

# **GAP ANALYSIS OF POLICIES, INSTITUTIONS, AND PRACTICAL IMPLEMENTATION CHALLENGES; FINAL FACT-FINDINGS AND RECOMMENDATION REPORT ON GREEN FINANCE**



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## ABBREVIATION

ADB	Asian Development Bank
Agribank	Viet Nam Bank for Agriculture and Rural Development
ASEAN	The Association of Southeast Asian Nations
BAU	Business-As-Usual
BIDV	Bank for Investment and Development of Viet Nam
CBI	Climate Bonds Initiative
EIB	European Investment Bank
ESG	Environmental, Social, and Governance
ETP	Southeast Asia Energy Transition Partnership
EU	European Union
GGGI	Global Green Growth Institute
GHG	Greenhouse gas
GIZ	The German Agency for International Cooperation
HOSE	Ho Chi Minh City Stock Exchange
ICMA	International Capital Market Association
IFC	International Finance Corporation
ISIC	International Standards Industrial Classification
ISPONRE	Institute of Strategy and Policy on Natural Resources and Environment
JBIC	Japan Bank for International Cooperation
JETP	Just Energy Transition Partnership
LEP	Law on Environmental Protection
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MONRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
MRV	Measuring, Reporting, and Verification
MtCO <sub>2</sub> e	Million tons of carbon dioxide equivalent
NDC	Nationally Determined Contributions
NIE	National Implementing Entity
ODA	Official Development Assistance
SBV	State Bank of Viet Nam
SME	Small and medium enterprises
SSC	State Securities Commission

VDB	Viet Nam Development Bank
VEPF	Viet Nam Environment Protection Fund
Vietcombank	Joint Stock Commercial Bank for Foreign Trade of Viet Nam
VNEEC	Energy and Environment Consultancy Joint Stock Company
VNSI	Viet Nam Sustainability Index
WB	World Bank

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## EXECUTIVE SUMMARY

The Additional Scope of Work for National Green Cooling Program: In-depth study and survey to develop the National Green Cooling Program 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) of Viet Nam. The objective of the Assignment is to review the current legal, institutional arrangement, and conditions concerning green finance in Viet Nam; conduct consultations with key stakeholders to pinpoint gaps, practical challenges that hinder the effective implementation of green finance; and propose recommendations to promote green finance in order to achieve net-zero targets in Viet Nam.

This report **“Gap analysis of policies, institutions, and practical implementation challenges; Final fact-findings and recommendation report on green finance”** is developed based on insights gathered in 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” and findings from “Consultation sessions with financial institutions, multilateral development banks, project developers, relevant government agencies, and other related stakeholders on green finance”. This report conducts a review of international experience on green finance and a deep dive into the country's existing relevant legal, and institutional framework, and current landscape of green finance. Based on the in-depth analysis and overview, the report identifies critical gaps that hinder green finance development and subsequently formulates recommendations to advance green finance in Viet Nam.

The review of international experiences in promoting green finance in China, Japan, Singapore, Indonesia, and Malaysia emphasises the significance of a well-structured strategy and the establishment of a central agency to coordinate and oversee the implementation of green finance. Simultaneously, transparency plays a crucial role that is achieved through the development of a green taxonomy and disclosure/reporting mechanisms within the green finance sector. Additional critical factors involve green finance products and incentive mechanisms, alongside the enhancement of skills and building capacity.

In Viet Nam, the regulatory framework for green finance is in its early stages and mainly revolves around two key products: green credits and green bonds. These two products are primarily governed by Law No. 72/2020/QH14 on Environmental Protection, issued by the National Assembly in November 2020, and Decree No. 08/2022/ND-CP elaborates on several articles of the Law on Environmental Protection 2020 issued by the Government in January 2022. Besides, green finance has been reflected in the latest national green growth framework. In terms of institutional arrangements, given the emerging nature of the green finance market in Viet Nam, the roles of involved parties are still evolving, especially in relation to the two key products. Regulatory agencies, including MONRE, the State Bank of

Vietnam (SBV), the Ministry of Planning and Investment (MPI), and the Ministry of Finance (MOF), play crucial roles. Under the existing regulation, MONRE is responsible for developing green taxonomy; MPI is the focal point for implementing green growth and is tasked with enhancing the legal framework to promote green investments and developing the national green economic sector. MOF oversees green bonds, while SBV is responsible for green credits. Additionally, credit institutions, project owners, green bond issuers, investors, audit organizations, and other relevant stakeholders are involved in the green finance ecosystem..

Green credits stand out as the most abundant products in the green finance market in Viet Nam. As of the end of 2023, outstanding green credits in Viet Nam amounted to nearly 564 trillion VND, constituting approximately 4.4% of the total outstanding credits in the economy. The commercial banks in Viet Nam have made significant strides in promoting the development of green credits. Over 70% of the total green credit outstanding in Viet Nam has been financed for projects in renewable and clean energy, along with green agriculture. The key challenge in scaling up and exploiting the potential for green credits to meet the high demand under the Just Energy Transition Partnership (JETP) and net-zero context in Viet Nam is the lack of specific and attractive incentives, together with risk alleviation policies.

For green bonds, Viet Nam has successfully issued green bonds with a total of 1.157 billion USD between 2019 and 2023. In 2016, Viet Nam initiated a pilot project for green bonds to mobilise finance for green projects related to irrigation, environmental protection, and wind power. The stakeholder consultations showed that despite great interests from investors, the green bond market is still limited. There is no secondary market for green bonds in Viet Nam, primarily involving private transactions that are not widely disclosed.

In addition to these, some other green finance products, such as green stocks and green insurance, have gradually emerged but they are evolving without explicit regulatory guidelines. Thus, it requires specific policies to acknowledge and regulate the new green finance products.

Based on the review of international experiences, the analysis of the national context, and consultations with key stakeholders, gaps hindering green finance in Viet Nam to promote net-zero and energy transition are examined, then corresponding recommendations proposed that are categorized into four primary groups: (i) Strategy and Coordination; (ii) Transparency; (iii) Skills & Capacity building; and (vi) Instruments and Incentives. Furthermore, corresponding recommendations are proposed for the key agencies in charge, including MONRE, MPI, MOF, and SBV according to their current responsibilities assigned by the Government. Finally, the next steps for promoting capital green cooling projects are outlined. These steps are designed to complement and enhance the ongoing efforts of MONRE, SBV, MPI, and MOF in the realm of green finance, ensuring alignment and synergy across relevant ministries and agencies.

# 1 Introduction

## 1.1 Green finance in meeting global net-zero target

In the context of nations striving to achieve net-zero target, it is imperative not only to utilize public funds for supporting innovation, sustainable procurement, and assisting affected sectors and regions but also to actively involve the financial sector in redirecting private capital towards sustainable investments. On a global scale, the transition to net-zero emissions requires a substantial investment of almost 200 trillion USD by 2050, with an annual commitment of 6.7 trillion USD (BloombergNEF, 2022). Specifically, the net-zero emissions scenario envisions a significant expansion in annual energy investment, increasing from just over USD 2 trillion globally on average during the period of 2016-2020 to nearly USD 5 trillion by 2030 and approximately USD 4.5 trillion by 2050 (IEA, 2021), which is demonstrated in Figure 1.

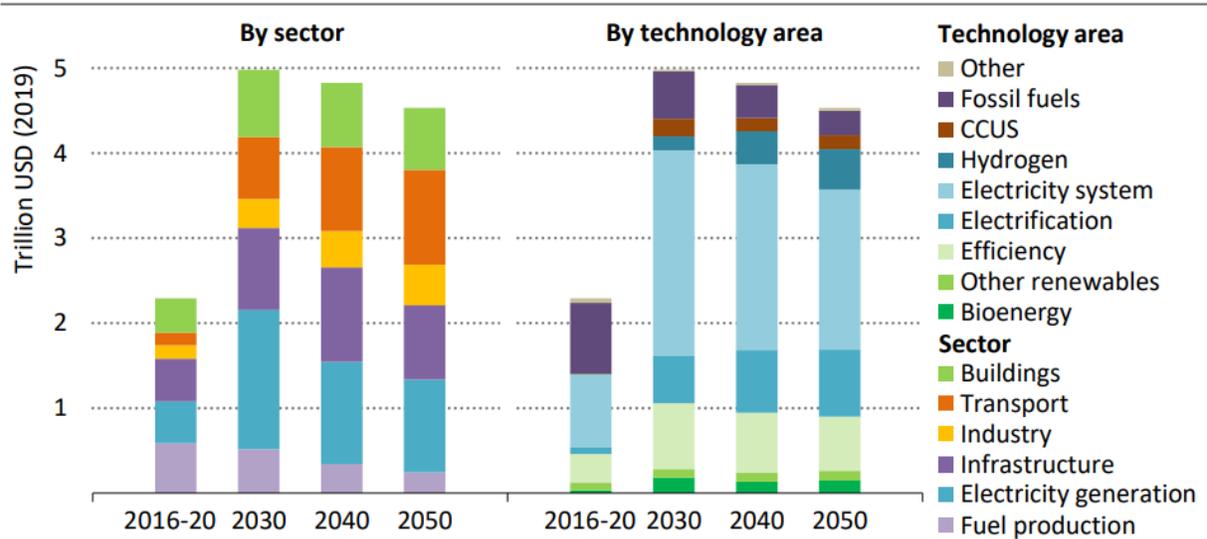


Figure 1: Annual average capital investment within the energy sector for the net-zero emissions scenario

Source: IEA, 2021

To support the scale-up of low-carbon solutions and the transition of high-emitting sectors toward the net-zero target, the financial system plays a crucial role with different scopes. In this system, climate finance specifically provides funds, and capital for addressing climate change adaptation and mitigation while green finance has a broader scope as it also covers other environmental goals (e.g. biodiversity protection/restoration). Green finance as a key tool in the fight against climate change can be seen as a subset of sustainable finance which extends its domain to environmental, social, and governance (ESG) factors. Figure 2 illustrates the distinct scopes of climate finance, green finance, and sustainable finance.

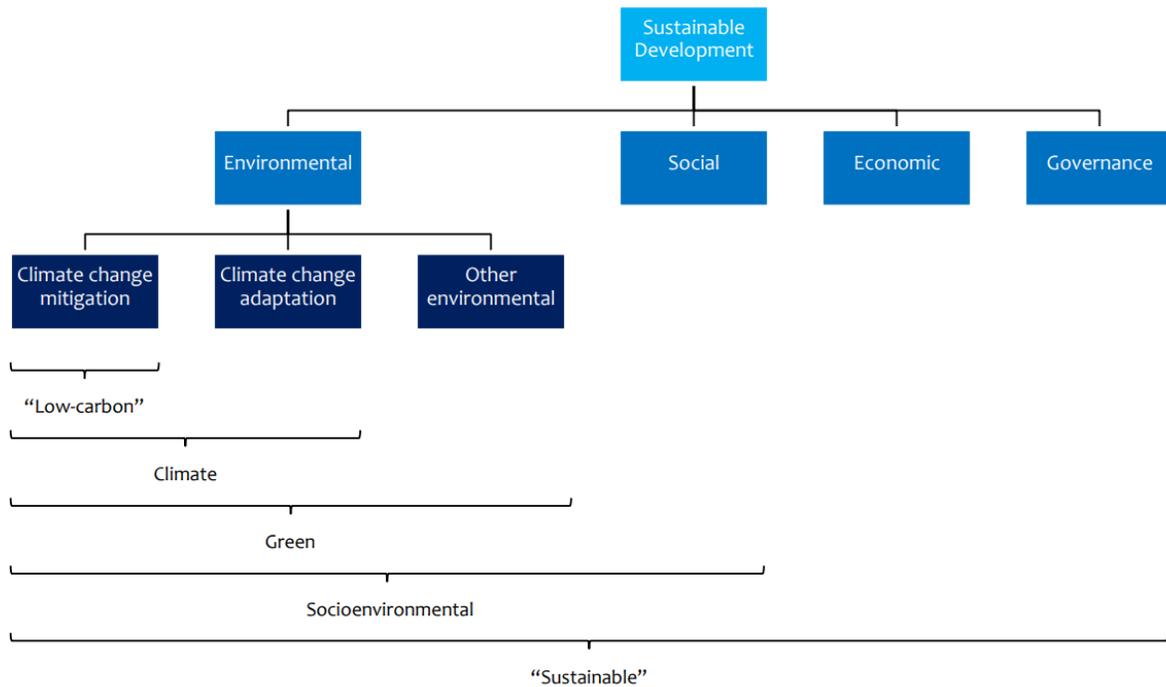


Figure 2: The distinct scopes of climate finance, green finance, and sustainable finance

Source: UNEP, 2016

Generally, green finance is a term used to describe financial instruments and services that are designed to promote environmentally sustainable economic growth. It covers a wide range of financial products and services, which can be divided into investment, banking, and insurance products. Green finance includes all types of actions and initiatives, such as developing, implementing, and promoting projects and initiatives that can have positive climate and environmental impacts. Along with making funds available for green investments, another objective of green financing is to reduce risk perceptions for green projects.

Globally, green finance products have surged in recent years which underscores the growing momentum and commitment towards sustainable financial practices on a global scale. Since the first issued in 2007 to help finance climate change and environmental solutions, the market of green bonds has grown to reach a global total of 1 trillion USD (GGGI, 2021). In the realm of green loans, a milestone as the global loan markets set a new record in 2021 with over 681 billion USD of green and sustainability-linked lending – a remarkable 275% increase over the 181.7 billion USD raised in 2020 (LSTA, 2022).

## 1.2 Overview of green finance status in Viet Nam

In line with the global financing transition, the green finance concept in Viet Nam has been referenced in the national green growth framework and relevant regulations. Accordingly, green finance is considered as a financial flow including banking, microfinance, insurance, and investment from various economic sectors (private, public, and non-profit) to serve the priorities and goals of sustainable growth for the economy. The Law on Environmental Protection 2020 (LEP 2020) officially legalized two green finance products, including green credits and green bonds. According to LEP 2020, green credits are credits granted to the following investment projects: (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. For green bonds, they are defined as bonds issued by the Government, local authorities, and enterprises in accordance with regulations of law on bonds to raise capital for environmental protection activities and investment projects that offer environmental benefits.

To bridge the substantial financial gap for green finance, so far Viet Nam relies on a mix of sources, including public investment, Official Development Assistance (ODA), and private sector investments including:

- **Public investment:** This category includes investments in the development and financing of national target programs aimed at climate change responses, encompassing both adaptation and mitigation efforts. Public investment also covers regular expenditures for activities related to environmental protection, climate change, and sustainable development at both the central and provincial levels. Notably, Viet Nam allocated about 166.2 trillion VND (approximately 7 billion USD) annually from 2015 to 2020 for climate change responses (including both mitigation and adaptation and the later includes infrastructure investment), accounting for 10.9% of the total state budget (MONRE, 2022). In 2018, this accounted for about 3% of the country's GDP, surpassing the proportions allocated by neighbouring countries like Thailand or Cambodia (MONRE, 2022). However, the portion of the budget dedicated to mitigating greenhouse gas (GHG) emissions remains limited, typically constituting about 6-10% of the total climate budget (MPI, 2022).
- **ODA:** From 2012 to 2019, Viet Nam received an annual average ODA capital for climate change mitigation of about 2.26 billion USD (JETP RMP, 2023). However, the flow of ODA capital into Viet Nam started to decline after 2014 due to decreasing preferential loan levels following the country's transition to middle-income status.

- Private investment from enterprises: Including financial instruments such as green credits, green bonds, foreign direct investment (FDI), and investment in the form of public-private partnerships (PPP):
  - Green credits: Green credits in Viet Nam primarily target sectors such as agriculture and renewable energy with an average of about 12.91 billion USD annually over the period from 2018 to 2020. As of the end of 2023, outstanding green credits in Viet Nam amounted to nearly 564 trillion VND, constituting approximately 4.4% of the total outstanding credits in the economy. The clean energy and renewable energy sectors received the majority of green credits, accounting for 47% of the total (SBV, 2023).
  - Green bonds: Viet Nam initiated a pilot project for green bonds in 2016 to mobilise finance for green projects, including those related to irrigation, environmental protection, and wind power. In 2021, a total of 1.5 billion USD in green, social, and sustainability (GSS) bonds were issued, with more than 80% being government bonds, while development banks were the second-largest issuers (MOF, 2022). Ministry of Finance (MOF) estimates that approximately 57% of these bonds are directed towards investments in renewable energy - the main industry of Viet Nam's interest, along with the waste and agriculture sector (MOF, 2021).

The green finance market in Viet Nam achieved notable growth in recent years. In 2021, with a total of 1.5 billion USD of GSS bonds, nearly five times higher than the value of 0.3 billion USD in 2020, the value of green bonds issued in Viet Nam ranked second in ASEAN (MOF, 2022). Meanwhile, the outstanding green credits for green sectors experienced an average annual growth rate of over 23% during the period from 2017 to 2022 (Nguyen Chi Tin, 2023). By the end of 2022, the outstanding credits for green projects reached nearly 500 trillion VND as illustrated in Figure below.

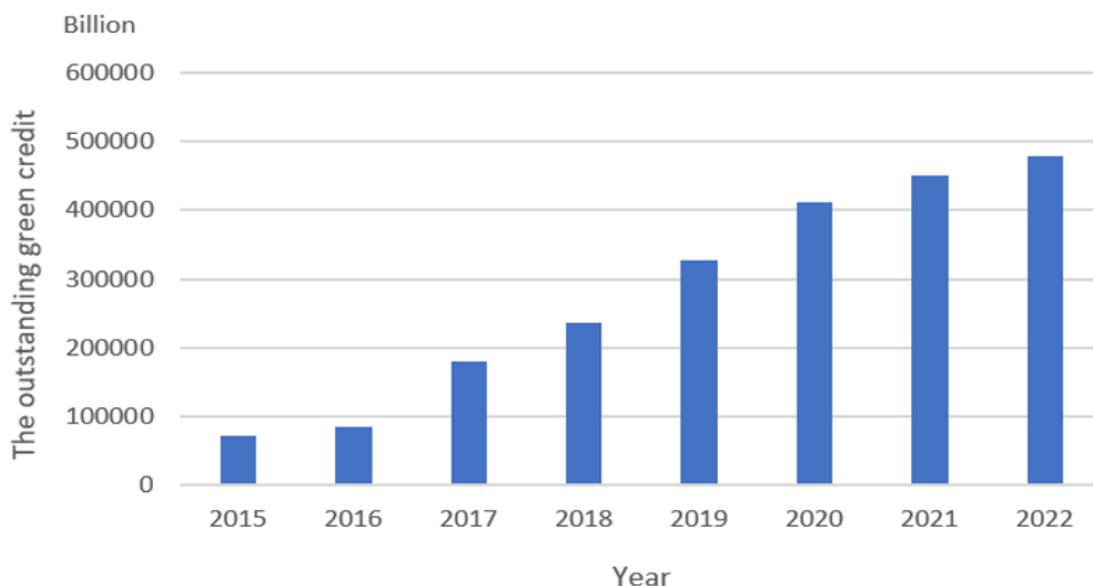


Figure 3: The development of the outstanding green credit in the period of 2015 – 2022

Source: Nguyen Chi Tin, 2023

While the potential for green finance appears promising to contribute to responding to climate change and net-zero target and some levels of scale have been attained, its full realization remains elusive in Viet Nam. The green finance faces challenges such as low liquidity on the supply side and a lack of awareness and insufficient incentives on the demand side.

### 1.3 Green finance in promoting the transition to green cooling in Viet Nam

With rising global temperatures and increased urbanisation, the need for cooling systems in various sectors such as residential buildings, commercial spaces, data centres, and transportation is escalating. Accordingly, expanding electricity capacity to meet the growing global demand for cooling will cost around 4.6 trillion USD over the next decade (The Economist Intelligence Unit, 2020).

In Viet Nam, the cooling sector plays a vital role in the economy and is also projected to grow significantly in the coming years to meet the socio-economic development and demand. According to the estimation by the Consultant under National Green Cooling Program in Viet Nam, in 2022, this sector 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. Hence, this sector also contributes significantly to GHG emissions. In 2022, the cooling sector's emissions totalled 64.68 MtCO<sub>2</sub>e, projected to soar to 91.7 MtCO<sub>2</sub>e by 2030 (constituting 9.88% of total national emissions) as per the

Business-As-Usual (BAU) scenario under the National Determined Contributions 2022 (NDC 2022). Given Viet Nam's commitment to achieving net-zero emissions by 2050, a transformative shift and proactive promotion of green cooling initiatives are essential.

