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Vietnam's Potential for Sustainable Development and Investment: Green & Blue Bonds

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ABSTRACT

Based on the latest scientific reports from the United Nations (UN), Asian Development Bank (ADB), The Organization for Economic Cooperation and Development (OECD), the International Renewable Energy Agency (IRENA), World Bank (WB), the International Capital Market Association (ICMA), and the International Platform on Sustainable Finance (IPSF), this article explains the importance of using Green and Blue Bonds for Vietnam's economic and sustainable development in the next decade.

As a country that has experienced rapid economic growth, Vietnam may soon hit a wall if it does not quickly put in place mechanisms and incentives to finance its transition to a green and sustainable economy. As one of the nations considered most vulnerable to climate change, Vietnam does not have the financial means to achieve its mitigation and adaptation of new and sustainable technologies without the aid of foreign capital. As a result, Vietnam offers significant investment opportunities for green projects in four key sectors: infrastructure, renewable energy, agriculture, and land use. Although the opportunities are there, Vietnam's attractiveness to foreign capital is limited by the lack of a clear policy and regulatory framework. In the coming years, Vietnam will need to develop a regime that provides greater certainty, transparency, and credibility to attract foreign investment in this sector.

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INTRODUCTION

At the COP27 climate conference in November 2022, the World Meteorological Organization (WMO) announced that the planet had warmed by 1.15°C since the pre-industrial era.[1] This average is dangerously close to the 1.5°C threshold set by scientists as part of the Paris Agreement.

Anthropogenic impacts on the global climate are felt worldwide at an ever-increasing rate and severity. In its 2022 Sixth Assessment Report, the Intergovernmental Panel on Climate Change (IPCC) – the UN's dedicated body for assessing the science related to climate change – concluded that human influence had warmed the climate at a rate

[1] *Eight warmest years on record witness upsurge in climate change impacts (2022). World Meteorological Organization. Available at: https://public.wmo.int/en/media/press-release/eight-warmest-years-record-witness-upsurge-climate-change-impacts.*

unprecedented in at least 2000 years[2] and that *"[…] without additional mitigation efforts beyond those in place today, and even with adaptation, warming by the end of the 21st century will lead to high to very high risk of severe, widespread, and irreversible impacts globally".*[3]

Today's situation challenges the adaptative capacity of our systems in unprecedented ways, as the mounting scientific evidence about the threat posed by climate change has become unequivocal. The window of opportunity to secure a livable and sustainable future for humankind and stop global warming is at that pivotal 1.5ºC threshold right now.[4] In this Decade of Action – as Antonio Guterres, the Secretary-General of the UN labelled our period – our current unsustainable development must become sustainable.

2015 was an important year for sustainable development. At COP21 in Paris, parties to the United Nations Framework Convention on Climate Change (UNFCCC) agreed on the Paris Agreement to combat climate change by expediting and intensifying the actions and investments needed for a sustainable low-carbon future. In Article 2(1)(c) of the Paris Agreement, parties agreed to make the flows of capital consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development .[5] This was addressed at the COP26 in Glasgow, where most of the world community agreed to maintain the 1.5˚C objective and set more stringent emissions targets for 2030. In the Glasgow Climate Pact, parties "[…] call upon multilateral development banks, other financial institutions and the private sector to enhance finance mobilization to deliver the scale of resources needed to achieve climate plans, particularly for adaptation, and

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2 *IPCC, 2022. Climate Change 2022 - Impacts, Adaptation and Vulnerability. [online] UNEP. Available at: https://report.ipcc.ch/ar6wg2/pdf/IPCC_AR6_WGII_SummaryForPolicymakers.pdf.*
3 *IPCC, 2022. Climate Change 2014 - Synthesis Report. [online] UNEP. Available at: https://www.ipcc.ch/site/assets/uploads/2018/02/ar5_syr_headlines_en.pdf.*
4 *IPCC, 2021. Climate Change 2021 – The Physical Science Basis. [online] UNEP. Available at: https://report.ipcc.ch/ar6/wg1/IPCC_AR6_WGI_FullReport.pdf.*
5 *Paris Agreement. 2(1)(c).*

encourages Parties to continue to explore innovative approaches and instruments for mobilizing finance for adaptation from private sources”. [6]

