in credit activities. Green investment projects inherently carry risks that are difficult to evaluate both in financial and societal terms.
- **Banks are beginning to introduce green credit products; however, the number of these products is still limited and lacks diversity.**
- **Awareness among individuals and businesses about green activities is unclear.** In the early stages of the green credit program, many enterprises, especially small and medium-sized enterprises, lack information about the offered products and face challenges meeting approval requirements. The lengthy application process, complex procedures, and collateral limitations further restrict access. Both small and large enterprises encounter difficulties in securing green credit, hindering broader adoption.

### 4.2. Green bonds

- LEP 2020 defines green bonds as financial instruments issued by the government, local authorities, and enterprises to secure funds for environmental protection activities and beneficial investment projects. These bonds must adhere to legal regulations on bond issuance, with the generated revenues dedicated to executing projects that contribute to environmental protection and offer environmental benefits
- The first pilot issuances in Viet Nam were in Ho Chi Minh City and Ba Ria-Vung Tau in 2016, focusing on sustainable water management and climate-resilient infrastructure
- In the corporate sector, companies such as BIM Land and VinGroup have entered the green bond market, with BIM Land raising 200 million USD in 2021 (Hai Yen, 2021) and VinGroup issuing sustainable bonds worth 425 million USD (Viet Nam News, 2021)
- BIDV also issued green bonds in October 2023, following the International Capital Market Association's Green Bond Principles
- **Gaps:** The overall scale of the green bond market in Viet Nam remains comparatively modest in contrast to the broader bond market. This discrepancy primarily stems from limited awareness and understanding within local commercial banks and enterprises. Their lack of familiarity and expertise in the green bond domain has constrained the range of green bond products

### 4.3. Green stocks

- Green stock refers to shares of companies that are actively involved in businesses or activities promoting environmental sustainability and social responsibility. These companies typically operate in sectors related to clean energy, renewable resources, energy efficiency, waste management, and other environmentally conscious practices.
- The main activities related to green stocks implemented so far can be categorized into three groups: (i) Enhancing overall market awareness of green finance; (ii) Encouraging the participation of businesses in green finance; (iii) Developing and applying sustainable development indices across the entire market.
- **Gaps:**
  - Regulatory and policy support for green stock investment is inadequate, lacking incentives such as tax breaks or subsidies that could stimulate interest and investment in this sector
  - The limited awareness and understanding of green investments among both investors and businesses, hinders the growth of a market centered on environmental sustainability
  - There is a notable deficiency in stringent disclosure and reporting standards for ESG criteria, essential for transparent and responsible investment decisions
  - The range of available green stocks remains limited, offering scant options for investors keen on environmentally sustainable businesses

### 4.4. Green insurances

- Green insurance in Viet Nam can be defined narrowly as environmental liability insurance and more broadly as insurance that includes programs related to environmental risk management and resilience, as well as innovative products protecting low-carbon solutions
- As of 31 December 2022, Viet Nam's insurance market comprised 82 insurance entities, however, the green insurance segment remains nascent, with only 4 companies offering green insurance products
- Some green insurance products have been implemented: Tokio Marine Insurance Viet Nam Company Limited offers pollution liability insurance; AIG Viet Nam Insurance Company Limited (AIG) offers environmental pollution liability insurance for contractors and environmental pollution liability insurance, etc.
- **Gaps:**
  - A lack of clear legal definitions, making it an unfamiliar concept to many consumers
  - The implementation of green insurance in the market is slow and limited, with only a small fraction of insurance companies providing such products, which are largely restricted to environmental liability coverage

## 5. CONCLUSIONS

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- Viet Nam has laid the groundwork for greening its financial sector, anchored by the commitment to reach a net-zero goal by 2050.
- Despite positive signs in the growth of green finance, its development in Viet Nam has not yet fully realized its potential.
  - The initial legal framework has been established, but it remains incomplete and unstandardized.
  - There is a lack of specific criteria and taxonomy for defining and categorizing green projects, posing challenges for credit institutions in selecting, assessing, and monitoring green finance products.
  - The legal framework for managing environmental-social risks in green finance products is still under construction and improvement, while mechanisms for collaboration among relevant parties to implement and promote green finance are yet to be established.
  - Green finance products have emerged, offered by both the public and private sectors, but their growth has been limited due to constraints in capital mobilization, limited awareness, and capacity among credit institutions regarding green finance, and enterprises and investors have yet to fully grasp green financial products.

# THANK YOU!

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