Against this background, financial institutions can play a pivotal role in promoting green cooling by offering financial products to accelerate the transition to green cooling in order to make it more accessible and affordable. Green finance can act as a catalyst for scaling up sustainable and green cooling solutions by aligning green financial resources with financial needs. Some key roles of green finance in financing green cooling can be highlighted as follows:

- **Technology adoption:** Green finance facilitates the adoption of green cooling technologies by financing for research, development, and deployment. This includes investment in innovations like ozone/climate-friendly refrigerants, energy-efficient systems, and renewable energy-powered cooling solutions.
- **Infrastructure development:** Funds allocated through green finance mechanisms can support the development of infrastructure necessary for green cooling. This includes energy-efficient buildings, smart cooling systems, and distribution networks for renewable energy sources like solar or geothermal power.
- **Market transformation:** Green finance drives market transformation by incentivizing investments in green cooling solutions. It encourages financial institutions, businesses, and governments to allocate resources towards eco-friendly technologies, thereby creating a robust market for these products and services.

The transition to efficient and climate-friendly cooling requires significant green investment, particularly in developing countries like Viet Nam. The need for green financing is not just for the adoption of new technologies but also for the development of supportive policies, capacity building, and the establishment of appropriate market conditions. The financial requirements are diverse, covering areas such as: (i) Researching and developing new cooling technologies that are both energy-efficient and use refrigerants with low global warming potential (GWP); (ii) Scaling up of existing efficient cooling technologies; (iii) Establishing and enforcing policies and regulations that promote the adoption of green cooling solutions; (iv) Conducting capacity building activities and training programs for technicians and other stakeholders in the cooling sector; and (v) Funding awareness campaigns to educate consumers and businesses about the benefits of energy-efficient cooling.

Promoting green finance for green cooling initiatives requires a deep understanding of Viet Nam's context, ranging from regulations, institutions governing green finance, to the overall landscape of green finance within the country. This understanding is key to foster green projects, especially those focused on green cooling initiatives.

## 1.4 Scope of work

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) of Viet Nam. The objective of the Assignment is to review the current legal and institutional arrangement and conditions governing green finance in Viet Nam; conduct consultations with key stakeholders to identify main legal, and institutional gaps and practical implementation challenges that hinder the effective implementation of green finance. Subsequently, the goal is to propose recommendations to promote green finance not only for green cooling initiatives but also for green projects in other sectors (renewable energy, sustainable transportation, agriculture etc.), contributing to achieving net-zero target in Viet Nam.

Under the Assignment framework, the report “gap analysis of policies, institutions, and practical implementation challenges; final fact-findings and recommendation report on green finance” will provide an overview of international experience on green finance and take a deep dive into the country's existing relevant legal, and institutional framework, and current landscape of green finance. Ultimately, the report identifies critical gaps that hinder green finance and then provides subsequent recommendations to advance green finance, promoting net-zero target in Viet Nam. The report includes two tasks:

- Task 4: Gaps analysis of policies, institutions, practical implementation challenges
- Task 5: Final fact-findings and recommendation report

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.

## 2 Demand for green finance toward net-zero target in Viet Nam

Achieving global net-zero emissions by mid-century demands an annual investment of approximately 4.4 trillion USD until 2050 (IRENA, 2021) that spans multiple sectors, including renewable energy, infrastructure, transportation, and technology innovation.

To address the urgent challenge of responding to climate change, Viet Nam faces a formidable financial demand, estimated to surpass 3 - 5% of the country's GDP by 2030 (The Government, 2022). The investment needed to implement the green growth strategy is expected to reach 30 billion USD, of which 30% comes from the state budget and 70% from

the business and ODA sectors (The Government, 2022). In the period from 2021 to 2030, Viet Nam anticipates a need for approximately 54.99 - 91.65 billion USD to fund climate change responses (The Government, 2022). The financial need to respond to climate change in Viet Nam is shown in Table below.

Table 1: Financial need to respond to climate change in Viet Nam (period 2021-2030)

Categories	Annual average financial need	Cumulative value
	(% GDP)	(billion USD)
Total financial needs for climate change responses	3.0 - 5.0	54.99 - 91.65
Upgrading existing infrastructure	1,2	22.0
Constructing new infrastructure	1.6 - 3.1	29.33 - 56.82
Support affected people and enterprises	0.2 - 0.7	3.67 - 12.83
Available financial resources for climate change responses	1.5	27.5
Additional financial needs for climate change responses	1.5 - 3.5	27.5 - 64.16

Source: The Government, 2022

To implement the unconditional target to reduce GHG emissions by 15.8% (equivalent to 146.3 MtCO<sub>2</sub>e) by 2030 compared to BAU, an additional financial of 21.7 billion USD is needed (The Government, 2022). Around 86.8 billion USD is required from international support that is under forms of non-refundable aid, preferential loans, technology assistance, and capacity building. With this international support, Viet Nam can increase the emission reduction to 43.5% (equivalent to 403.7 MtCO<sub>2</sub>e), by 2030 compared to BAU (conditional target) (The Government, 2022). The financial demand by sectors to achieve the net-zero target in NDC 2022 is summarised in the Table below:

Table 2: Financial demand by sector according to NDC 2022

Sector	Emission reduction under Unconditional Contribution			Emission reduction with additional international support			Emission reduction under Conditional Contribution		
	Compare to BAU (%)	Amount (MtCO <sub>2</sub> e)	Additional financial demand	Compare to BAU (%)	Amount (MtCO <sub>2</sub> e)	Additional financial demand	Compare to BAU (%)	Amount (MtCO <sub>2</sub> e)	Additional financial demand

			(million USD)			(million USD)			(million USD)
Energy	7.0	64.8	14,464.4	17.5	12.2	46,097.0	24.4	227.0	60,561.4
Agriculture	1,3	12.4	2,122.8	4.1	38.5	13,979.4	5.5	50.9	16,102.2
Land Use, Land-Use Change and Forestry (LULUCF)	3.5	32.5	3,927.4	1.5	14.1	1,567.4	5.0	46.6	5,494.9
Waste	1.0	8.7	916.6	2,2	20.7	1,809.5	3.2	29.4	2,726.1
Industrial processes (IP)	3.0	27.9	310.0	2,4	21.9	1,640.2	5.4	49.8	1,950.1
Total	15.8	146.3	21,741.2	27.7	257.4	65,093.4	43.5	403.7	86,834.7

Source: The Government, 2022

On 14 December 2022, Viet Nam and the International Partners Group (IPG) announced the Political Declaration establishing a Just Energy Transition Partnership (JETP). The JETP aims “to support Viet Nam’s low-emission and climate resilient development, as well as to support Viet Nam to accelerate the just transition and decarbonisation of the electricity system and develop new economic opportunities to support Viet Nam’s transition towards net zero future” (European Commission, 2023).

Under the JETP, the Resource Mobilisation Plan (RMP) to mobilise resources to implement JETP is developed. The RMP was launched at the Conference of Parties to UNFCCC 28 (COP28) in December 2023. The RMP is the first step in implementing the JETP in order to mobilise 15.5 billion USD, largely in commercial loans at market rates, over three to five years to boost the use of renewables and cut dependence on coal.

Under the RMP, it is confirmed that “Green public and private finance is necessary and will help transform the economy towards more sustainability, while leveraging international resources to support the green transition”.

### **3 International experience and practices in developing green finance**

### **3.1 Overview of international experience in green finance**

This overview explores the international experience of selected countries in the Asia-Pacific region based on recommendations during stakeholder consultations, namely China, Japan, Singapore, Indonesia, and Malaysia, in fostering green finance. Each country has made significant strides in implementing green finance.

#### **3.1.1 China**

China has developed landmark frameworks together with implementation guidelines and incentives to shape its green finance system quite early. Notably, policies include the Green Credit Guidelines issued in 2007, the Guidelines for Establishing the Green Financial System issued in 2016 and the Guiding Catalogue for the Green Industry issued in 2019.

Since then, Chinese green finance experienced rapid growth, catalysing the expansion of the green bond market. The country's green bond market transformed remarkably from a negligible issuance in 2015 to the second-largest green bond issuer in 2019 with 31.3 billion USD in issuances, following the USA, which led the market with 51.3 billion USD in issuances (CBI, 2020).

An exemplary feature of China's approach to green finance is its initiative to pilot programs in cities such as Shenzhen, Chongqing, Huzhou, and Beijing from 2021 to 2022. These pilot programs serve to evaluate policies' effectiveness, aiming to scale up successful models nationally and globally. Local governments enacted their green finance ecosystems, aligning with central policies while incorporating localisation and innovative practices driving nationwide green finance development (WANG & Ziyang, 2023).

The green finance leadership tends to fall to the People's Bank of China with the engagement of multiple ministries and regulators, including the Ministry of Finance, National Development and Reform Commission, Ministry of Ecology and Environment, China Banking Regulatory Commission, China Securities and Regulatory Commission, and State-owned Asset and Administration Commission.

#### **3.1.2 Japan**

The inception of green finance in Japan dates back to 2014 with the issuance of the first green bonds by the Development Bank of Japan. Since then, Japan has laid the groundwork by instituting key policies and guidelines related to the issuance of green finance products, such as the Green Bond Guidelines (2017), the Green Bond Issuance Promotion Platform (2018) and the Basic Guidelines on Climate Transition Finance (2021), progressively enhancing its green finance system. In 2018, Japan's sustainable investment under management reached 263 trillion JPY (2.4 billion USD) (OECD, 2020). Japan's green bond market holds the ninth

position globally and is the second largest in the Asia-Pacific region, following China, with cumulative issuance reaching 1,875 billion JPY (17 billion USD) by the end of 2019 – a substantial 70% increase in green bond issuance compared to 2018 (OECD, 2020). Notably, financial corporates play a significant role in this market, contributing to 50% of the total issuance at 938.8 billion JPY (OECD, 2020).

The collaborative entities responsible for steering green finance initiatives in Japan encompass Financial Services Agency, which oversees financial regulations and markets; Ministry of Environment, dedicated to environmental policies and sustainability; and Ministry of Economy, Trade and Industry, focusing on the economic and industrial aspects. Together, these agencies work in tandem to foster a comprehensive and integrated approach to green finance, ensuring the alignment of financial strategies with environmental and economic sustainability goals in the Japanese context.

### **3.1.3 Singapore**

Singapore aims to position itself as a leading hub for green finance in the region. Singapore started to promote green finance in 2017, when the policy Sustainable Bond Grant Scheme was announced, followed by the first green bond issuance in April of the same year. The primary legal frameworks guiding green finance in Singapore include: (i) Green Finance Action Plan introduced in 2019, and (ii) Singapore Green Plan 2030 enacted in 2021. These frameworks serve as the foundation, providing a structured approach to galvanise both public and private sector initiatives, fostering a sustainable and climate-resilient Singapore. Singapore's green finance market is experiencing rapid growth, particularly evident in the increasing number of green bonds listed and traded on the Singapore Exchange. The cumulative count of green bond listings on the Singapore Exchange surged from a single listing valued at 500 million USD in 2013 to an impressive 103 listings, totalling 44 billion USD in 2020 (IMF, n.d.).

One party that plays the most vital role is the Monetary Authority of Singapore, the city-state's central bank and financial regulatory authority. In January 2021, the Monetary Authority of Singapore convened the Green Finance Industry Taskforce, operating from November 2019 to April 2023, with key objectives: (i) establish Singapore as the premier financial hub for green and sustainable finance in Asia; (ii) leverage green and sustainable finance as one of the key approaches to achieving Singapore's green agenda; (iii) identify best practices, as well as key measures and resources needed to develop the green and sustainable finance ecosystem in Singapore (GFIT, n.d.).

### **3.1.4 Indonesia**

Green finance in Indonesia is a growing sector, driven by the country's commitment to sustainable development and environmental conservation. The Sustainable Finance

Roadmap Phase I spanning 2015 to 2019 published in 2014 by the Indonesia's Financial Services Authority, is the first official policy of Indonesia regarding green finance. This roadmap aimed to systematically guide the country's financial services industry to positively contribute to sustainable development. Consequently, the Sustainable Finance Roadmap phase II spanning 2021 to 2025 was announced in 2021. This roadmap aims to promote the greater supply and demand for sustainable financing instruments. Furthermore, to encourage the growth of green and sustainable finance products, the Financial Services Authority of Indonesia has issued a series of sustainable finance policies. As a result, the green finance market in Indonesia is flourishing. The issuance of green, social, and sustainability bonds valued at 7.7 billion USD in 2022 (CBI, 2022), signalled a noteworthy improvement in the country's commitment to environmentally responsible financial practices.

Acting as the focal point agency in spearheading the development of green finance in Indonesia, the Financial Services Authority of Indonesia – the regulatory authority for financial services holds a central position in shaping the landscape of sustainable and environmentally responsible financial practices.

### **3.1.5 Malaysia**

The first movement of the green finance market in the country was marked in 2017 when the world's first Islamic green bond of Malaysia was issued for a solar power plant financing. Since then, the green bond market, specifically, and green finance in general, has been consistently advancing in Malaysia. In November 2019, the Securities Commission introduced the Sustainable and Responsible Investment Roadmap, a pivotal initiative aimed at nurturing Malaysia's sustainable finance ecosystem, outlining the capital market's role in propelling the nation's sustainable development. Concurrently, policies regulating green finance and related incentives, aimed at reducing taxes for green initiatives, have also been implemented to support the growth of green finance in Malaysia. As of June 2020, Malaysia has issued a total of 12 green Sukuks, along with two social bonds and three sustainable bonds, amounting to a combined value equivalent to 2,090 million USD (MSFI, n.d.).

In Malaysia, green finance is strategically coordinated through a collaborative effort between the Securities Commission of Malaysia and the Bank Negara Malaysia. The two agencies play pivotal roles in steering the trajectory of green finance initiatives, ensuring a comprehensive and integrated approach towards environmental sustainability within the Malaysian financial landscape. Through this collaborative framework, both institutions work in tandem to implement and regulate various financial instruments and mechanisms that support and promote green investments in Malaysia.

The Table below summarizes a review of green finance in the aforementioned countries that are recognized as highly active in developing green finance and having established relatively good national green finance systems.

Table 3: Overview of green finance in several countries

Categories	China	Japan	Singapore	Indonesia	Malaysia
<b>STRATEGY AND COORDINATION</b>					
<b>The green finance roadmap</b>	Guidelines for Establishing the Green Financial System (2016); the Guiding Catalogue for the Green Industry (2019)	The Strategy on Sustainable Finance (2021/2022)	Green Finance Action Plan (2019); Singapore Green Plan 2030 (2021)	The Sustainable Finance Roadmap (Phase I: 2015 – 2019 (2014) and Phase II: 2021 – 2025) (2021)	Sustainable and Responsible Investment Roadmap (2019)
<b>Focal point agency</b>	The People's Bank of China	Financial Services Agency; Ministry of Environment; Ministry of Economy, Trade and Industry	The Monetary Authority of Singapore	The Financial Services Authority of Indonesia	Securities Commission, The Bank Negara Malaysia
<b>TRANSPARENCY</b>					
<b>Green taxonomy</b>	Green Bond Endorsed Project Catalogue (2021 edition)	Basic Guidelines on Climate Transition Finance (2021)	Singapore-Asia Taxonomy for Sustainable Finance (2023 Edition)	Indonesia Green Taxonomy Edition 1.0 (2022)	Climate Change and Principle-based Taxonomy (2021)
<b>Disclosure &amp; Reporting</b>	Green Investment Guidelines (Trial) (2018); Guidelines for Financial Institutions Environmental Information Disclosure (JR/T 0227—2021)	Taskforce on Climate-related Financial Disclosure (2015)	Financial Institutions Climate-related Disclosure Document (2021)	Taskforce on Climate-related Financial Disclosure (2015)	Taskforce on Climate-related Financial Disclosure (2015)
<b>SKILLS AND CAPACITY BUILDING</b>					

Categories	China	Japan	Singapore	Indonesia	Malaysia
<b>Green Finance Task Force</b>	Green Finance Task Force was convened by the People's Bank of China and the UN Environment Program in 2014	The Expert Panel on Sustainable Finance was established by the Financial Services Agency in 2020	The Green Finance Industry Taskforce was convened by the Monetary Authority of Singapore, operating from November 2019 to April 2023	Sustainable Finance Task Force was established by the Financial Services Authority of Indonesia in 2021	<ul style="list-style-type: none"> <li>Malaysian Green Financing Task Force was formed by the Securities Commission in 2019</li> <li>Joint Committee on Climate Change was formed by the BNM in 2019</li> </ul>
<b>Environmental risk analysis</b>	<ul style="list-style-type: none"> <li>Notice on Credit Policy for Environmental Protection (2015)</li> <li>Green Financial Performance Evaluation Plan of Financial Institutions (2020)</li> </ul>	Analysis of Climate-related Financial Risks (2023)	<ul style="list-style-type: none"> <li>Stress Tests for Climate-related Risks (2018/2022)</li> <li>Environmental Risk Management Guidelines (2020)</li> </ul>	No reference	Task Force on Climate-related Financial Disclosure Application Guide for Malaysian Financial Institutions (2022)
<b>INSTRUMENTS AND INCENTIVES</b>					
<b>Incentives</b>	<ul style="list-style-type: none"> <li>Opinions on Supporting Green Development of Private Enterprises (2018)</li> </ul>	Overview of Japan's Green Transformation (GX) (2023)	<ul style="list-style-type: none"> <li>White Paper Fostering Green Finance Solutions (2021)</li> <li>Green Investments Program (2019)</li> </ul>	Incentives for the development of Electric Vehicle Sector (continued until 2023)	<ul style="list-style-type: none"> <li>Green Technology Tax Incentive (2014)</li> <li>Green Technology Financing Scheme (2020)</li> <li>The Low Carbon Transition Facility (2022)</li> </ul>

Categories	China	Japan	Singapore	Indonesia	Malaysia
<b>Green finance products</b>	<ul style="list-style-type: none"> <li>• The Green Credit Guidelines (2007)</li> <li>• Guidance on Green Bond Issuance (2015)</li> <li>• Green insurances: the Compulsory Environmental Pollution Liability Insurance Regulation (2018)</li> <li>• Guidelines for Green Finance in Banking and Insurance Industry (2022)</li> <li>• China Green Bond Principles (2022)</li> </ul>	<ul style="list-style-type: none"> <li>• The Green Bond Guidelines (2017/2020)</li> <li>• The Green Loan and Sustainability-Linked Loan Guidelines (2017/2020)</li> <li>• Green Bond Issuance Model Creation Project (2017)</li> <li>• Green Bond Issuance Promotion Platform (2018)</li> </ul>	<ul style="list-style-type: none"> <li>• The framework for green trade finance and working capital</li> <li>• Green and Sustainability-Linked Loan Grant Scheme (2020)</li> <li>• The Sustainable Bond Scheme (2017/2020)</li> <li>• Insurance-linked Securities Grant Scheme (2018-2022)</li> </ul>	<p>Regulation regarding Implementation of Sustainable Finance (the Financial Services Authority of Indonesia's Regulation No. 51/2017) and Green Bond (the Financial Services Authority of Indonesia's Regulation No. 60/2017)</p>	<p>The Government of Malaysia SDG Sukuk Framework (2022)</p>

Source: The Consultant

### 3.1.6 Observations from international experience

The review of international experience shows the following common observations to promote green finance:

- Strategy and coordination:
  - A green finance strategy and coordination approach is indispensable. This involves the creation of a Green Finance Roadmap to serve as a guiding document, delineating comprehensive, long-term strategies for the systematic development of green finance.
  - A designated focal point agency and effective coordination mechanisms among relevant entities are essential for successful implementation.
- Skills & Capacity building :
  - The establishment of a green finance task force to serve as a platform to connect diverse stakeholders, both public and private. This task force plays a vital role in formulating policies, facilitating knowledge transfer, and driving initiatives to boost green finance.
  - Environmental risk management skills are essential, involving the analysis and mitigation of potential environmental risks associated with financial activities.
- Transparency: encompassing the development of a green taxonomy to define criteria aligning economic activities with climate and environmental goals. Concurrently, the establishment of disclosure & reporting mechanisms enhances transparency and accountability in the green finance market.
- Instruments and incentives:
  - Creating incentive mechanisms is vital to encourage businesses, investors, and financial institutions to prioritise and actively participate in green finance activities. These mechanisms can include financial incentives, tax deductions, and other rewards for adopting environmentally sustainable practices.
  - The development of green finance products and the establishment of a legal framework to diversify green financial products are important to scale up green finance.