Under the Paris Agreement, UN Member States adopted the 2030 Agenda for Sustainable Development, which sets 17 Sustainable Development Goals (SDGs) to be achieved by 2030 for both developed and developing countries. The SDGs acknowledge the synergies and trade-offs between ending poverty, fighting climate change, improving health and education, reducing inequalities, and economic growth. Providing flexibility to each country allows them to decide on their individual most realistic and practical way to implement policies, programs, or projects to move towards meeting the SDGs targets.[7] In this vein, the contributions each country could make to achieve the aims of the Paris Agreement and the SDGs have been set out in Article 3 of the Paris Agreement, outlining the Nationally Determined Contributions (**NDCs**),

Vietnam ratified the Paris Agreement in 2016, pledged to be net-zero by 2050, to phase out coal-fueled power generation by 2040, submitted its NDCs in 2020, and released “Resolution 136/NQ-CP” on sustainable development (Resolution 136) to promote the implementation of the 17 national SDGs. Vietnam committed to a reduction of 9% of its GHG emissions by 2030 if using its own private and public resources. With sufficient international financial support it may even reach a reduction of up to 27%.[8] The main sectors identified by the Vietnamese government to reach its targets are energy, agriculture, waste, land use, land-use change, forestry, and intellectual property (**IP**) sectors.[9] The main bottleneck for improvement across these sectors are the available national financial resources to mitigate, adapt, and transit towards a low-carbon and sustainable economy. As a developing country, Vietnam’s capital resources are limited and can, only meet around 30% of its sustainability requirements.[10]

While debt and equity remain the predominant way of funding green projects in ASEAN, new green financial instruments have become available (such as carbon market mechanisms, yieldcos[11] , bonds, green credits, green loans, etc.). Of these, Green Bonds offer promising potential and are set to play an essential role in Vietnam’s transition towards a low-carbon economy and to channel financing at the scale and speed required

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[6] *UNFCCC, 2021. Glasgow Climate Pact. [online] Available at: https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cover_decision.pdf.*

[7] *What are the Sustainable Development Goals (SDGs)? (2018). Grantham Research Institute on Climate Change and the Environment. Available at: https://www.lse.ac.uk/granthaminstitute/explainers/sustainable-development-goals-sdgs/.*

[8] *(2020) Updated National Determined Contributions (NDC). Ha Noi: The Socialist Republic of Vietnam.*

[9] *Ibid.*

[10] *Ibid.*

[11] *A “yieldco” is a company that is formed to own operating assets that produce a predictable cash flow, primarily through long-term contracts.*

to achieve its targets under the Paris Agreement. Considering that demand for sustainable investment far outstrips the supply of available projects[12] and considering that emerging markets and developing economies (EMDEs) will need more than US $2 trillion a year by 2030 to accelerate their climate agenda – mostly from offshore sources[13] – Vietnam should quickly develop an attractive domestic market to enhance its chances of attracting foreign capital for domestic infrastructure improvements.

Because Vietnam presents some of the best investment opportunities in the SEA region, it is also particularly vulnerable to the consequences of rapid economic growth and excessively polluting industries.[14] To overcome such threats and avoid missing out on much-needed foreign financing, Vietnam's financial, governance, institutional, and policy constraints must be addressed as a priority. This article highlights the urgency and necessity for Vietnam to embrace sustainable finance and develop a favorable regulatory landscape for green and blue bonds. Developing countries have to lead the conversation to be on the cusp of this new trend in finance and investment. This article also looks at the practical side of this new space for investment opportunity and sets out the core challenges of making sustainable finance a commercial success in Vietnam.