### 3.2 International experience in developing green taxonomy

In the process of consulting with stakeholders under this Assignment, one aspect consistently highlighted by all parties is the significance of the green taxonomy. Hence, this section will delve deeper into the green taxonomy, exploring its implications and contributions to promote green finance.

#### 3.2.1 Overview of national green taxonomy around the world

Essentially, a green taxonomy is a classification system that serves to identify activities or investments that move a country towards meeting specific targets related to priority climate and environmental objectives (ICMA, 2021). Green taxonomies serve as invaluable instruments, fulfilling several complementary purposes: (i) Preventing greenwashing by establishing clear criteria and standards; (ii) Empowering investors to make informed and conscientious investment decisions; (iii) Directing investments toward sustainable or green economic activities and assets, fostering a more environmentally conscious financial landscape.

Acknowledging the crucial significance of green taxonomy, several nations and regions have formulated their individual frameworks for green taxonomy. The Figure below presents the green taxonomy around the world.

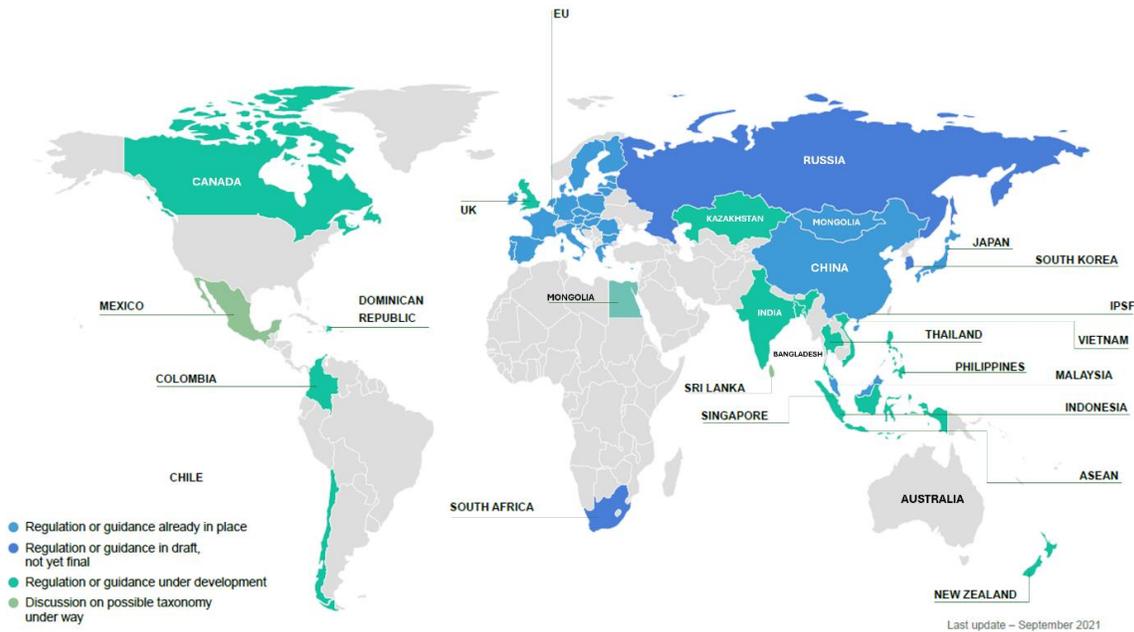


Figure 4: Overview of green taxonomy around the world

Source: FoSDA, 2021

### **3.2.2 Structure of a green taxonomy**

A green taxonomy typically comprises main industry sectors, sub-sectors, and environmental objectives to identify projects or economic activities within those sectors and sub-sectors that are deemed "green" and contribute to achieving national environmental goals. The categorisation of industries may vary between countries. Industry sectors and/or sub-industries can be derived from existing industry classifications used by national statistical agencies or international industrial classifications like the United Nations' International Standard Industrial Classification (ISIC). Relevant industries can also be drawn from environmental policies and regulations, regional public budget classification systems, and measuring, reporting, and verification (MRV) systems used to monitor and report on climate finances, or criteria of existing green financial products commonly used in the banking sector. With such diverse starting points, the number of industries and sub-industries can significantly differ among green taxonomy frameworks. The adoption of a country's existing industry classification is a prevalent trend used by many countries in structuring their own green taxonomy.

In government-established taxonomies, the "do not significant harm" criteria might be included as a supplementary factor beyond mere classification. The principle of this criterion means that an economic activity that contributes substantially to one of the environmental objectives, should not come at the cost of significantly harming another one. Incorporating the "do not significant harm" criteria ensures a balanced approach in evaluating the environmental impact of sectors within the taxonomy.

### **3.2.3 Taxonomy development approaches**

While countries may develop their green taxonomy using different classifications, the most utilised green taxonomies worldwide generally employ three primary approaches: (i) White-list based approach; (ii) Technical screening criteria-based approach; (iii) Principle-based approach.

#### ***3.2.3.1 Whitelist-based approach***

The white-list based approach involves the identification of qualifying projects or economic activities within each sector or sub-sector. It specifies technologies deemed as green or sustainable and provides comprehensive descriptions of eligibility criteria. Whitelist-based taxonomies do not necessarily begin by screening entire economic activities but aim to pinpoint activities already recognised as green or incorporating green elements that can have positive environmental impacts. Although the whitelist-based approach is known for its simplicity, it needs external reviews for additional judgment calls to ensure thoroughness. The whitelist-based approach may include technical screening standards for specific

activities and projects to define their eligibility. This approach has been implemented in the taxonomies developed by China, Mongolia, and Russia.

### *3.2.3.2 Technical screening criteria-based approach*

The technical screening criteria-based approach establishes the thresholds and screening criteria for economic activities, evaluating their alignment with specific objectives. It is instrumental in determining whether economic activities significantly contribute to environmental and “do not significant harm” objectives. Within sectors, this approach aims to maintain technological neutrality when screening eligible projects and assets for inclusion, avoiding the pre-determination of specific technologies or sub-sector activities. However, the effective implementation of this approach relies on the availability of necessary data. The EU, South Africa, and Korean taxonomies adopt the technical screening criteria approach, and the forthcoming taxonomies in Chile and Colombia are likely to follow a similar methodology.

### *3.2.3.3 Principle-based approach*

The principle-based approach establishes a set of fundamental principles for participants in the market. It incorporates fundamental guiding principles to evaluate the suitability of economic activities for funding and incorporates a non-exhaustive list of illustrative examples. This approach can be observed in the taxonomies crafted by Malaysia and Japan, closely resembles the Green Bond Principles outlined by the International Capital Market Association (ICMA).

Information about the green taxonomy models established for China, Japan, Malaysia, Singapore, Indonesia, ASEAN, EU, and the CBI’s taxonomy is consolidated in Table below.

Table 4: Green taxonomy frameworks for selected countries and regions

Categories	China	Japan	Malaysia	Singapore	Indonesia	ASEAN	EU	CBI
<b>Name of the national taxonomy</b>	Green Bond Endorsed Project Catalogue (2021)	Basic Guidelines on Climate Transition Finance (2021)	Climate Change and Principle-based Taxonomy (2021)	Singapore-Asia Taxonomy for Sustainable Finance (2023)	Indonesia Green Taxonomy Edition 1.0 (2022)	ASEAN Taxonomy for Sustainable Finance version 2 (2023)	EU Taxonomy for Sustainable Activities (2020)	The Climate Bonds Taxonomy (2021)
<b>Publisher(s)</b>	People's Bank of China	<ul style="list-style-type: none"> <li>The Ministry of Economy, Trade and Industry</li> <li>The Ministry of Environment, Japan</li> <li>The Financial Services Agency</li> </ul>	The Bank Negara Malaysia, supported by: <ul style="list-style-type: none"> <li>The Risk Management sub-committee of the Joint Committee on Climate Change</li> <li>The World Wide Fund for Nature (Malaysia and Singapore offices)</li> </ul>	Green Finance Industry Taskforce - Monetary Authority of Singapore	The Indonesian Financial Services Authority, supported by: The Integrated Financial Services Sector Policy Group and various relevant ministries and work units	<ul style="list-style-type: none"> <li>ASEAN Capital Markets Forum</li> <li>ASEAN Insurance Regulators' Meeting</li> <li>ASEAN Senior Level Committee on Financial Integration</li> <li>ASEAN Working Committee on Capital Market Development</li> </ul>	The Technical Expert Group - the European Commission	The Climate Bonds Initiative (CBI)
<b>Target users</b>	Green bond issuers and investors	<ul style="list-style-type: none"> <li>Entities that formulate strategies and plans to meet the targets set for achieving decarbonization and procure funds to put initiatives into practice in line with those strategies and plans</li> <li>Entities that procure funds for activities</li> </ul>	Various financial institutions, including licensed banks, investment banks, Islamic banks, insurers, reinsurers, takaful and re-takaful <sup>1</sup> operators, and prescribed development financial institutions	<ul style="list-style-type: none"> <li>Singapore-based financial institutions providing debt and/or equity capital, including both public and private capital</li> <li>Asset managers that provide financial products that are aligned with</li> </ul>	Various users, including the government, Indonesian Finance Services Sector, national and international investors, monetary authorities, international institutions, and	Companies, investors, and governments across 10 ASEAN countries	<ul style="list-style-type: none"> <li>Regulators and stakeholders by all investors with staff of more than 500, all listed corporations, and all banks</li> <li>EU member states who set up labels or standards regarding</li> </ul>	Green and climate bond issuers, as well as investors

<sup>1</sup> Takaful is a system based on the principles of mutual assistance and voluntary contribution where risks are shared collectively and voluntarily by a group of participants. It complies with the fundamentals of Shari'a (Islamic law)

Categories	China	Japan	Malaysia	Singapore	Indonesia	ASEAN	EU	CBI
		(including investments and loans) that enable transition toward decarbonization by another party		the Singapore-Asia Taxonomy activities. <ul style="list-style-type: none"> <li>Companies, industry, regulators and policymakers.</li> </ul>	cooperative organisations		financial products or corporate bonds presented as “environmentally sustainable.”	
<b>Environmental objectives</b>	<ul style="list-style-type: none"> <li>Climate change response</li> <li>Environmental improvement (pollution control and ecological conservation)</li> <li>More efficient resource utilization (circular economy, waste recycling, and pollution prevention)</li> </ul>	No reference <sup>2</sup>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> <li>Climate change adaptation</li> <li>Protection of healthy ecosystems and biodiversity</li> <li>Promotion of resource resilience and a transition to a circular economy</li> </ul>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> <li>Climate change adaptation</li> <li>Protection of healthy ecosystems and biodiversity</li> <li>Promotion of resource resilience and a transition to a circular economy</li> <li>Pollution prevention and control</li> </ul>	No reference <sup>3</sup>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> <li>Climate change adaptation</li> <li>Protection of healthy ecosystems and biodiversity</li> <li>Promotion of resource resilience and a transition to a circular economy</li> </ul>	<ul style="list-style-type: none"> <li>Climate change mitigation</li> <li>Climate change adaptation</li> <li>Sustainable use and protection of water and marine resources</li> <li>Transition to a circular economy, waste prevention, and recycling</li> <li>Pollution prevention and control</li> <li>Protection of healthy ecosystems</li> </ul>	To deliver a low-carbon economy in line with the Paris Agreement
<b>Focused sectors</b>	China taxonomy structures as a four-level classification,	No reference <sup>4</sup>	Malaysia has 7 sectors, including: <ul style="list-style-type: none"> <li>Renewable energy</li> </ul>	The Singapore taxonomy has 8 main sectors with	The Indonesia taxonomy has 5 main sectors and	ASEAN taxonomy has 6 sectors, including:	The EU taxonomy has 9 main sectors with 88 sub-sectors, including:	The CBI taxonomy has 8 main sectors with 45 sub-sectors, including:

<sup>2</sup> The Basic Guidelines on Climate Transition Finance of Japan does not contain information about environmental objectives

<sup>3</sup> The Indonesia Green Taxonomy Edition 1.0 – 2022 of Indonesia does not contain information about environmental objectives

<sup>4</sup> The Basic Guidelines on Climate Transition Finance of Japan does not contain information about focused sectors

Categories	China	Japan	Malaysia	Singapore	Indonesia	ASEAN	EU	CBI
	including 6 main sectors encompassing 204 activities in total, including: <ul style="list-style-type: none"> <li>• Energy saving and environmental protection industry</li> <li>• Clean production industry</li> <li>• Clean energy industry</li> <li>• Ecology and environment-related sector</li> <li>• The green upgrade of infrastructure</li> <li>• Green services</li> </ul>		<ul style="list-style-type: none"> <li>• Energy Efficiency</li> <li>• Transport</li> <li>• Manufacturing</li> <li>• Building</li> <li>• Forestry</li> <li>• Waste</li> </ul>	49 main sub-sectors, including: <ul style="list-style-type: none"> <li>• Energy</li> <li>• Real Estate</li> <li>• Transportation</li> <li>• Agriculture and Forestry/Land Use</li> <li>• Industrial, Information and Communication Technology</li> <li>• Waste/Circular Economy</li> <li>• Carbon Capture Sequestration</li> </ul> Enabling sectors: <ul style="list-style-type: none"> <li>• Information and communication</li> <li>• Professional, scientific and technical</li> <li>• Carbon capture, storage and utilization</li> </ul>	25 sub-sectors, including: <ul style="list-style-type: none"> <li>• Energy</li> <li>• Agriculture</li> <li>• Forestry</li> <li>• Waste</li> <li>• Industrial processes and product use</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture, forestry and fishing</li> <li>• Electricity, gas, steam, and air conditioning supply</li> <li>• Manufacturing</li> <li>• Transport and storage</li> <li>• Water supply, sewerage and waste management</li> <li>• Construction and real estate</li> </ul>	<ul style="list-style-type: none"> <li>• Forestry</li> <li>• Environmental protection and restoration activities</li> <li>• Manufacturing</li> <li>• Energy</li> <li>• Water supply, sewerage, waste management and remediation</li> <li>• Transport</li> <li>• Construction and real estate activities</li> <li>• Information and communication</li> <li>• Professional, scientific and technical activities</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Water</li> <li>• Transport</li> <li>• Buildings</li> <li>• Land use and marine resources</li> <li>• Industry</li> <li>• Waste</li> <li>• Informatics and Communication Technology</li> </ul>
<b>Classification code</b>	Classification of Strategic Emerging Industry	None	None	International Standard Industry Classification (ISIC)	Indonesia Standard Industrial Classification (KBLI)	International Standard Industry Classification (ISIC)	The Statistical Classification of Economic Activities in the European Community (NACE)	None
<b>Application<sup>5</sup></b>	Mandatory	No reference	No reference	Voluntary	Voluntary	No reference	Expected to be mandatory	Mandatory for certified climate bonds

<sup>5</sup> The information about the mandatory or voluntary application of taxonomy is exclusively available for the taxonomies of China, Singapore, Indonesia, and the EU

Categories	China	Japan	Malaysia	Singapore	Indonesia	ASEAN	EU	CBI
<b>Development approach</b>	White-list based approach: Classification system with four levels, including six categories and a total of 204 activities	Principle-based approach: Aligned with the ICMA Handbook, along with adhering to other criteria established in the Green Bond, and Green Loan and Sustainability Linked Loan guidelines	Principle-based approach: Examining both "economic activities" (transactions) and the broader "issuer's overall business activities"	Technical screening criteria-based approach: classify activities in the "traffic light" classification system	Technical screening criteria-based approach: classify activities in the "traffic light" classification system	<ul style="list-style-type: none"> <li>Principle-based approach: applied for the Foundation framework (including 4 environmental objects and 2 essential criteria)</li> <li>Technical screening criteria-based approach: applied for the Plus standard</li> </ul>	Technical Screening Criteria	Technical screening criteria-based approach: classify activities in the "traffic light" classification system

Source: The Consultant

Although these green taxonomies globally exhibit diverse approaches, principles, target users, and objectives, they converge on the following key aspects:

- *Environmental objectives:* these taxonomies universally encompass critical areas such as climate change mitigation, adaptation, ecosystem protection, biodiversity, and fostering a transition to a circular economy.
- *Systematisation and organisation of focused sectors:* classification codes like ISIC or national industry tables are used to systematise and organise to prioritise sectors for green finance development.
- *Environmental and social risk:* green taxonomy can serve various purposes beyond mere classification, including environmental and social risk assessment. Some, such as EU, ASEAN, Malaysia, and Singapore, feature "Do Not Significant Harm" criteria to address potential risk transfer between environmental objectives. Malaysia uniquely includes social risk assessment, prompting financial institutions to evaluate compliance with national human rights and labour laws during classification.
- *Transition approach:* CBI, Singapore, ASEAN, and Indonesia propose using a traffic light system – green, yellow (amber), and red – to address transition. Malaysia's taxonomy establishes a progressive system with three broad transition categories: climate-supporting, transitioning, and watchlist. The goal is to facilitate an orderly transition of the economy by avoiding the outright exclusion of economic activities that currently do not contribute to climate change objectives and placing emphasis on remedial measures for transition.

## 4 Regulatory and institutional framework governing green finance in Viet Nam

### 4.1 Key regulations governing green finance

Green finance is an emerging concept in Viet Nam. It was recognised as a solution to achieve national green growth objectives as outlined in Decision No. 1658/2021/QD-TTg on approving the national green growth strategy for 2021-2030 issued by the Prime Minister dated 01 October 2021, and the two green finance products (credit and bonds) were legalized in LEP 2020.

The key legal documents governing green finance in Viet Nam are summarised as follows:

- Regulations on green credits: Regulations on green credits are defined in Article 149, LEP 2020 and Article 154, 155, 156 of Decree No. 08/2022/ND-CP on the elaboration of several articles of LEP 2020 issued by the Government, dated 10 January 2022 (Decree No. 08/2022/ND-CP);
- Regulations on green bonds: Regulations on green bonds are defined in Article 150, LEP 2020, and Article 157 of Decree No. 08/2022/ND-CP. Besides, some provisions related to green bonds are outlined in Decree No. 95/2018/ND-CP on providing for the issuance, registration, depositing, listing, and trading of government debt instruments on the securities market issued by the Government, dated 30 June 2018 (Decree No. 95/2018/ND-CP); Decree No. 153/2020/ND-CP on prescribing private placement and trading of privately placed corporate bonds in domestic market and offering of corporate bonds in the international market issued by the Government, dated 31 December 2020 (Decree No. 153/2020/ND-CP); Decree No. 65/2022/ND-CP prescribing private placement and trading of privately placed corporate bonds in domestic market and offering of corporate bonds in international market issued by the Government, dated 16 September 2022 on amendments to Decree No. 153/2020/ND-CP (Decree No. 153/2020/ND-CP);
- The national green growth framework: Acknowledge green finance as a pivotal solution to achieve national green growth objectives, outlined in Decision No. 1658/2021/QD-TTg on approving the national green growth strategy for 2021-2030 issued by the Prime Minister dated 01 October 2021 (Decision No. 1658/2021/QD-TTg); and Decision No. 882/2022/QD-TTg on approving the national action plan for green growth in 2021-2030 issued by the Prime Minister dated 22 July 2022 (Decision No. 882/2022/QD-TTg);
- At a guidance level: State Bank of Viet Nam (SBV) issued Circular No. 17/2022/TT-NHNN dated 23 December 2022 on providing guidelines on environmental risk management in credit extension by credit institutions and foreign bank branches (Circular No. 17/2022/TT-NHNN), MOF issued Circular No. 96/2020/TT-BTC on

providing guidelines on disclosure of information on securities market dated 16 November 2020 (Circular No. 96/2020/TT-BTC).

The list of existing documents in green finance is attached in Annex 1.

Overall, the legal framework governing green finance in Viet Nam is illustrated in the Figure below.

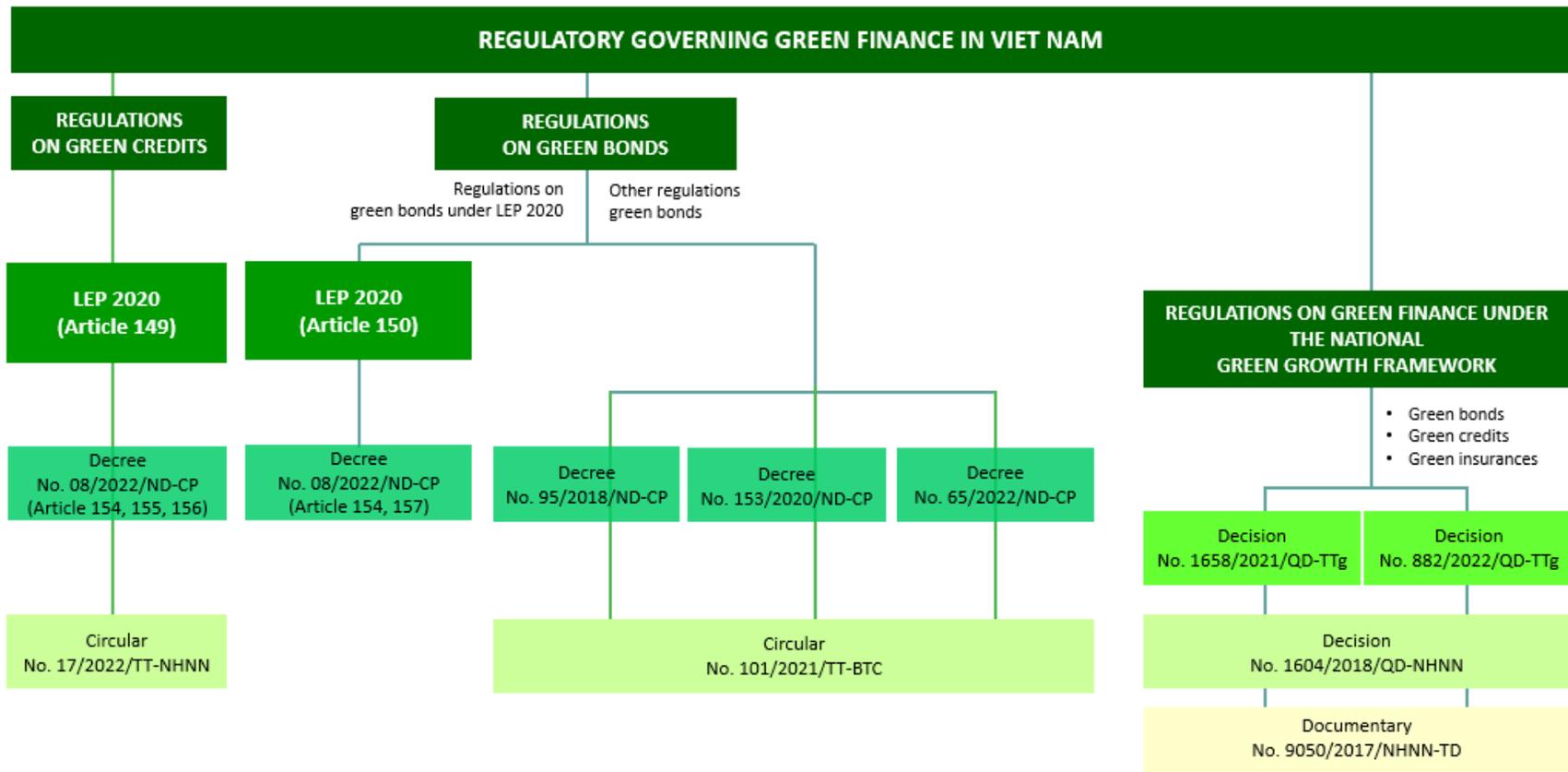


Figure 5: Key regulations governing green finance in Viet Nam

Source: The Consultant

The highlights of these regulations are provided further in the sections below.

## **4.1.1 Regulations on green credits**

### *4.1.1.1 The foundation regulation of green credits*

Article 149, LEP 2020 defines green credits as those are granted to the following investment projects:

- Efficient use of natural resources;
- Adaptation to climate change;
- Waste management;
- Pollution remediation and environmental quality improvement;
- Natural ecosystem restoration;
- Nature and biodiversity conservation;
- Creation of other environmental benefits.

This Article stipulates that lending activities of credit institutions and foreign branch banks in Viet Nam (referred to as "credit institutions") for investment projects must adhere to regulations on environmental risk management in lending operations. The Governor of the State Bank is assigned to provide guidelines for the management of environmental risks in credit extension by credit institutions.

Additionally, the Article encourages credit institutions to offer preferential loans for the projects listed above. The Government is tasked with introducing a roadmap for the issuance of green credit and mechanisms to incentivise the provision of green credit.

### *4.1.1.2 Specific regulations on green credits*

#### **a. Projects eligible for the issuance of green credits**

Decree No. 08/2022/ND-CP defines detailed specifications of the environmental criteria and confirmation of projects that are eligible for green credits and for issuing green bonds, commonly referred to as the green taxonomy. According to Article 154 of Decree No. 08/2022/ND-CP, MONRE is the focal point and will cooperate with other ministries and ministerial agencies in establishing and submitting the green taxonomy before 31 December 2022.

#### **b. The roadmap to implement green credits**

Article 156 of Decree No. 08/2022/ND-CP outlines a roadmap for the implementation of green credits. The roles and responsibilities of key stakeholders are as follows:

- SBV shall direct and instruct credit institutions to provide appropriate capital for granting concessional loans, thereby encouraging project owners to execute projects eligible under the green taxonomy;
- MOF, Ministry of Planning and Investment (MPI), and SBV, based on their respective functions, collaborate to support credit institutions to receive foreign aid and concessional loans in order to sponsor the projects eligible under the green taxonomy;
- MPI shall preside over and cooperate with ministries and ministerial agencies concerned in formulating and submitting to the Prime Minister for making decisions to provide interest rate subsidies to the projects eligible under the green taxonomy after terminating the medium- and long-term loan agreements at the credit institutions for implementation from 01 January 2026, based on available budget and actual credit extension by the banking system to the projects eligible under the green taxonomy.

#### c. Incentive mechanisms to implement green credits

Article 155 of Decree No. 08/2022/ND-CP regulates mechanisms to incentivise the provision of green credits. According to this Article, credit institutions are encouraged to prioritise the allocation of capital resources for sponsoring or providing concessional loans to green projects. Additionally, credit institutions engaged in granting green credit shall be eligible for the following encouragement mechanisms:

- Be entitled to priority when applying for concessional loans from the Government, international organisations, and development partners;
- Be entitled to competent authorities' assistance in training on the grant of green credits.

#### d. The management of environmental risks in credit extension

In adherence to the LEP 2020, SBV promulgates Circular No. 17/2022/TT-NHNN on providing guidelines on environmental risk management in credit extension by credit institutions and foreign bank branches issued by SBV, dated 23 December 2022. This Circular applies to: (i) credit institutions; and (ii) organisations and individuals that are clients of credit institutions.

This Circular outlines the investment projects requiring environmental risk management in credit extension; the principles of environmental risk management in credit granting activities; components of environmental risk management information, and internal regulations for environmental risk management in credit activities.

## 4.1.2 Regulations on green bonds

### 4.1.2.1 *The foundation regulation of green bonds*

The concept of green bonds is introduced in Article 150 of LEP 2020. It specifies that green bonds are bonds issued by the Government, local authorities, and enterprises in accordance with regulations of law on bonds to raise capital for environmental protection activities and investment projects that offer environmental benefits. Revenues from the issuance of green bonds must be recorded and monitored in accordance with regulations of law on bond issuance and used for executing investment projects involving environmental protection and investment projects offering environmental benefits, including:

- Renovation and upgrading of environmental protection facilities;
- Replacement of technologies towards application of best available techniques;
- Application of circular economy and green economy, and reduction of carbon emissions;
- Prevention and reduction of environmental pollution;
- Environmental remediation after environmental emergency;
- Efficient use of natural resources, soil resources, energy saving and development of renewable energy;
- Construction of multi-purpose and environmentally-friendly infrastructure;
- Efficient management of water and treatment of wastewater;
- Climate change adaptation and investment in development of natural capital;
- Other investment projects.

This Article also outlines that issuers of green bonds are regulated to provide information about environmental impact assessment and environmental licenses of investment projects, and usage of capital generated from the issuance of green bonds to investors. Issuers and investors purchasing green bonds are entitled to the incentives in accordance with regulations of LEP 2020 and other relevant regulations of law.

### 4.1.2.2 *Specific regulations on green bonds*

#### a. *Projects eligible for the issuance of green bonds*

Projects eligible for the issuance of green bonds are regulated in Article 154 of Decree No. 08/2022/ND-CP. The green taxonomy, as discussed in section 3.1.1, establishes environmental criteria and the confirmation process for projects qualified to issue green bonds. Besides, MPI will provide guidelines for classifying projects in the green taxonomy to be included in the public investment portfolio when preparing medium-term and annual public investment plans to form a basis for the Government and local governments to make a selection when issuing green bonds.

## b. The issuance and trading of green bonds

In relation to the issuance and trading of green bonds, several mechanisms are stipulated in relevant documents, encompassing:

Decree No. 95/2018/ND-CP outlines the issuance and trading of government green bonds as follows:

- MOF will cooperate with MPI and MONRE to develop the regulation on the issuance of a government green bond scheme and submit it to the Prime Minister for approval. The Scheme for issuance of green bonds includes: (i) Purposes; (ii) Quantity of green bonds to be issued; (iii) Terms and conditions of green bonds; (iv) Bond buyers; (v) Issuance methods; (vi) Registration, depositing, listing and trading of bonds; (vi) List of investment projects using funds from issuance of green bonds. Based on the consultations with MOF and the German Agency for International Cooperation (GIZ), the Department of Banking and Financial Institutions under MOF is designated for this task, and the Scheme is expected to be finalised in 2024.
- Terms, conditions, issuance, registration, depositing, listing and trading of green bonds shall comply with regulations for government bonds regulated in this Decree.

Decree No. 153/2020/ND-CP and Decree No. 65/2022/ND-CP regulate the principles of issuance and utilisation of funds from corporate green bonds according to the key following points:

- The enterprise issues bonds based on the principle of self-borrowing, self-repayment, and self-accountability for capital utilisation efficiency, ensuring debt repayment capability;
- The purpose of issuing bonds is to implement investment programs, projects, or debt restructuring of the enterprise itself, or for purposes specified by relevant legal regulations. The enterprise must clearly state the purpose of the bond issuance in the issuance plan and disclose information to potential investors. The utilisation of funds raised from bond issuance by the enterprise must align with the specified purpose in the issuance plan and the disclosed information for investors;
- Funds raised from the issuance of green bonds must be separately recorded and managed and disbursed to the environmental protection projects/projects that generate environmental benefits specified in the approved bond issuance plan.

Besides, Article 157 of Decree No. 08/2022/ND-CP also regulates the following points related to the issuance of green bonds:

- The issuance of green bonds shall be subject to regulations of law on the issuance of bonds, LEP 2020 and this Decree;

- The funds obtained from the issuance of green bonds must be used to implement projects classified in Article 150 of LEP 2020;
- MPI is responsible for providing guidelines for classifying projects in the green taxonomy and types of projects regulated in Article 150 of LEP 2020 to be included in the public investment portfolio when preparing medium-term and annual public investment plans to form a basis for the Government and local governments to select when issuing green bonds.

c. [The disclosure of information on the issuance of green bonds](#)

Decree No. 153/2020/ND-CP and Decree No. 65/2022/ND-CP establish mechanisms for pre-offering information disclosure and periodic disclosure for green corporate bonds as follows:

- For pre-offering information disclosure, in addition to MOF's regulations on bond issuances, an issuer shall disclose information about accounting, management, and disbursement of funds raised from the offering of green bonds. The disclosed information is intended for investors and is submitted to the Stock Exchange for publication on the dedicated page for corporate bonds and for reporting on the issuance of corporate bonds to the State Securities Commission (SSC) and MOF.
- For periodic information disclosure, in addition to complying with the regulations applicable to bonds in general, an issuer is required to prepare reports on accounting, management and use of funds raised from bond issuance which must include auditor's review opinions; reports on disbursement and project execution progress, and environmental impact assessment report.

Besides, Article 157 of Decree No. 08/2022/ND-CP also regulates the disclosure of information for the issuance of green bonds as follows:

(i) For enterprises issuing green bonds:

- Disclose and provide information on the environmental impact assessment of projects funded by capital from green bonds on the bond's maturity date, including information on the decision on approval of environmental impact assessment appraisal result (if any), environmental license (if any); results of assessment of environmental benefits offered by projects using green bonds;
- Provide additional information according to regulations of law on the issuance of corporate bonds;
- Comply with regulations on reporting and disclosure of information about management and disbursement of capital raised from the issuance of green bonds according to regulations of law on the issuance of corporate bonds.

(ii) For the owner of the investment project using capital from green bonds issued by the Government and local government:

- Disclose and provide information on the environmental impact assessment of projects funded by capital from green bonds on the bond's maturity date, including information on the decision on approval of environmental impact assessment appraisal result (if any), environmental license (if any); results of assessment of environmental benefits offered by projects using green bonds; to the State Treasury (for green bonds issued by the Government) and the provincial People's Committee (for green bonds issued by the local government). On an annual basis, the State Treasury and provincial People's Committees shall disclose information about the disbursement of capital to the projects in the green list using capital raised from the issuance of green bonds issued by the Government and local governments on their website.

#### d. The incentive mechanism for issuing green bonds

Article 157 of Decree No. 08/2022/ND-CP regulates the following incentives that green bond issuers and investors can receive:

- Incentives for service prices according to regulations of law on prices of securities services and other incentives and assistance as prescribed by law;
- Eligible to receive adequate capital for investment projects using funds from the issuance of green bonds by the Government and local governments, in accordance with the project progress within the medium-term and annual investment public plans.

Additionally, Circular No. 101/2021/TT-BTC regulates incentives for green bonds, including a 50% reduction in fees for securities listing prices, trading service prices, securities registration/partial securities deregistration prices, and securities depository service prices.

### **4.1.3 Regulations on green finance under the national green growth framework**

The national green growth framework has defined the concept of green finance, concurrently highlighting various aspects related to green banks, green credits, green bonds, and green insurance.

#### *4.1.3.1 Decision No. 1658/2021/QD-TTg*

Decision No. 1658/2021/QD-TTg on approving the national green growth strategy for 2021-2030 issued by the Prime Minister dated 01 October 2021 outlines the objective to achieve green growth, aiming to promote the economic restructuring associated with innovation of growth model, in order to achieve economic prosperity, environmental sustainability and social equality. Besides, the strategy aims to advance towards a green, carbon-neutral economy, contributing to the global goal of reducing global warming. It identifies green

finance as one of the solutions to mobilise financial resources for green growth to achieve these objectives, specifically:

- Revise policies and tools for mobilisation of resources for green growth, and focus on policies on financial support and incentives, and policies on the development of the capital market, green credit and insurance markets, and carbon market, towards synchronous development of market mechanism-based emissions trading system;
- Prioritise the use of funding derived from the state budget for investment and attach special importance to the use of funding in public investment plans and funding for recurrent expenditures for green growth programs, schemes, projects, and tasks. Promote the roles of orienting markets and guiding green production and consumption of state-owned enterprises and large-scale enterprises in the economy;
- Encourage private sector involvement and facilitate cooperation in the form of public-private partnerships, and cooperation between domestic and foreign investors in green projects and projects that employ green transformation technologies/solutions;
- Raise the ability to access sources of green finance for women and vulnerable groups in society.

#### *4.1.3.2 Decision No. 882/2022/QD-TTg*

Decision No. 882/2022/QD-TTg provides a set of tasks and activities for the execution of the national action plan for green growth in the period 2021-2030. Under this framework, a key task "mobilising financial resources and promoting investment for green growth" includes the contents most related to green finance as well as the relevant roles of designated authorities. The tasks that are most relevant to green finance assigned to:

- MPI who is responsible for:
  - Complete the current legal framework in the direction of promoting green investment;
  - Develop the national green economic sector system;
  - Develop Decree amending regulations on management and use of ODA and concessional loans from foreign donors for green projects.
- MOF who is responsible for:
  - Enhance the annual regular expenditure plan with a focus on prioritising resources for green growth;
  - Develop legislative documents on green bonds and insurance development;
  - Develop regulations on financial incentives for green investment and green credits.
- SBV who is responsible for:

- Complete the legal framework for green credit and green banking;
- Develop solutions for prioritising resource allocation for green credits;
- Strengthen the assessment of environmental and social risks to credit extension by credit institutions.

#### *4.1.3.3 Decision No. 1604/2018/QĐ-NHNN*

In accordance with the national action plan for green growth, SBV issued Decision No. 1604/2018/QĐ-NHNN approving the scheme for green banking growth in Viet Nam, which delineates a specific objective which incrementally increases the proportion of loan capital allocated to prioritised green sectors and areas specified in the green project list promulgated by SBV. This Decision outlines detailed targets to be achieved by 2025 for credit institutions related to green finance, including:

- 100% of banks will finish formulating internal regulations on environmental and social risk management in credit granting activities;
- 100% banks will evaluate environmental and social risk management in credit granting activities; apply environmental standards to projects funded by loans from banks; incorporate environmental risk assessment into credit risk assessment;
- Units specialising in environmental and social risk management will be established in at least 10-12 banks;
- 60% of banks will have access to green funding sources and granted loans to green credit projects.

To achieve the above objectives, the Decision provides groups of solutions for SBV and credit institutions, with the main solutions for each group as follows:

##### (i) Solutions for SBV:

- Develop and provide guidelines on the direction for green banking growth at credit institutions, including:
  - Promulgate guidelines on green banking and green credit activities, including the definitions of green credit and green banking activities and green banking criteria consisting of (i) Systems of internal regulations on environmental and social risk management; (ii) Organisational structure for implementing environmental and social risk management in credit granting procedures; (iii) Loan capital proportion for the prioritised green sectors/areas included in the green project list promulgated by SBV; (iv) Quality of training and educational activities to raise the awareness and capacity of banking officials in general and credit officials in specific towards sustainable development, green credit and green banking;
  - Periodically update the green project list.

- Formulate and promulgate incentive policies and regimes for credit institutions to encourage green banking growth, including:
  - Consider and prioritise funding sources for green credit development via refinancing/rediscounting policies in a manner that does not affect the modification of monetary policies and inflation targets of each period of time.
  - Consider and prioritise the allocation of concessional loans from international organisations and development partners via SBV for commercial banks with a high proportion of green loans.

(ii) Solutions for credit institutions:

- Focus on formulating green banking strategic frameworks;
- Develop and establish comprehensive systems for environmental and social risk management, which comply with the guidelines of SBV on environmental and social risk assessment;
- Conduct research and establish units in charge of carrying out environmental and social risk management, and manage and supervise the implementation of green banking and green credit in banks;
- Formulate specific loan policies for environmentally sensitive industries such as agriculture, leather manufacturing, renewable energy, and textile and apparel.

#### *4.1.3.4 Documentary No. 9050/2017/NHNN-TD*

In compliance with the national green growth policies, SBV issued Documentary No. 9050/2017/NHNN-TD regarding the reporting of the credit extension situation in green sectors and the implementation of environmental and social risk assessments in credit extension. This Decision entails two reporting requirements: (i) reporting on the credit extension situation in green sectors, and (ii) reporting on environmental and social risk assessments in credit extension, with reporting intervals on a quarterly basis.

For the reporting on the credit extension situation in green sectors, there are 12 regulated green sectors. The indicators to be reported for each of these green sectors include: (i) Disbursement made during the reporting period; (ii) Credit outstanding, categorized as total, short-term, medium and long-term, and over loan; (iii) Interest, including short-term, medium, and long-term; (iv) Number of customers with outstanding debt by the end of the reporting period.

Specific criteria on environmental and social risk assessments in credit extension need to be reported for both short-term and medium-to-long-term credit extensions. This includes: (i) Requests for credit extension; (ii) Requests for credit extension rejected after conducting environmental and social risk assessments; (iii) Requests for credit extension approved after conducting environmental and social risk assessments; (iv) Credit extension outstanding for

which environmental and social risk assessments have been performed; (v) Credit extension outstanding suspended due to environmental and social risks; (vi) Percentage of credit extension for which environmental and social risk assessments have been performed over the total credit extension outstanding.

## **4.2 The green taxonomy in Viet Nam**

During consultations with key stakeholders under this Assignment, green taxonomy is expressed by stakeholders as one of the most concerns and most expected regulations to be issued to promote green finance in Viet Nam.

Currently, the development of the green taxonomy for green credits and green bonds is underway, led by the Institute of Strategy and Policy on Natural Resources and Environment (ISPONRE), a research institute under the MONRE. In addition to the green taxonomy being constructed by ISPONRE, SBV also issued the list of green sectors under Documentary No. 9050/TD-NHNN and the ongoing development of the list of green projects by sectors and levels by MPI. In the following section, a detailed analysis will be conducted on these diverse lists of green projects.

### **4.2.1 The green taxonomy developed by ISPONRE**

The green taxonomy is currently under development by ISPONRE with support from GIZ. The draft Decision of the green taxonomy was published for public consultation since 2022. Currently, the Draft is under the revision and review of MONRE before the final submission to the Prime Minister.