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[12] *Dembele, F., Horrocks, P. and Schwarz, R. (2021) Scaling up Green, Social, Sustainability and Sustainability-linked Bond Issuances in Developing Countries. rep. Organization for Economic Co-operation and Development (OECD).*
[13] *Climat : les pays du Sud ont besoin de plus de 2000 milliards de dollars par an (2022) Radio-Canada. Agence France-Presse. Available at: https://ici.radio-canada.ca/nouvelle/1931104/cop27-besoins-pays-sud-climat-2000-milliards.*
[14] *Climate Bonds Initiative, Swiss State Secretariat for Economic Affairs (SECO) and International Finance Corporation (2021)* ***How to Issue Green Bonds, Social Bonds and Sustainability Bonds****. rep. State Securities Commission of Vietnam.*

Green and Blue Bonds

Green bonds are financial debt instruments issued by corporations, financial institutions, states, or quasi-governments (i.e., provinces, municipalities, councils) that enable capital-raising and investment for new and existing projects with environmental benefits.[15] A core requirement for the label "Green Bond" is that the bond must be issued to support the financing of environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment.[16]

In an attempt to provide bond issuers with a standardized label to certify Green Bonds, private institutions have created two main international standards:

- the Green Bond Principles (**GBP**) developed by the International Capital Market Association (ICMA), and
- the Climate Bonds Standards (**CBS**) produced by the Climate Bonds Initiative (**CBI**).

Both standards comprise voluntary frameworks that outline best practices when issuing bonds through global guidelines and recommendations that promote transparency and disclosure, and that underpin the integrity of the market. Such principles are meant to be adapted to the reality of regional markets[17] and can be used

[15] *International Market Capital Association (2021) Green Bond Principles. publication. ICMA.*
[16] *Ibid.*
[17] *Ibid.*

to evaluate the bond's financial and sustainable value proposition.

In recent years the world has also witnessed the development of other regulatory frameworks, such as the European Green Bond Standard (**EGBS**) and the ASEAN Green Bond Standards (**AGBS**).[18] Although these standards and principles are becoming increasingly accepted by international financial market participants, there is an absence of internationally binding norms. Issuing entities are only subject to a self-regulatory approach based on the "comply or explain" model, and some countries are adopting local green taxonomies to guide on what should be considered green or sustainable projects by issuers and investors. Such taxonomies are a good way to select the national economic sectors where sustainable development should focus of and limit greenwashing practices. Vietnam has yet to adopt its own national "green taxonomy". At the ASEAN level, the ASEAN Taxonomy Board published the first regional taxonomy for sustainable finance.

"Blue Bonds" are a subset of Green Bonds utilized to finance eligible activities that address the sustainable use of maritime resources and the promotion of related sustainable economic activities (i.e. water management and ocean protection, fisheries)[19]. The World Bank defines Blue Bonds "[…] as a debt instrument issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits."[20] The first Blue Bond was launched in 2018 by the Republic of Seychelles, and since then, many others have been issued, notably in coastal states such as the Nordic Countries and China. The main instrument for issuers and investor is the newly published "Guidelines for Blue Finance" by the International Finance Corporation (IFC) builds on the GBP to provide guidance on how to finance the Blue Economy and what should qualify as a "blue" use of proceeds. Both Green and Blue Bonds are transferable instruments that may be traded on a secondary market if publicly issued.

This article does not focus on sustainability bonds; however, the proceeds of such bonds can be used to finance or re-finance a combination of green and social projects or activities. These bonds follow the Sustainability Bond Guidelines from ICMA, which are aligned with the GBP. In some less developed markets, these are often the first bonds to appear as the use of their proceeds covers a wider range of projects and offers more flexibility to issuers.

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[18] *These standards have been developed by the ASEAN Capital Markets Forum in collaboration with ICMA based on the GBP but adapted to the reality of ASEAN markets.*

[1919] *International Finance Corporation (2022) Guidelines for Blue Finance. rep. International Finance Corporation (IFC).*

[20] *Sovereign Blue Bond Issuance: Frequently Asked Questions (2018) The World Bank. The World Bank. Available at: https://www.worldbank.org/en/news/feature/2018/10/29/sovereign-blue-bond-issuance-frequently-asked-questions.*

To be qualified as green bonds under the GBP or the AGBA, the bonds must be aligned with four core components, which are:

(i) the use of proceeds in certain categories proven to be beneficial for the environment;

(ii) following a process to evaluate and select the green project,

(iii) (iii) manage the proceeds towards the achievement of such a project, and

(iv) (iv) report on the use of proceeds and developments in the project.