According to the draft version of the green taxonomy, the applicability and scope include:

- **Applicability:** Applies to organisations and individuals involved in green credits and the issuance of green bonds.
- **Scope:** Defines environmental criteria for investment projects eligible for green credits and green bond issuance. It also outlines the process for confirming that an investment project falls within the green taxonomy.

The green taxonomy is constructed based on LEP 2020, Viet Nam Standard Industrial Classification (VSIC), and international best practices. The current draft of green taxonomy encompasses 80 investment project categories across 9 different sectors, including:

- Energy (18 investment projects)
- Transportation (3 projects)
- Water Resources (7 projects)
- Construction (3 projects)
- Agriculture, Forestry, Aquaculture, and Biodiversity Conservation (19 projects)
- Processing and Manufacturing Industry (5 projects)

- Waste Management (11 projects)
- Information, Communication, and Services (8 projects)
- Green transition (6 projects)

Hence, the covered sectors have been developed quite in line with international practices. Specifically, a sector related to green transitions has been introduced to facilitate transition activities through technical solutions and technologies aimed at mitigating GHG emissions.

Currently, ISPONRE is reviewing a plan to condense this to 75 categories due to several reasons:

- Some project categories are currently not investment projects but rather procurement projects.
- Some project categories still harbour environmental risk factors.
- Adjustments to align with the LEP 2020.

Some project categories related to the cooling sector have been introduced in the initial Draft. However, the review by the Consultant found the Draft was lack of the key project categories in the green cooling. During the consultation, ISPONRE encouraged the Consultant's involvement in enhancing related investment project categories, especially related to the green cooling sector for the revision. Consequently, the Consultant provided the recommendations to the Department of Climate Change, MONRE to include in the official comments for the latest Draft version.

Another crucial aspect of the green taxonomy is the verification process that is specified in the draft version as follows:

- Project owners or issuers of green bonds aiming to avail themselves of state incentives and support for green credits and green bonds are required to undergo the verification process to confirm that the investment project aligns with the green taxonomy. However, for green bonds issued by the government or local authorities to execute investment projects, organisations and entities are exempt from the confirmation procedure outlined in this green taxonomy. Eligible investment projects for green bond issuance are incorporated into the public investment plan during the formulation of medium-term and annual public investment plans by MPI. This inclusion serves as a foundational reference for the government and local authorities when deciding to issue green bonds.
- The confirmation of investment projects falling within the green taxonomy, except for green transition projects, is carried out through independent verifiers.
- For green transition projects, the verification process is implemented by competent state agencies according to regulations.

## 4.2.2 The green economic sector system developed by MPI

According to Decision No. 882/2022/ND-CP, MPI is assigned with developing the list of green projects by industries and levels which has another name is the green economic sector system. MPI informed during the consultation that they are in the early stage of formulating the initial version that then will be proposed to be issued under the form of Decision by the Prime Minister. The draft version has been circulated to relevant ministries and agencies for comment. It is anticipated to be issued in the first quarter of 2024.

In the draft version, the national green economic sector system is developed with the following applicability and scope:

- **Applicability:** The national green economic sector system is primarily applied to state units and enterprises, investors, as follows:
  - The National Assembly, the Government, ministries, and local authorities utilise the national green economic sector system to monitor the progress of green growth in Viet Nam. This serves as the foundation for the formulation of legal frameworks and incentives to promote the development of the green economy.
  - Based on the list of the national green economic sector system, ministries, and sectors proceed to develop technical criteria to classify products, services, or investments for their specific purposes.
  - Enterprises and investors leverage the national green economic sector system to understand Viet Nam's classification system and statistics, as well as to identify the investment incentives applicable to green economic activities and projects.
- **Scope:** The system is used in statistical activities of state agencies and economic and investment activities of enterprises.

The national green economic sector system is constructed by referencing international experiences and VSIC, aligning with the national green growth objectives. The system outlines 15 green economic sectors with 80 subsectors including:

- Agriculture, forestry, aquaculture (7 sectors)
- Mining (3 sectors)
- Processing and manufacturing industry (30 sectors)
- Production and distribution of electricity, gas, hot water, steam, and air conditioning (9 sectors)
- Water supply, waste management, and wastewater treatment (4 sectors)
- Construction (6 sectors)
- Wholesale and retail, repair of automobiles, motorcycles, and other motor vehicles (3 sectors)

- Warehouse transportation (5 sectors)
- Information and communication (3 sectors)
- Financial, banking, and insurance activities (2 sectors)
- Real estate business activities (1 sector)
- Professional, scientific, and technological activities (3 sectors)
- Education and training (1 sector)
- Health and social assistance activities (2 sectors)
- Activities of international organisations and agencies (1 sector)

### **4.2.3 The list of green sectors issued by SBV**

Under the national green growth framework, Documentary No. 9050/2017/NHNN-TD issued by SBV provides a list of green sectors, serving as the basis for credit institutions to report on their lending activities in green sectors. During the consultations with credit institutions, these institutions confirmed that they currently rely on this list of green sectors as the foundation for providing green credits.

The applicability and scope of Documentary No. 9050/2017/NHNN-TD are as follows:

- Applicability: Credit institutions;
- Scope: Reporting on the provision of green credit activities.

The list of green sectors encompasses 12 main areas including:

- Green agriculture;
- Sustainable forestry;
- Green industry;
- Renewable energy, clean energy;
- Recycling, reusing natural resources;
- Waste treatment and pollution prevention;
- Natural environment protection, ecological restoration, and natural disaster preparedness and control;
- Sustainable water management in urban areas and rural areas;
- Green construction;
- Sustainable traffic;
- Provision of environmental protection and energy-efficient services;
- Other green sectors (as assessed by credit institutions)

For each sector, specific criteria and reference examples are provided to guide credit institutions in their reporting.

### **4.2.4 Comparative overview of green taxonomy and other green sector list and system in Viet Nam**

The Table below highlights the key traits of green taxonomy issued by MONRE, the national green economic sectors system issued by MPI, and the green sector list issued by SBV to demonstrate their distinctive roles and characteristics.

Table 5: Comparative overview of green taxonomy and other green sector list and system in Viet Nam

Categories	The green taxonomy issued by MONRE	The green economic sector system developed by MPI	The list of green sectors issued by SBV
<b>Applicability</b>	Apply to organisations and individuals involved in green credit and the issuance of green bonds.	Apply to state units and enterprises, and investors. <ul style="list-style-type: none"> <li>State units: (i) Utilise to monitor the progress of green growth in Viet Nam; and (ii) develop technical criteria to classify products, services, or investments for their specific purposes;</li> <li>Enterprises and investors: utilise to comprehend Viet Nam's classification system and statistics, identifying investment incentives for green economic activities and projects.</li> </ul>	Apply to credit institutions
<b>Scope</b>	<ul style="list-style-type: none"> <li>Define environmental criteria for investment projects eligible for green credit and green bond issuance.</li> <li>Outline the process for confirming that an investment project falls within the green taxonomy.</li> </ul>	Use in statistical activities of state agencies and economic, and investment activities of enterprises.	Reporting on the provision of green credit activities

<b>Foundation for development</b>	<ul style="list-style-type: none"> <li>• LEP 2020</li> <li>• VSIC</li> <li>• International experiences</li> </ul>	<ul style="list-style-type: none"> <li>• National green growth objectives</li> <li>• VSIC</li> <li>• International experiences</li> </ul>	National green growth objectives
<b>Covered sectors</b>	15 green economic sectors with 80 subsectors	9 sectors with 80 investment projects	12 main sectors with enclosed specific criteria

Source: The Consultant

In general, there are significant differences among these frameworks, as outlined below:

(i) Regarding the scope and application of each framework:

- The national green economic sector system issued by MPI covers both remaining frameworks. Consequently, the national green economic sector system issued by MPI is applied by state units, enterprises, and investors to monitor the progress of green growth in Viet Nam. Ministries develop technical criteria to classify products, services, or investments for specific purposes. On the other hand, the green taxonomy developed by MONRE defines environmental criteria for investment projects eligible for green credits and green bond issuance is under the scope of the national green economic sectors system developed by MPI. However, the development of the green taxonomy, as regulated in Decree No. 08/2022/ND-CP, does not explicitly mention the necessity of aligning with the national green economic sector system developed by MPI. Consequently, these frameworks are currently being developed concurrently and independently of each other.
- In addition, the list of green sectors issued by SBV has a more restricted scope and application compared to the green taxonomy developed by MONRE. The MONRE's taxonomy is crafted to offer detailed specifications for environmental criteria and project confirmation eligible for green credit and green bond issuance. In contrast, the SBV's list of green sectors specifically outlines projects for green credits, used by credit institutions.

(ii) In terms of their developmental foundation, both MPI's national green economic sectors system and the green taxonomy draw from VSIC and international insights. However, a notable difference lies in their influences: MONRE's green taxonomy is shaped by LEP 2020, while MPI's system aligns more closely with the overarching goals of the national green growth agenda.

(iii) In considering covered sectors, MPI's national green economic sector system has the widest scope, followed by MONRE's green taxonomy, and then SBV's green sector list. SBV

covers 12 sectors compared to MONRE's 9 sectors while SBV's sectors are very detailed, with no subsectors beneath.

### 4.3 Existing institutional framework governing green finance in Viet Nam

Given that only green credits and green bonds are legalised in LEP2020 with specific roles assigned to relevant ministries, agencies as highlighted in the above legal framework section, this section sketches the existing institutional framework for green finance in Viet Nam according to these two green finance products, namely: (i) the institutional framework for the implementation of green credits; (ii) the institutional framework for the implementation of green bonds.

#### 4.3.1 Existing institutional framework for the implementation of green credits

The roles, and responsibilities of related ministries and stakeholders are summarised in Table below.

Table 6: Roles and responsibilities of related ministries and stakeholders in implementing green credits in Viet Nam

Stakeholders	Roles and responsibilities
MPI	<ul style="list-style-type: none"> <li>• Submit to the Prime Minister the decision for interest rate subsidies to green taxonomy projects post-termination of medium- to long-term loan agreements at credit institutions for approval;</li> <li>• Support credit institutions to receive foreign aid and concessional loans to sponsor the projects in the green taxonomy based on the designated functions;</li> <li>• Complete the current legal framework in the direction of promoting green investment;</li> <li>• Develop the national green economic sector system;</li> <li>• Develop Decree amending regulations on management and use of ODA and concessional loans from foreign donors for green projects.</li> </ul>
MONRE	<ul style="list-style-type: none"> <li>• Develop the green taxonomy and submit to the Prime Minister for approval;</li> <li>• Verify the green transition projects under the green taxonomy which are implemented in more than one province.</li> </ul>

MOF	<ul style="list-style-type: none"> <li>• Support credit institutions to receive foreign aid and concessional loans to sponsor the projects in the green taxonomy based on the designated functions;</li> <li>• Enhance the annual regular expenditure plan with a focus on prioritising resources for green growth;</li> <li>• Develop regulations on financial incentives for green investment and green credits.</li> </ul>
SBV	<ul style="list-style-type: none"> <li>• Complete the legal framework for green credits and green banking;</li> <li>• Develop solutions for prioritising resource allocation for green credits;</li> <li>• Strengthen the assessment of environmental and social risks by credit institutions.</li> </ul>
DONRE	<ul style="list-style-type: none"> <li>• Verify green transition projects implemented in more than one district in a province under the framework of the green taxonomy</li> </ul>
Division of Natural Resource and Environment	<ul style="list-style-type: none"> <li>• Verify green transition projects implemented in a district under the framework of the green taxonomy</li> </ul>
Credit institutions	<ul style="list-style-type: none"> <li>• Formulating green banking strategic frameworks;</li> <li>• Offer preferential loans for green projects;</li> <li>• Develop and establish comprehensive systems for environmental and social risk management;</li> <li>• Establish specialised units to carry out environmental and social risk management;</li> <li>• Report on the credit extension situation in green sectors, and the implementation of environmental and social risk assessments in credit extension to SBV;</li> <li>• Beneficiary from incentive mechanisms, including: <ul style="list-style-type: none"> <li>○ Priority entitlement when applying for concessional loans from the Government, international organisations, and development partners;</li> <li>○ Entitlement to competent authorities' assistance in training for the grant of green credit</li> </ul> </li> </ul>
The audit organisation	<ul style="list-style-type: none"> <li>• Verify the green projects (excluding green transition projects) within the framework of green taxonomy.</li> </ul>

Project owners implementing green projects

- Apply for the verification of green projects and green transition projects under the framework of green taxonomy with the corresponding entities.

Source: The Consultant

The Figure below demonstrates the existing institutional framework of green credit implementation in Viet Nam.

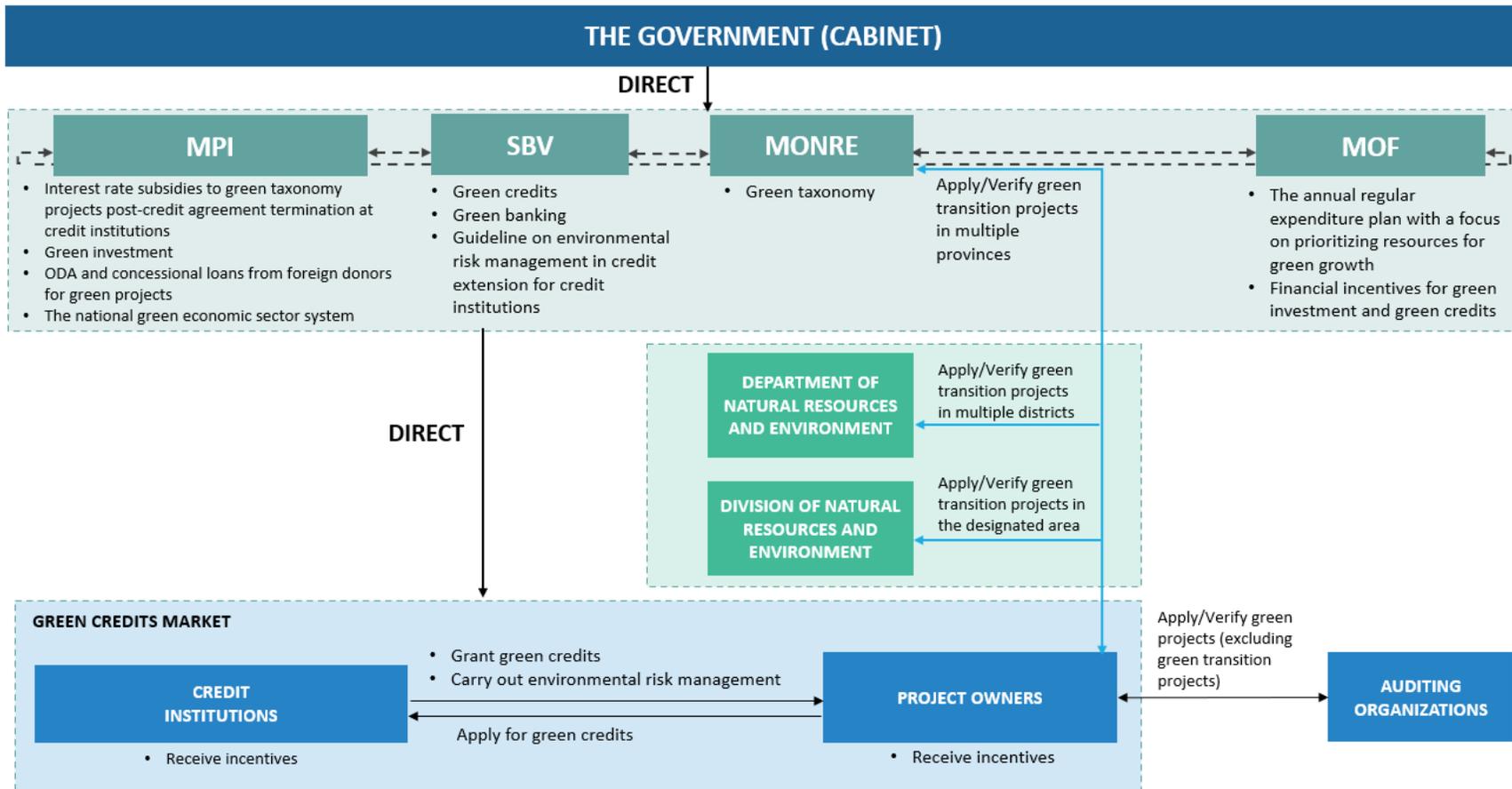


Figure 6: The existing institutional framework of green credit implementation in Viet Nam

Source: The Consultant

### 4.3.2 Existing institutional framework for the implementation of green bonds

The roles and responsibilities of related ministries and stakeholders for the implementation of green bonds are outlined in the Table below.

Table 7: Roles and responsibilities of related ministries and stakeholders in implementing green bonds in Viet Nam

Stakeholders	Roles and responsibilities
MOF	<ul style="list-style-type: none"> <li>• Develop the issuance of a government green bond scheme and submit it to the Prime Minister for approval;</li> <li>• Enhance the annual regular expenditure plan with a focus on prioritising resources for green growth;</li> <li>• Develop regulations on financial incentives for green investment</li> </ul>
MONRE	<ul style="list-style-type: none"> <li>• Develop the green taxonomy and submit to the Prime Minister for approval</li> </ul>
MPI	<ul style="list-style-type: none"> <li>• Develop guidelines to classify projects under the green taxonomy for inclusion in medium-term and annual public investment plans to create a foundation for the Government and local authorities to select when issuing green bonds;</li> <li>• Complete the current legal framework in the direction of promoting green investment;</li> <li>• Develop the national green economic sector system;</li> <li>• Develop Decree amending regulations on management and use of ODA and concessional loans from foreign donors for green projects.</li> </ul>
DONRE	<ul style="list-style-type: none"> <li>• Verify green transition projects implemented in more than one district in a province under the framework of the green taxonomy</li> </ul>
Division of Natural Resource and Environment	<ul style="list-style-type: none"> <li>• Verify green transition projects at a district under the framework of the green taxonomy</li> </ul>
The audit organisation	<ul style="list-style-type: none"> <li>• Verify the green projects (excluding green transition projects) under the framework of green taxonomy.</li> </ul>

Stakeholders		Roles and responsibilities
Issuers	Green corporate bond issuers	<ul style="list-style-type: none"> <li>• Conduct pre-offering information disclosures for investors and submit to the Stock Exchange and SSC, MOF;</li> <li>• Conduct periodic information disclosures;</li> <li>• Disclose and provide information on the environmental impact assessments of projects funded by capital from green bonds on the bond's maturity date</li> </ul>
	Owner of the investment project using capital from green bonds issued by the Government	<ul style="list-style-type: none"> <li>• Disclose and provide information on the environmental impact assessments of projects funded by capital from green bonds on the bond's maturity date to the State Treasury;</li> <li>• Apply for the verification of green projects and green transition projects under the framework of green taxonomy with the corresponding entities.</li> </ul>
	Owner of the investment project using capital from green bonds issued by the local government	<ul style="list-style-type: none"> <li>• Disclose and provide information on the environmental impact assessment of projects funded by capital from green bonds on the bond's maturity date to provincial People's Committees;</li> <li>• Apply for the verification of green projects and green transition projects under the framework of green taxonomy with the corresponding entities.</li> </ul>
Investors	Beneficiary of incentives provided	

Source: The Consultant

The Figure below elaborates the existing institutional framework for the implementation of green bonds in Viet Nam.

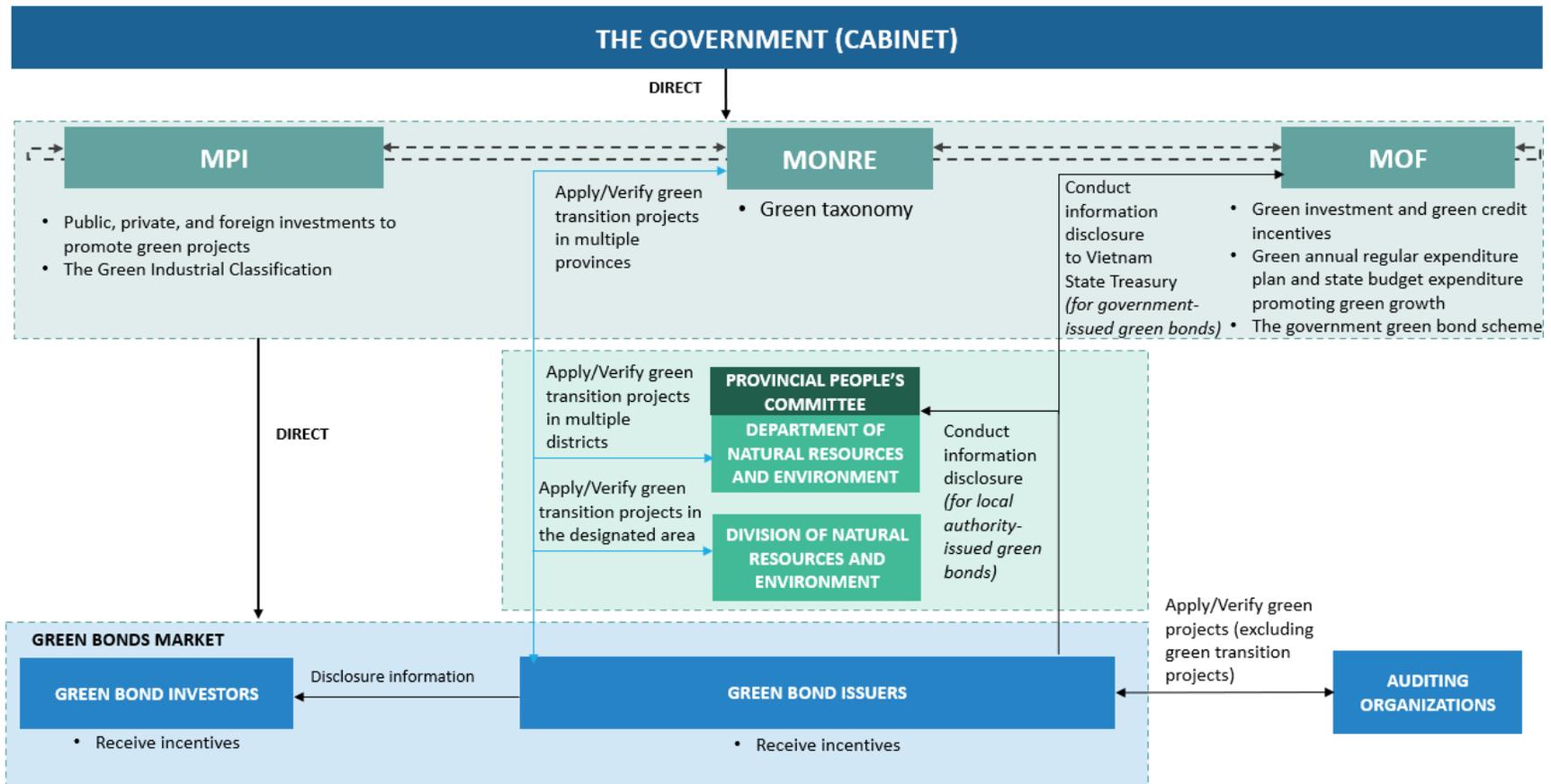


Figure 7: The existing institutional framework of green bond implementation in Viet Nam

Source: The Consultant

Overall, in a broader context of green finance, the current institutional framework for green finance in Viet Nam is illustrated in the Figure below.

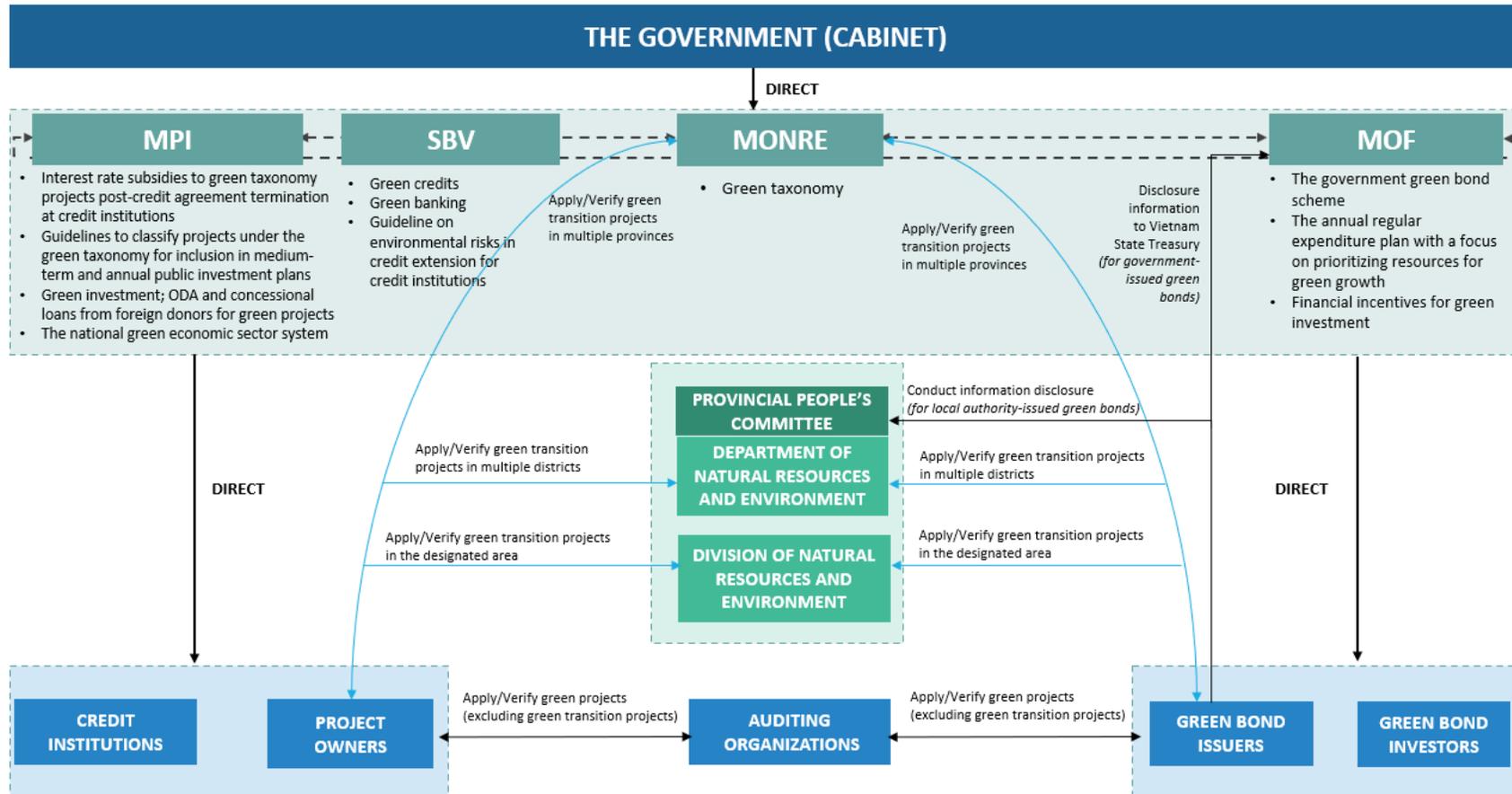


Figure 8: The existing institutional framework of green finance in Viet Nam

Source: The Consultant

## 5 Landscape of green finance products in Viet Nam

While the regulatory framework related to green finance in Viet Nam has recently outlined green credits and green bonds, some related products, such as green stocks and green insurance, have gradually emerged, albeit not explicitly regulated. Thus, the subsequent sections will provide an overview of the landscape of green finance products, including (i) Green credits; (ii) Green bonds; (iii) Green stocks; and (iv) Green insurance.

### 5.1 Green credits

According to LEP 2020, green credits are credits granted to the following investment projects: (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.

The following sections detail the two sources of green credits from public financial institutions and commercial banks.

#### 5.1.1 Public financial institutions

##### 5.1.1.1 Viet Nam Environmental Protection Fund (VEPF)

VEPF, established in 2002, functions as a state financial institution under the management of MONRE. VEPF has a total chartered capital of 1.8 trillion VND that will be increased up to 3 trillion VND according to Decree No. 08/2022/ND-CP regulating the details of some articles of LEP 2020. 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 that are not included in the national budget plan.

VEPF operates akin to an enterprise, receiving capital from the State in the form of charter capital, loans, and entrusted funds. Nevertheless, VEPF is restricted from mobilising funds or engaging in the buying and selling of bonds. VEPF is limited to providing loans according to the specified list in Appendix 30 of Decree No. 08/2022/ND-CP. The evaluation and appraisal of VEPF's loan projects, including those related to energy-saving, adhere to applicable regulations outlined in the LEP 2020. The functions and tasks of VEPF are delineated by the Prime Minister, encompassing regulations on lending criteria and support for low-interest rates.

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 GHGs. In parallel, VEPF also provides financial support to those operating in waste treatment. The recycling fund is currently in development, with nearly 1 trillion VND allocated. However, the mechanisms and guidelines for managing this fund are yet to be

established. Consequently, Decree No. 08/2022/ND-CP is undergoing revision to provide clarity on the management framework for this fund.

***Key findings:*** The consultation with VEPF shows that despite the implementation of numerous green projects nationwide that VEPF has financed, its funding sources are restricted to the State's charter capital. In terms of international support, as VEPF is only eligible for funding specific projects designated under the LEP 2020, the Law on State Budget limits VEPF to access and receive foreign capital for financing green projects in Viet Nam. Moreover, the implementation of environmentally friendly projects financed by VEPF is experiencing delays attributed to conflicts concerning the legal standing of VEPF within the context of the Law on Public Investment 2019 and LEP 2020. This legal ambiguity has implications for VEPF's operations and its ability to effectively carry out its mission of financing green initiatives.

#### *5.1.1.2 Viet Nam Development Bank (VDB)*

VDB, a government-owned credit institution, was established by the Prime Minister on 19 May 2006. At present, the VDB only provides loans for state investment credits and re-loan foreign investment pursuant to Decree No. 32/2017/ND-CP on investment credit and Decree No. 97/2018/ND-CP on on-lending of ODA loans.

According to the consultation with VDB, presently VDB offers loans exclusively for projects related to green sectors as regulated by the government in Decree No. 78/2023/ND-CP and does not have a specific strategy for mobilising funds for green finance.

In accordance with Decree No. 78/2023/ND-CP, VDB categorises its portfolio by sector, aligning with prevailing legal regulations concerning environmental protection. Lacking technical expertise, VDB relies on sector-specific legal regulations to assess projects, seeking guidance from relevant ministries and consulting them when uncertainties arise regarding new project types. Currently, VDB is financing 367 projects within the green sector, with a total outstanding balance of approximately 53.2 trillion VND, accounting for 24% of the total outstanding balance (Hong Ha, 2023).

Regarding international capital for funding, the bank is officially recognized by the Green Climate Fund (GCF)<sup>6</sup> as its National Implementing Entity (NIE) in 2021. As the NIE of the GCF, VDB will seek, develop, and submit funding proposals for climate adaptation and mitigation programs and projects that meet GCF criteria. Additionally, VDB will oversee and manage the funding from this fund. VDB evaluates the financial capabilities, gender equality, and social-

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<sup>6</sup> The GCF is one of the world's largest climate finance funds, established in 2010 under the United Nations Framework Convention on Climate Change with the goal of establishing a 100 billion USD fund to support global climate change mitigation and adaptation activities.

environmental factors of projects, presenting them to MPI for approval in alignment with Viet Nam's development strategy. The GCF then reviews and considers approval. Moreover, VDB acts as the assessing and risk-bearing entity for GCF-funded projects, with funds not passing through the government and classified as non-ODA. VDB employs two sets of criteria for selecting investment projects: compliance with Vietnamese regulations and alignment with GCF criteria, categorising projects into risk types (A, B, C), with A indicating high risk.

***Key findings:*** The discussions with VEPF and VDB in the context of this assignment reveal that while these two public financial institutions play a supportive role in projects focused on environmental protection, their scope of services is limited. These entities can only provide loans for pre-designated projects and are not assigned the responsibility to mobilise green capital or sell bonds for projects outside of their designated lists.

### **5.1.2 Commercial banks**

Green credits from commercial banks are considered a common tool among debt instruments to provide financial resources for businesses and implement green projects (Luu Anh Nguyet, 2020). In this section, the development of green credit products by commercial banks is highlighted, covering several aspects such as (i) green credit outstanding, (ii) capital mobilisation, and (iii) existing green credit products.

#### *5.1.2.1 Green credit outstanding*

Notably, over 70% of the total green credit outstanding in Viet Nam have been directed towards financing projects in renewable and clean energy, along with green agriculture. The following Figure illustrates the distribution of green credits across various sectors in Viet Nam in the period of 2017 – 2021.

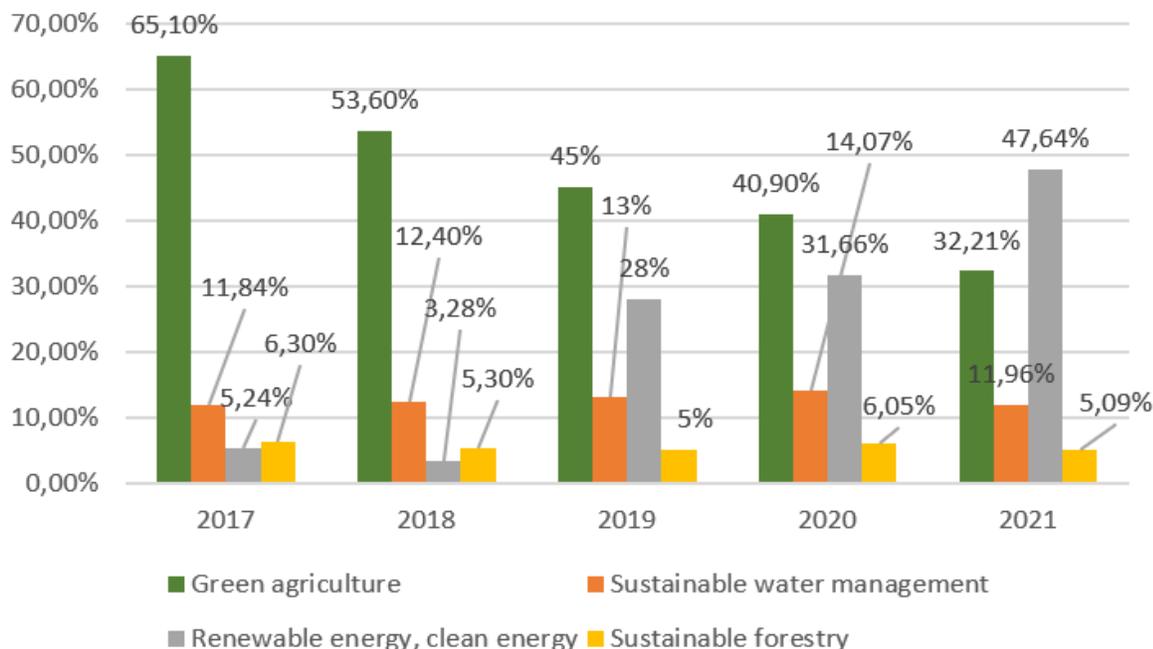


Figure 9: The distribution of green credits across various sectors in Viet Nam from 2017 to 2021

Source: SBV, 2022

In general, commercial banks in Viet Nam have made significant strides in promoting the development of green credits, evident in the increasing ratio of green credit outstanding compared to the total credit outstanding across banks. Based on the information obtained during the consultation process, the specific green credit outstanding of the leading banks that accepted the interviews is detailed as follows:

- The Bank for Agriculture and Rural Development (Agribank): its outstanding green credits has experienced a remarkable surge from 2 trillion VND in 2008 to 13 trillion VND in 2020, marking a substantial growth rate of 300%.
- The Bank for Investment and Development of Viet Nam (BIDV): it has experienced substantial growth in its outstanding green credit, boasting an average annual growth rate of 45% from 2019 to 2022. As of 30 September 2023, BIDV's outstanding green credit has reached above 73 trillion VND, constituting 4.4% of the bank's total outstanding credit. This impressive figure positions BIDV with a 12.5% market share of the total outstanding green credit in Viet Nam. Notable green lending areas offered by BIDV include renewable energy, clean energy, sustainable transportation, urban and rural water management, and green industry.
- The Joint Stock Commercial Bank for Foreign Trade of Viet Nam (Vietcombank): During the period from 2018 to 2021, the total outstanding credit of the Vietcombank has been consistently increasing. Concurrently, the outstanding balance of green credits

has also experienced rapid growth, surging from over 7.89 trillion VND in 2018 to nearly 18.442 trillion VND in 2021. Additionally, the proportion of green credit outstanding to the total credit outstanding has been on the rise each year within this period.

#### *5.1.2.2 Capital mobilisation*

To augment the financial sources for green credits, commercial banks actively mobilise funds from international financial institutions, specifically:

- Agribank currently mobilises loans from diverse sources such as French Development Agency (AFD), European Investment Bank (EIB), World Bank (WB), and Luxembourg Cooperation, each source having its specific standards.
- Vietcombank actively secures funds from various sources such as the WB, Japan Bank for International Cooperation (JBIC), etc.
- BIDV has also mobilised medium and long-term capital from international financial institutions to support businesses engaged in green projects. By the conclusion of 2022, BIDV successfully raised over 490 million USD for green initiatives from entities including the WB, AFD, and EIB. The bank collaborates with international commercial banks to deploy green capital in Viet Nam, securing funding for various projects, including a 202 million USD contribution from WB for the Renewable Energy Project, a 100 million USD allocation from AFD for Sustainable Use of Natural Resources and Energy Finance (SUNREF) green credits, a 100 million USD funding for the Viet Nam Energy Saving for Industries Project (VEEIE) by the WB, and a 30 million USD infusion from EIB for loans supporting environmental protection projects.
- Based on information obtained from consultations with International Finance Corporation (IFC), as of November 2023, IFC has provided over 300 million USD in green financing to local banks in Viet Nam, accounting for about 35% of the total 950 million USD climate-tagged long-term finance IFC has committed in the country so far.

***Key findings:*** According to the consultations with Agribank, Vietcombank, and BIDV under this Assignment, a main barrier to scale up green finance is to mobilise green finance at a lower rate in order to provide green loans at favourable rates and conditions. Currently, banks have mobilised capital from international organisations; however, the availability of green capital with preferential interest rates remains limited. Primarily, banks raise capital at standard saving rates and then provide green credits to customers at preferential interest rates. This situation has the potential to influence the operational dynamics of banks. Adding to this challenge, the bank heavily depends on short-term capital, mostly sourced from the public. Another challenge is lacking specific and attractive incentives together with risk

alleviation policies from the government to scale up and exploit the potential for green credits to meet the high demand under the JETP and net-zero context in Viet Nam.

Green credits provided for energy efficiency projects in general and green cooling initiatives are almost zero. The main barriers are the challenge in assessing the financial viability of the investment activities in energy efficiency in general and cooling in particular. Usually, an investment activity in energy efficiency is not an independent project compared to an investment in renewable energy, so the documents prepared by the investors are less standard and convincing. Furthermore, banks have a limited technical capacity to perceive and evaluate the technical and financial aspects as the investment activities in energy efficiency are more diverse and less standardised than in renewable energy. Besides, the green cooling sector is not specifically regulated in the legal framework of Viet Nam; hence, there is a lack of foundation for banks to provide loans for projects in this sector. Therefore, investments in energy efficiency are considered a high-risk sector in the banks' viewpoints that can be alleviated by providing specific policies and conducting pilot activities.

### *5.1.2.3 Existing green credit products*

Currently, credit institutions in Viet Nam apply varying interest rates for green projects, typically lower than conventional lending rates. The extent of the discount depends on the customer's level of involvement in the high-tech and green production process. Short-term interest rates for the green sector range from 5-8% per year, while medium and long-term project rates range from 9-12% per year (Nam A Bank, 2022). Several commercial banks in Viet Nam are noteworthy for their high proportion of green credit, having introduced attractive green credit packages and developed frameworks to promote green finance.

In consultation with Agribank, when customers seek loans, they are briefed on the concept of green credit. This approach is consistently implemented across all branches of Agribank. Especially for the green credit packages tailored for the high-tech agricultural sector, Agribank provides discounts ranging from 0.5% to 1.5% compared to the standard interest rates applicable to the agriculture and rural development sector, ranging from 4% to 5%. They also apply the principle that the extent of the interest rate discount is decided by the customer's level of involvement in the high-tech agricultural production process. Additionally, Agribank extends fee waivers for participants in this program, covering services such as money transfers and guarantee fees.

More details on green credit products from credit institutions in Viet Nam are summarised in Annex 2.

## **5.2 Green bonds**

The framework for green bonds has been established in LEP 2020 and other relevant regulations. According to LEP 2020, green bonds are financial instruments issued by the

government, local authorities, and enterprises to raise funds for environmental protection activities and beneficial investment projects. This framework sets the foundation for the development of the green bond market in Viet Nam. Along with the support from international organisations, the green bonds market is gradually developing in the country. Viet Nam has successfully issued green bonds with a total of 1.157 billion USD between 2019 and 2023, garnering significant attention from stakeholders.

The most notable green bonds that have been issued to date include as follows:

- Local government green bonds: The first pilot issuance of green bonds by local governments in Vietnam occurred in Ho Chi Minh City and Ba Ria - Vung Tau in 2016, focusing on sustainable water management and climate-resilient infrastructure. However, no information on the allocation and assessment of the green bonds post-issuance is available.
- Corporate green bonds:
  - Several corporations, including BIM Land and VinGroup, have entered the green bond market. BIM Land successfully raised 200 million USD in 2021 (Hai Yen, 2021), while VinGroup issued sustainable bonds worth 425 million USD (Viet Nam News, 2021);
  - Credit institutions are also actively participating in the green bond market. During the consultation, BIDV issued green bonds in October 2023, adhering to the ICMA's Green Bond Principles. Additionally, Agribank plans to issue green bonds by the end of 2024, with support from the World Bank to secure long-term funds at favourable rates. Vietcombank is investing in green bonds issued by companies in the solar power and renewable energy sectors.

The issuance of green bonds requires the involvement of third-party evaluation services, commonly known as verifiers, for assessment in the country. Recently, FiinRatings has obtained official approval from CBI as the first authorised company in Viet Nam to verify green bonds issued by Vietnamese businesses according to the CBI's program and standards. FiinRatings is in the process of applying for a grant funded by the Asian Development Bank (ADB) to support green bond verification. According to FiinRatings, initiating green bond issuance can provide a competitive edge and enhance reputation of issuers.

**Key findings:** Currently, the green bond market is still limited despite great interest from investors. There is no secondary market for green bonds in Viet Nam, primarily involving private transactions that are not widely disclosed. Insights from related stakeholders and international perspectives emphasise the crucial role of public policies, especially the green taxonomy in creating legal mechanisms and forming a green bond market. In addition,

related stakeholders affirmed the importance of the third-party – green bond issuance verifiers. They proposed that the establishment of an independent verifier responsible for verifying green bonds and their roles must be determined in regulation framework on promoting green bonds. They expected to have incentive policies to support green bonds, such as tax reductions. Transparency in reporting on green bond metrics can also drive accountability and trust.

### **5.3 Green stocks**

In Viet Nam, green stocks have not been specifically defined in legal framework although the category of green stocks has gradually taken shape, manifested through the Viet Nam Sustainability Index (VNSI) stock. The development of the VNSI index is considered as one of the tasks that are regulated in Decision No. 2183/2015/QD-BTC on the action plan of the finance sector to implement the national strategy on green growth until 2020 issued by MOF dated 20 October 2015.

The VNSI index is developed through the collaboration between the Ho Chi Minh Stock Exchange (HOSE) with GIZ and SSC. It was introduced in 2017 and is calculated using the market capitalisation-adjusted free-float method, with a real-time calculation frequency of 5 seconds per iteration. The index comprises stocks of companies with the best sustainable development scores listed on HOSE and included in VN100.

The sustainability scoring is conducted independently based on publicly disclosed information from companies and the ESG questionnaire drafted by HOSE. The evaluation covers three aspects of ESG. The scoring process is systematic, involving data collection, initial scoring, and internal and external reviews (including an audit by PwC), aiming to minimise errors and provide reliable final results. Companies are scored for sustainable development by HOSE, and the top 20 companies are selected for inclusion in the index. The exclusion criteria encompass companies involved in industries such as weapons or pharmaceuticals, alcoholic beverages (excluding beer or light alcohol), tobacco, casino and gambling businesses, and cultural products derived from endangered species, atomic energy, and coal.

Vietcombank, through consultations, has confirmed its position as one of the top 20 listed companies with the best VNSI index in the stock market. This achievement reflects Vietcombank's ongoing efforts to align with commitments in supporting the Vietnamese government's implementation of sustainable development strategies, emphasising transparency, responsibility, and creating shared value for the community.

Currently, investment funds are also showing interest in the aspect of sustainable investment and ESG. In consultations with Dragon Capital Vietfund Management, an investment fund, they have indicated that they consider and analyse ESG factors as part of

their fundamental investment decision-making criteria. Dragon Capital manages a significant portfolio of 5 billion USD in the stock market and employs a three-step approach for project analysis. This includes negative screening to exclude industries such as tobacco, alcohol, child labour, and those adversely impacting biodiversity. Companies undergo ESG scoring, and those falling below a satisfactory level do not receive investment from Dragon Capital. Additionally, Dragon Capital engages in corporate dialogue and monitoring to address weak ESG performances within the companies they invest in.

***Key findings:*** So far, green stocks have not been specifically legislated, with development primarily occurring through the VNSI index using a scoring mechanism based on ESG. There is currently limited information on the impact of this index in promoting green investments. Since its implementation in 2017, the VNSI index has only included 20 stocks and is only listed on the HOSE, hindering efforts to encourage businesses to promote and participate in green stock products.

#### **5.4 Green insurance**

Currently, the development of the legal framework for green insurance is outlined in Decision No. 882.2022/ND-CP. According to this Decision, MOF is responsible for leading the task of constructing the legal framework for green insurance, with the implementation period spanning from 2022 to 2025. This includes the establishment of a portfolio of green insurance products that are aimed at covering environmental liability for industries with high environmental risks and climate risk insurance products. However, as of now, the legal documents specifically addressing the development of green insurance have not been issued.

Green insurance products 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. Also known as environmentally friendly insurance, green insurance fundamentally serves as an economic incentive to encourage behavioural change. Hence, insurance companies are creating innovative products and services to encourage sustainable behaviours and technologies. There are currently many green insurance products to promote sustainable activities and increase resilience to natural disasters for a wide variety of subjects such as vehicles, pollution, real estate, agriculture, renewable energy, etc.

As of 31 December 2022, Viet Nam's insurance market comprised 82 entities, including 32 non-life insurance companies, 19 life insurance companies, 2 reinsurance companies, and 29 insurance brokerage firms (Department of the Insurance Supervisory Authority, 2023). Despite the diverse landscape, the green insurance segment is in its early stages, with only four companies offering green insurance products. Furthermore, these offerings are primarily limited to environmental liability insurance, indicating a restricted range of green

insurance options available in the market. A summary of current green insurance products in Viet Nam is shown in the Annex 3 of this Report.

***Key findings:*** During the consultation, requests for meetings have been sent to the above four companies. However, none of them accepted the request and some returned with the feedback that their scopes of work are not related to green finance. It shows that even green insurance products are offered but they are not fully aware as a green finance product and implicitly shows the weak awareness and role/position of green insurance in the green finance market.

## **6 Gap analysis and recommendations to promote green finance to contribute to achieve the net-zero target in Viet Nam**

Based on the findings and analysis results from the stock take, international experience, and stakeholder consultations, the key pillars for advancing green finance in Viet Nam are identified against the following pillars: (i) Strategy and coordination; (ii) Transparency; (iii) Skills & capacity building; and (iv) Instruments and incentives.

The improvement of enabling policies and activities to promote green finance should be considered as a whole but not be able and should not be separated by purposes of using green finance. Therefore, the Table below evaluates the corresponding gaps within Viet Nam's green finance landscape but does not specifically highlight only climate change or net-zero targets. Subsequently, tailored recommendations are proposed to effectively address these gaps and foster the growth of green finance in Viet Nam.

Table 8: Gaps and recommendations to promote green finance in Viet Nam

SCOPES	GAPS	RECOMMENDATIONS	AGENCIES IN CHARGE
<b>STRATEGY AND COORDINATION</b>			
<p><b>Green Finance Roadmap</b></p>	<p>Currently, Viet Nam lacks a comprehensive roadmap for green finance, leading to inconsistencies and fragmentation in the implementation of green finance practices:</p> <ul style="list-style-type: none"> <li>• Regulations related to green finance products are dispersed across LEP 2020, the national green growth strategy, and various other regulations. Although green bonds and green credits are legalised in LEP 2020, the specific relationship between these components and the concept of green finance outlined in the national green growth framework (Decision No. 1658/2021/QD-CP) is not explicitly clarified. Moreover, the basis for developing Decision No. 1658/2021/QD-CP does not mention LEP 2020, creating ambiguity regarding the interconnection between these legislations.</li> <li>• The connection between green finance initiatives and Viet Nam's NDC and other climate policies and commitments lacks clarity.</li> <li>• It is unclear which entity serves as the focal point for green finance, and even during consultations with MPI, they stated that there is no designated coordinating body for green finance. This lack of clarity affects the coordination mechanisms among involved parties.</li> </ul>	<p>Drawing upon global expertise, the formulation of a robust green finance roadmap becomes imperative as it serves as the pivotal catalyst for initiating and enhancing green finance initiatives. Thus, it is essential to develop a green finance roadmap for Viet Nam, which considers some aspects:</p> <ul style="list-style-type: none"> <li>• Ensure consistency and harmony with LEP 2020, the National Green Growth Strategy, and other climate policies.</li> <li>• Align with relevant climate and environmental objectives, emphasising coherence with key policies like the NDC, also, highlighting contributions to Viet Nam's broader sustainability and climate goals.</li> <li>• Define the roles of stakeholders and establish a designated national focal point agency to oversee and supervise the implementation of green finance.</li> <li>• Set clear expectations, and establish transparent, measurable criteria for assessing success.</li> </ul>	<ul style="list-style-type: none"> <li>• Appoint a national focal point to oversee green finance and establish clear coordination mechanisms among relevant ministries. It can be under MPI to be in line with their functions in implementing green growth strategies.</li> <li>• The roadmap can be initiated by MPI and will be issued by the Prime Minister</li> </ul>

SCOPES	GAPS	RECOMMENDATIONS	AGENCIES IN CHARGE
	<ul style="list-style-type: none"> <li>There is insufficient clarity on what is expected from green finance, and there are no well-defined criteria against which the success of green finance can be measured.</li> </ul>		
<b>Enhancement of the regulatory framework</b>		<ul style="list-style-type: none"> <li>Having regulations mandating or incentivizing financial institutions to require financial institutions to incorporate sustainability and green considerations into their long-term strategic planning and reporting can encourage the development of green finance products. Transparency in reporting on ESG metrics can also drive accountability and trust.</li> <li>Setting mandatory disclosure requirements for ESG factors or offering preferential treatment for sustainable investments in terms of capital requirements can encourage banks to develop green products.</li> </ul>	Agencies in charge of management of green finance products: green credits by SBV and green bonds/ insurance by MOF.
<b>TRANSPARENCY</b>			
<b>The green taxonomy</b>	<p>There are several gaps identified in the draft green taxonomy as follows:</p> <ul style="list-style-type: none"> <li>The relationship between the green taxonomy developed by MONRE and the green economic sector system developed by MPI has not been clearly defined.</li> <li>Certification requirements for independent verifiers of green projects are not regulated.</li> <li>The rapid changes in low-carbon technology development trends necessitate periodic updates to the green taxonomy. However, the mechanism for such updates is not specified.</li> </ul>	<ul style="list-style-type: none"> <li>The official green taxonomy and its implementation guidelines need to be soon promulgated to provide a legal background boosting green finance;</li> <li>Ensure the consistency between the green taxonomy and the green economic sector system and other climate and environmental policies;</li> <li>Develop and promulgate the procedures and certifications for independent verifiers;</li> <li>Develop a mechanism to periodically update the green taxonomy, ensuring flexibility and compatibility with the low-carbon technology development trend;</li> </ul>	<ul style="list-style-type: none"> <li>MONRE is in charge of issuing the guidance for implementation and regular updating of the green taxonomy.</li> <li>MOF and SBV develop and promulgate the certification for independent verifiers according</li> </ul>

SCOPES	GAPS	RECOMMENDATIONS	AGENCIES IN CHARGE
		<ul style="list-style-type: none"> <li>Besides, align the green taxonomy with international taxonomies such as EU, ASEAN, CBI, etc. to facilitate capital allocation by international investors.</li> </ul>	<p>to the green finance products.</p> <ul style="list-style-type: none"> <li>MPI will ensure consistency between the green taxonomy and the green economic sector system</li> </ul>
<p><b>Disclosure &amp; Reporting</b></p>	<p>Although mechanisms for disclosing information and reporting on green finance products have initially been established (e.g., credit institutions reporting on the implementation of green credits to SBV within the national green growth framework, or issuers disclosure information to State Treasuries/Provincial Committees), there is currently no unified platform for disclosing information on green finance products. Additionally, as consulted with stakeholders, the information on green bonds has not been widely disclosed, hindering market transparency, and impeding the informed decision-making processes of investors, as well as communication with clients, beneficiaries, and other stakeholders.</p>	<ul style="list-style-type: none"> <li>Establish a national database platform to monitor and disclose information about green finance products, considering the following aspects:</li> <li>Align disclosure guidance with international frameworks, to ensure harmonisation and comparability of climate disclosures or sustainability reporting.</li> <li>Implement disclosure standards in phases, starting with information gathering, and awareness-raising around climate and sustainability reporting, and implement mandatory disclosure and reporting regimes as the final step.</li> <li>Involve various stakeholders like capital markets regulators, other financial regulators, central banks, government authorities, or stock exchanges in establishing binding regimes.</li> <li>Clearly establish the purpose and relevant scope of reporting or disclosure regimes, ranging from climate-focused to broader green or sustainability reporting.</li> <li>Facilitate collaboration and information sharing among financial institutions, regulators, and other stakeholders can foster the sharing of best practices, data, and knowledge. This collaboration</li> </ul>	<p>Agencies in charge of management of green finance products: green credits by SBV and green bonds/ insurance by MOF. SBV and MOF will maintain databases of the products they oversee, and these platforms will be interconnected with the national database on green growth under the auspice of MPI.</p>

SCOPES	GAPS	RECOMMENDATIONS	AGENCIES IN CHARGE
		can not only increase transparency but can also lead to the development of innovative financial products aligned with green growth and low-carbon goals.	
<b>SKILLS &amp; CAPACITY BUILDING</b>			
<b>National Taskforce for green finance</b>	Viet Nam currently lacks a well-defined organisational platform that links relevant stakeholders in green finance to support the implementation of green finance, including technical support.	Drawing on international experience, for instance, Singapore – a leader in green finance – has established a Green Finance Industry Taskforce, consisting of experts from banks, asset managers, insurers, sustainability service providers, academia, NGOs to harness public-private collaboration to mainstream green finance. Leveraging international best practices, Viet Nam should consider establishing a national green finance taskforce, which considers the following aspects: <ul style="list-style-type: none"> <li>• The taskforce should include representatives from various stakeholders in the green finance sectors, encompassing MPI, MONRE, SBV, MOF, credit institutions, insurance companies, audit organisations, bond verifiers, academia, enterprises, NGOs, and international experts. These members could be organised into specialised groups, including technical and working groups, with guidance from a steering committee.</li> <li>• Define clear and specific objectives, deliverables, and a detailed work plan for the Task Force to facilitate the effective implementation of the green finance roadmap</li> </ul>	MPI initiates under the National Green Growth Action Plan that can integrate with other Task Forces/Working groups on implementation of commitment at COP26 and JETP.
<b>Green finance capacity</b>	During the consultation, one of the emphasised challenges is the capacity gaps in green finance, specifically:	<ul style="list-style-type: none"> <li>• <b>Capacity building and training:</b> Providing training programs, workshops, and resources to financial professionals can enhance their understanding of sustainable finance principles and practices. A</li> </ul>	All agencies, but coordinated by a national focal point

SCOPES	GAPS	RECOMMENDATIONS	AGENCIES IN CHARGE
<b>building programs</b>	<ul style="list-style-type: none"> <li>• Credit institution officers lack specialised expertise to assess environmental risks and impacts in lending activities for green projects.</li> <li>• Investors, green bond issuers, insurance companies, and project owners have limited information about green financial products and their benefits compared to conventional products.</li> </ul>	<p>knowledgeable workforce is crucial for the effective development and marketing of sustainable finance products.</p> <ul style="list-style-type: none"> <li>• <b>Consumer awareness and demand:</b> Initiatives aimed at raising public awareness about sustainable finance and its benefits can drive demand for such products. Educated consumers are more likely to seek out and invest in sustainable options, prompting financial institutions to offer more of these products.</li> </ul>	
<b>Environmental risk analysis</b>	<p>In consultation with some commercial banks, it was noted that despite the issuance of Circular No. 17/2022/NHNN by SBV, which provides guidelines on environmental risk management in credit extension for credit institutions and foreign bank branches, there remains ambiguity in the procedures. One aspect raised by Agribank is the uncertainty surrounding the criteria used to determine the environmental impact.</p>	<p>Drawing from international experience, especially the experience from Singapore's guidelines on environmental risk management for banks, some aspects should be considered:</p> <ul style="list-style-type: none"> <li>• Define a clear risk identification and assessment procedure. For the environmental risk criteria, some factors could be taken into account, including: GHG emissions, susceptibility to extreme weather events, and connections to unsustainable energy practices, deforestation, and pollution.</li> <li>• Define a clear risk management and monitoring, including a risk management and monitoring mechanism for projects with higher environmental risk profiles, specific requirements for environmental-related information disclosure by customers.</li> <li>• Identify mechanisms to regularly update the environmental risk management guidelines to remain current and reflective of evolving industry best practices and regulatory standards.</li> </ul>	<p>SBV leads and cooperates with MONRE to establish guidance on environmental risk management in credit extension</p>

SCOPES	GAPS	RECOMMENDATIONS	AGENCIES IN CHARGE
<b>INSTRUMENTS AND INCENTIVES</b>			
<b>Incentives</b>	<p>In consultation with related stakeholders, there is a lack of incentive mechanisms for banks and other stakeholders to actively engage in the green finance market. Currently, banks predominantly mobilise capital at standard interest rates but provide green credit at preferential interest rates. This practice impacts the profitability of banks, dampening the motivation to actively participate in the green finance market.</p>	<p>Develop incentive mechanisms to encourage credit institutions, investors, and project owners involved in the green finance market, including:</p> <ul style="list-style-type: none"> <li>• <b>Tax incentive mechanisms:</b> Financial institutions that provide or invest in green finance products can be strongly encouraged through tax breaks, exemptions, or reduced rates. These incentives may manifest as lowered corporate taxes, exemptions on specific transactions, or tax credits specifically tailored for green investments. In the case of Malaysia, they developed “Green Technology Tax Incentive”, defining tax incentives for green projects, green services and assets.</li> <li>• <b>Public Funding and Subsidies:</b> Directed government funding or subsidies for sustainable projects and green initiatives have the potential to draw in private investment. For example, providing subsidies or low-interest loans specifically for renewable energy projects can spur the development of corresponding financial products. China developed “Opinions on Supporting Green Development of Private Enterprises” that created a national green development fund and encouraged the establishment of local green development funds. Also in China, the People's Bank of China launched a carbon-reduction supporting tool, offering low-cost loans to financial institutions for lending to enterprises engaged in priority carbon-reduction industries.</li> </ul>	<p>MPI and MOF are in charge of studies and initiate incentive mechanisms</p>

SCOPES	GAPS	RECOMMENDATIONS	AGENCIES IN CHARGE
		<ul style="list-style-type: none"> <li>• <b>Credit Support Mechanisms:</b> Governments or central banks have the option to create credit guarantee schemes or lending facilities specifically designed for green finance initiatives. Such mechanisms work to diminish the perceived risk for financial institutions, thereby motivating them to participate in lending or investing in green projects.</li> </ul>	
<b>Green finance products</b>	Currently, the green finance market in Viet Nam lacks diversity, and regulated only two products under LEP 2020, namely green credits, and green bonds.	Consider expanding to other products such as green stock and green insurance, etc. However, it is crucial to conduct specific assessments of the impact of these new products on climate and the environment. This evaluation will serve as a foundation for developing a strategic approach to introducing new products that align with sustainability goals and market demands.	A national focal point initiates and proposes the scheme to regulate the new products in the future national strategies, action plans

Source: The Consultant

## 7 Next steps for promoting capital into green cooling projects in Viet Nam

In general, the Consultant provided overall recommendations in Section 6 to promote green finance for green cooling projects and other green initiatives in order to contribute to net-zero and energy transition goals of the country. However, given the specific context of Viet Nam, implementing all recommended activities at the current time might face challenges, as Viet Nam has yet to establish a clear direction for promoting green finance and a comprehensive plan for its implementation. Therefore, the approach for the next steps to promote green finance involves supporting specific tasks assigned to relevant ministries and cross-sectoral agencies related to green finance that are outlined in the Table below.

Table 9: The next steps for promoting green finance

No.	Activities	Entity to work with
<b>I</b>	<b>Green taxonomy</b>	<b>MONRE (ISPONRE)</b>
1	Support in completing the green taxonomy, focusing on enhancing investment project categories, particularly in the green cooling sector	MONRE (ISPONRE)
2	Support in developing and strengthening regulations for implementation guidelines of green taxonomy: the verification procedure for independent verifiers, the mechanism to periodically update the green taxonomy	MONRE (ISPONRE)
<b>II</b>	<b>Research and develop activities for mobilising financial resources and promoting investment in green growth</b>	MPI (The Department for Science, Education, Natural Resources and Environment)
<b>III</b>	<b>Establish mechanisms for green bonds; exploration of green stocks and green insurance potential</b>	<b>MOF</b>
1	Support the development of regulations for the issuance of a government green bond scheme	MOF (Department of Finance and Bank)
2	Support the development of disclosure and reporting mechanisms for green bonds	MOF (Department of Finance and Bank, SSC)
3	Support to develop a plan for piloting the green bonds market to gather lessons learnt for official operation	MOF (Department of Finance and Bank, SSC)
4	Support to conduct studies on the potential of green stocks and green insurance products for developing suitable strategies accordingly	MOF (Department of Finance and Bank, SSC)
<b>IV</b>	<b>Develop mechanisms to promote green credits</b>	

1	Analyse and evaluate the implementation of green credits and green banking activities	SBV (Department of Credit for Economic Sectors, State Bank of Viet Nam)
2	Develop reporting and disclosure systems for green credits	SBV (Department of Credit for Economic Sectors)
3	Develop solutions for prioritising resource allocation for green credits	SBV (Department of Credit for Economic Sectors)

## 8 Conclusions

Finance is the lifeblood of burgeoning economies while green finance emerges as a pivotal driver in the transformative journey towards eco-friendly and low-carbon economies.

Viet Nam has just 27 years to become a net zero GHG emission nation by 2050. But to decarbonise in 27 years, meet the country's green growth objectives, and deliver energy security, it will require a step-change in levels of investment. The global transition to a resilient, nature-positive, net zero economy will see trillions of USD reallocated and invested into new technologies, services, and infrastructure under the form of green finance. There are huge opportunities for the Viet Nam's financial and professional services industry in this transition. At the national level, ongoing efforts towards establishing green finance in Viet Nam have demonstrated positive outcomes.

However, the green finance has not fully unlocked its potential in the country. To fulfill climate commitments and meet the net-zero emission target by 2050, Viet Nam urgently needs to refine its policy framework, and institutional structures, and establish a conducive market for the development of green finance. In this regard, it is imperative to promptly issue a comprehensive green finance roadmap that outlines a clear strategic direction for its development. Additionally, identifying a national focal point to oversee green finance and establishing clear coordination mechanisms among relevant ministries, including SBV, MOF, MONRE, MPI, and other stakeholders, is crucial. Accelerating the issuance of the green taxonomy and guidance documents is also essential to provide a significant legal foundation for market participants. Concurrently, there is a need to explore the formulation of incentive policies, disclosure and reporting mechanisms, environmental risk management frameworks, and consider expanding the range of suitable green finance products. These concerted efforts will contribute to Viet Nam meeting its climate and environmental commitments and set the stage for a sustainable and thriving green finance sector that aligns with global sustainability goals, ensuring a resilient and environmentally responsible financial landscape for the future.

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# ANNEX

## Annex 1: Legal documents related to green finance in Viet Nam

Table 10: Legal documents related to green finance in Viet Nam

No.	NAME OF LEGAL DOCUMENTS	GENERAL DESCRIPTION
<b>A</b>	<b>LAW</b>	
<b>1</b>	The Law No. 72/2020/QH14 on Environmental Protection issued by the National Assembly, dated 17 November 2020 (LEP 2020)	Article 149 and Article 150 define green credits and green bonds
<b>B</b>	<b>DECREE</b>	
<b>2</b>	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  (Decree No. 95/2018/ND-CP)	<ul style="list-style-type: none"> <li>• Provide the definition of green bonds; outline the issuance and trading of government green bonds.</li> <li>• Define that MOF collaborates with MPI and MONRE to develop the issuance of green government bond scheme.</li> </ul>
<b>3</b>	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  (Decree No. 153/2020/ND-CP)	<ul style="list-style-type: none"> <li>• Provide the definition for green corporate bonds.</li> <li>• Outline principles for issuing and using funds from green corporate bonds.</li> <li>• Establish principles for disclosing information about green corporate bonds.</li> </ul>
<b>4</b>	Decree No. 08/2022/ND-CP issued by the Government,	<ul style="list-style-type: none"> <li>• Regulate projects entitled to be granted green credit and issue green bonds;</li> </ul>

	dated 10 January 2022 on elaborating several articles of the LEP 2020  (Decree No. 08/2022/ND-CP)	<ul style="list-style-type: none"> <li>• Regulate mechanisms for encouraging grant of green credit;</li> <li>• Regulate roadmap for implementation of green credit;</li> <li>• Regulate green bonds.</li> </ul>
<b>5</b>	Decree No. 65/2022/ND-CP issued by the Government dated 16 September 2022 amendments to government's decree No. 153/2020/ND-CP dated December 31, 2020 prescribing private placement and trading of privately placed corporate bonds in domestic market and offering of corporate bonds in international market  (Decree No. 65/2022/ND-CP)	Amend certain provisions in Decree No. 153/2020/ND-CP regarding the disclosure of information on green bonds
<b>C</b>	<b>DECISION</b>	
<b>6</b>	Decision No. 986/2018/QD-TTg issued by the Prime Minister dated 8 August 2018 on approving the development strategy of the Viet Nam banking sector by 2025 and vision to 2030  (Decision No. 986/2018/QD-TTg)	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.
<b>7</b>	Decision No. 1658/2021/QD-TTg issued by the Prime Minister dated 01 October 2021 on approving the national green growth strategy for 2021-2030	<ul style="list-style-type: none"> <li>• Provide the definition of green finance</li> <li>• Regulate the mechanism to mobilise financial resources for green growth</li> </ul>

	(Decision No. 1658/2021/QD-TTg)	
<b>8</b>	Decision No. 882/2022/QD-TTg issued by the Prime Minister dated 22 July 2022 on approving the national action plan for green growth in 2021-2030  (Decision No. 882/2022/QD-TTg)	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
<b>9</b>	Decision No. 1604/2018/QD-NHNN issued by SBV dated 07 August 2018 on approving the scheme for green banking growth in Viet Nam  (Decision No. 1604/2018/QD-NHNN)	Establish specific objectives for the growth of green banking in Viet Nam and proposes a set of solutions for both the SBV and credit institutions to achieve these objectives
<b>10</b>	Decision No. 1408/2023/QD-NHNN dated 26 July 2023 on promulgating action program of 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  (Decision No. 1408/2023/QD-NHNN)	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.
<b>D</b>	<b>CIRCULAR</b>	
<b>11</b>	Circular No. 96/2020/TT-BTC issued by MOF, dated 16 November 2020, providing guidelines on disclosure of	Mandates public companies to disclose annual ESG reports, which include information on environmental impact, raw material management, energy consumption, water

	information on securities market	consumption, compliance with environmental protection laws, employee policies, responsibility to the local community, and green capital market activities.
<b>12</b>	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  (Circular No. 17/2022/TT-NHNN)	Provide guidelines on environmental risk management in credit extension by credit institutions and foreign bank branches, outlining the applicable entities, investment projects, principles, information components, and minimum requirements for environmental risk management in credit activities.
<b>13</b>	Circular No. 10/2023/TT-BKHĐT issued by MPI, dated 01 November 2023 on regulations on green growth statistics criteria (Circular No. 10/2023/TT-BKHĐT)	Regulate on the set of criteria for green growth statistics, including indicators for the areas of investment capital, bonds, and credit.
<b>E</b>	<b>DOCUMENTARY</b>	
<b>14</b>	Documentary No. 9050/2017/NHNN-TD issued by SBV, dated 03 November 2017 on reporting on credit extension situation in green sectors and implementing environmental and social risk assessment in credit extension.	Focuses on reporting requirements related to credit extension in green sectors and environmental and social risk assessments in credit extension.

Source: Compiled by the Consultant

## Annex 2: Green credit products offered by credit institutions in Viet Nam

Table 11: Green credit products offered by credit institutions in Viet Nam

Financial Institution	Green credit products	Description
<b>Bank for Investment and Development of Viet Nam (BIDV)</b>	Green credits for textile and garment enterprises	<p>In order to support textile and garment enterprises in the process of green transition towards sustainable development, BIDV deploys a green credit package of 4.2 trillion VND with attractive incentives of interest rates, collateral policies, and exchange rates.</p> <p>Accordingly, short-term green loans are designed for textile enterprises with business plans producing textiles that meet certified sustainability standards or carry sustainable labels (Global Recycling Standard – GRS, Better Cotton Initiative – BCI, Certification for Sustainable Products C2, Zero Discharge of Hazardous Chemicals – ZDHC, etc.); medium to long-term green loans aim to finance construction or renovation projects with a focus on green infrastructure, machinery and equipment upgrades geared towards energy-efficient usage, such as thermal power systems, recovery and utilization systems for by-products, waste treatment systems, etc.</p>
	Preferential loans for green business	<p>For business customers in the green sector, BIDV offers a preferential loan package with an interest rate as low as 6.5% per annum to implement business production plans in agriculture and rural areas, meeting one of the following conditions: (i) Possess certificates of good agricultural, livestock, or aquaculture practices, either domestically or internationally recognized (VIETGAHP, VIETGAP, GLOBALGAP, BAP); (ii) Hold</p>

		<p>certificates for safe food supply chains, either domestically or internationally recognized (VIETGAP, GLOBALGAP, ISO 22000, HACCP, GMP, SQF); (iii) Possess certificates for good practices in processing aquaculture products, either domestically or internationally recognized (VIETGAP, GLOBALGAP, SQF, ASC, HACCP, GMP, ISO 22000); (iv) Comply with the national standards for organic farming and livestock (TCVN 11041:2017); (v) Adhere to the national standards for environmental management system 14001; (vi) Display the Viet Nam Ecolabel or an Environmental Label according to TCVN ISO/TS 14027. Equivalent certificates/labels recognized by international or national organisations through mutual agreements with Viet Nam are also accepted.</p> <p>By participating in this loan package, customers will enjoy preferential interest rates starting from 6.5% per annum for loans with a term of less than 6 months; or from 7.5% per annum for loans from 6 months to 12 months, and from 8.2% per annum for terms exceeding 12 months.</p>
<p><b>Viet Nam Bank for Agriculture and Rural Development (Agribank)</b></p>	<p>Green credits program for forestry, renewable energy and green agriculture</p>	<p>The allocation of the outstanding green credit as follows:</p> <ul style="list-style-type: none"> <li>• Sustainable forestry accounts for 55% (focused on small individual customers).</li> <li>• Renewable energy accounts for 22% (focused on large enterprises, notable projects like the wind power project by Phuong Mai Wind Power Company in Binh Dinh, nearly 1,000 trillion; the Thuan Nam solar power project in Ninh Thuan, nearly 1,000 trillion, with around 700 trillion disbursed).</li> </ul>

		<ul style="list-style-type: none"> <li>Green agriculture accounts for 16%.</li> </ul>
	Lending for sustainable agriculture	According to the "Sustainable development of one million hectares of high-quality rice cultivation with low emissions associated with green growth in the Mekong River Delta until 2030" project: In lending for agriculture in the Mekong Delta, Agribank holds the largest market share.
	Incentives for high-tech agriculture programs	Discounts of 0.5-1.5% compared to the normal interest rates for agriculture and rural development sector (4-5%), depending on the customer's involvement in the high-tech agricultural production process. Additionally, Agribank also offers fee waivers for customers participating in this program (money transfer services, guarantee fees).
<b>Joint Stock Commercial Bank for Foreign Trade of Viet Nam (Vietcombank)</b>	Loan products to deploy renewable energy projects	The loan product for green projects from the Japan Bank for International Cooperation (JBIC), is designed to finance projects with the purpose of environmental conservation, addressing global warming, and supporting green energy projects.
	Energy efficiency project loan products for the Vietnamese industry	The project is implemented by the Ministry of Industry and Trade (MOIT) in coordination with the World Bank with a total value of 158 million USD, aiming to improve and enhance the economical and efficient use of energy for industrial enterprises.
<b>The Hongkong and Shanghai Banking Corporation Limited (HSBC)</b>	Green credits program for clean energy	Existing HSBC Viet Nam's customers, who intend to install a rooftop solar energy system for their landed house can enjoy green financing with preferential interest rates as long as at least 50% of the loan purpose aligns with HSBC's criteria for energy efficiency financing, instead of 100% as previous.

		Applicable borrowers: Existing HSBC customers installing Rooftop Solar Energy Systems of GIC Joint Stock Company in Da Nang and Ho Chi Minh City
<b>Viet Nam Prosperity Joint Stock Commercial Bank (VP Bank)</b>	Green Credit Framework	The Green Credit Framework defines the list of eligible categories that are qualified to receive green credit. Green assets will be financed, as well as the project evaluation and selection process and the management of loan use.
<b>Viet Nam Joint Stock Commercial Bank For Industry And Trade (Vietinbank)</b>	Energy Efficiency Project Financing Program (GCPF International Credit Program)	This is a coordinated program between the Global Climate Partnership Fund (GCPF) and VietinBank to finance energy efficiency and conservation projects. Loan conditions under this program are: (i) Meet credit conditions and loan guarantees according to VietinBank's current regulations; (ii) the loan project must save at least 20% of energy or reduce at least 20% of CO <sub>2</sub> emissions; (iii) commit to using loan capital according to the purpose of the program and credit contract; (iv) The maximum of the total investment is 7 million USD.
<b>Nam A Commercial Joint Stock Bank (Nam A Bank)</b>	Green credit program	The program provides funding for environmentally friendly production, business, and consumption projects, with a focus on environmental protection, societal well-being, human health, and the promotion of sustainable development. The lending currency is in VND, and the bank offers a premium preferential interest rate package starting from 7% per year. For short-term projects, the green credit preferential interest rate package includes an 8.8% per year rate; for medium to long-term projects, 8.8% per year for the first 24 months, followed by rates according to

		Nam A Bank's ongoing preferential interest rates after the initial 24 months.
<b>Saigon - Hanoi Commercial Joint Stock Bank (SHB)</b>	Project on Promoting Energy Saving in Vietnamese Industries - VSUEE Project	The Green Climate Fund (GCF) allocates funding through the WB, with MOIT acting as the managing agency. SHB serves as the bank offering guarantees to banks involved in providing credit for energy-saving investment projects in Vietnamese industries. This initiative facilitates access to the Risk Sharing Fund (RSF) of 75 million USD, supported by GCF and WB, for energy-saving investment projects.
	Renewable Energy Development Project (REDP)	The project is sponsored by WB, with 318 million USD of total capital, which is for investors developing renewable energy projects with an installed capacity of less than or equal to 30 MW using energy such as wind, solar, hydropower, biomass, and biogas to provide electricity on a commercial basis to the national grid from renewable energy sources in a socially and environmentally sustainable manner.
<b>Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank)</b>	Incentives for energy efficiency, environment-friendly projects	The bank spends up to 8.5 trillion VND in loans, with interest rates from 6% per year, for new and existing businesses that need capital for production and business but do not cause impact or are able to protect natural resources and the environment. For individuals and households, Sacombank opens a credit package of 500 billion VND for loans to buy solar energy equipment, with preferential interest rates and bonus insurance products to encourage customers to use natural energy instead of electrical power.
<b>Viet Nam Technological and Commercial Joint</b>	Exclusive incentives for business groups	Businesses have the opportunity to receive a special support package from the Green Environment Fund (GCTF) funded by the Swiss government with non-refundable

<b>Stock Bank (Techcombank)</b>	participating in energy audits	financial support and credit guarantees for small and medium-sized enterprises (SMEs) to make new or replacement investments or replace new technology lines. Credit package with preferential interest rates, loan term of up to 24 months, flexible principal and collateral payment methods, and quick procedures.
	Other green projects	Techcombank has cooperated with the World Bank in the Pilot Energy Saving Project (CEEP), Renewable Energy Project (REDP), Viet Nam Energy Efficiency Project for Enterprises in Industrial Sector (VEEIES); International Finance Corporation (IFC) in a medium and long-term loan of 25 million USD supports SMEs to invest in energy saving projects and receive rewards worth more than 745,430 USD; SECO in energy saving and cleaner production projects to support SMEs investing in cleaner production projects; as well as designing a credit package with many incentives specifically for businesses participating in energy audits.
<b>VinaCapital</b>	Convert 1/3 of investment to green	1/3 of conventional investments have been converted to green development investments in businesses that apply ESG standards.
	VinaCarbon Impact Investment Fund	VinaCarbon Fund will invest in companies and projects that can generate carbon credit.
	Renewable energy Investment Projects	VinaCapital is cooperating to build the Long An liquefied natural gas (LNG) power plant with Korea's GS Energy Group, with the goal of providing electricity to the entire Southern region. VinaCapital has also significantly invested in solar energy, through cooperation with EDF

		Renewables - the renewable energy company - to establish SkyX company. Currently, SkyX is developing and operating more than 100 MW of clean energy in more than 40 factories and industrial parks across Viet Nam, helping to reduce carbon emissions by more than 90,000 tons per year.
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Source: Compiled by the Consultant

### Annex 3: Current green insurance products in Viet Nam

Table 12: Green Insurance products in Viet Nam

No.	Company name	Products	Details
1	Tokio Marine Insurance Viet Nam Company Limited	Pollution liability insurance	<ul style="list-style-type: none"> <li>• Third-party claims for bodily injury and/or property;</li> <li>• Damage arising from the pollution Incident;</li> <li>• Environmental damage &amp; clean-up costs;</li> <li>• Emergency response costs;</li> <li>• Legal defense costs.</li> </ul>
2	AIG Viet Nam Insurance Company Limited (AIG)	Environmental Pollution Liability Insurance for Contractors	Environmental Pollution Liability Insurance for contractors provides comprehensive protection against pollution incidents arising from their activities for contractors, project owners, and investors, whether pollution is sudden accidental or gradual pollution, caused by new pollution or developing from an existing condition.
		Environmental Pollution Liability Insurance	Environmental Pollution Liability Insurance covers losses arising from pollution from locations the Insured owns or operates. In addition, an insurance policy is also a flexible, strategic tool to support companies in managing environmental risks.
3	Chubb Insurance Company Limited (Chubb)	Contractor's Pollution Liability Insurance	<ul style="list-style-type: none"> <li>• Liability for third-party injury, property damage, trespass, impact, or obstruction;</li> <li>• Compensates the insured for cleaning costs incurred in connection with a third-party claim;</li> <li>• Costs and expenses are included for all claims within the policy limits.</li> </ul>
		Facility Pollution Liability Insurance	<ul style="list-style-type: none"> <li>• Cleaning costs required by regulatory agencies, including cleaning of own premises and external natural resources, land, or water source;</li> <li>• Third-party insurance for personal injury, property loss, cleaning costs, and damages;</li> </ul>

			<ul style="list-style-type: none"> <li>• Compensation to third parties for pollution arising from the transportation of products or waste;</li> <li>• First-party business interruption due to pollution;</li> <li>• Environmental liability insurance for damage to biodiversity, including additional remediation costs and compensation.</li> </ul>
4	Fubon Viet Nam Life Insurance Company Limited	Pollution liability insurance	<ul style="list-style-type: none"> <li>• Pollution treatment costs at the insurance site for existing pollution conditions;</li> <li>• Pollution treatment costs at the insurance site for new pollution conditions;</li> <li>• Third-party claims for bodily injury and property damage at the insured location;</li> <li>• Third-party claims for off-site pollution treatment costs arising from pre-existing pollution conditions;</li> <li>• Third-party claims for off-site pollution treatment costs arising from new pollution conditions;</li> <li>• Third-party claims for bodily injury and property damage outside the insured location;</li> <li>• Third-party claims for bodily injury and property damage or remediation costs at a site not owned by the insured;</li> <li>• Third-party claims for bodily injury and property damage or just non-remediation off-site not owned by the insured;</li> <li>• Pollution conditions arising from transported goods;</li> <li>• Business interruption insurance — actual loss or loss of rental value (only applicable when participating in insurance in coverage range 1,2 or both coverages).</li> </ul>

Source: Nguyen Doan Chau Trinh, 2022