Furthermore, according to the GBP, they are currently four main types of green bonds:

1. Green Use of Proceeds Bond (standard recourse-to-the-issuer debt obligation),
2. Green Revenue Bond (non-recourse-to-the-issuer debt obligation in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes, etc., and whose use of proceeds go to related or unrelated Green Project(s)),
3. Green Project Bond (investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer), and
4. Green Securitized Bond (bond collateralized by one or more specific Green Project(s)).[21]

Due to their relative novelty, these guidelines and standards are still a work-in-progress. Concurrently, ICMA and CBI are working with their members, central banks, regulators, trade bodies, and government authorities to support the development of capital markets and green finance instruments that can be adapted to different regional realities. Recourse to such instruments is rapidly gaining importance in Asia-Pacific with the development of the ICMA "Asia Pacific Bond Syndicate Forum" and the ICMA "Asia Pacific Legal & Documentation Forum", which shape cross-border primary market practices in Asia and provide Asian perspectives on international regulation and practice. Nevertheless, out of eleven ASEAN countries, only four (i.e., Malaysia, Singapore, Indonesia, and the Philippines) are currently represented.

[21] *Explaining Green Bonds (no date). Climate Bonds Initiative. Available at: https://www.climatebonds.net/market/explaining-green-bonds.*

Benefits of Green Bonds

Green Bonds present numerous benefits which define promising green financial instruments. A well-functioning Green Bond market helps to channel capital from both the public and private sectors to green investments, offers cost efficiencies, and fosters risk-sharing. [22]

Attracting New and Diverse Investors

Green Bonds allow issuers to diversify their sources of funding and direct capital toward green projects. Green Bonds tend to reach maturity later than regular bonds by financing green projects, making them particularly attractive for investors with long-term investment horizons (e.g., pension or insurance funds). Green Bonds also allow issuers access to a broader funding base, including socially responsible investors or institutional investors, subject to ESG requirements in their investment strategies. In 2021, according to a report from the CBI, 34% of investors who chose to invest in Green Bonds were investors who did not have a green or responsible investment mandate that year. [23] If marketed correctly, Green Bonds will bring new investors to Vietnam's debt market due to its attractive valuation and good growth prospects.

In addition to broadening the pool of potential investors, Green Bonds give investors a way into a company's strategic discussions about its sustainability and risk management mechanisms. Holders of ordinary bonds do not usually have the opportunity to actively participate in a company's course of climate action but are merely creditors of the issuer. [24]

Economically Sound

Green Bonds provide asset diversification for investors, allowing them to spread their risk across a broader spectrum of assets. An investment portfolio is diversified when it is composed of several asset classes or assets from different sectors – by holding green bonds, which have longer-term maturity and return expectations, an investor limits its risk from excessive fluctuations in the overall portfolio.[25] According to Bloomberg[26] , during the COVID-19 pandemic, ESG stocks have proved to be more resilient in crisis times, and Green Bonds are outperforming equivalent regular debt facilities in the global markets and therefore drawing extra attention from

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[22] *Tran, H.M., Komarina, S. and Chiudza, B.W. (2021) Green Bonds Make More Cents? International Experiences and Policy Implications for Viet Nam. rep. The Global Green Growth Institute.*

[23] *Harrison, C. (2021) Green Bond Pricing in the Primary Market: January - June 2021. rep. Climate Bonds Initiative. Available at: https://www.climatebonds.net/files/reports/cbi_pricing_h1_2021_03b.pdf.*

[24] *Weber, O. and Saravade, V. (2018) Green Bonds are taking off – and could help save the planet, The Conversation. Available at: https://theconversation.com/green-bonds-are-taking-off-and-could-help-save-the-planet-89643.*

[25] *Fender, I. et al. (2019) Green Bonds: the reserve management perspective. working paper.*

[26] *Ballentine, C. (2020) ESG Stock Resilience Is Paving the Way for a Surge in Popularity, Bloomberg. Available at: https://www.bloomberg.com/news/articles/2020-03-31/esg-stock-resilance-is-paving-the-way-for-a-surge-in-popularity, Caleb Mutua, D. (2020) UBS Says Investors Should Prefer Green Bonds Over Regular Debt, Bloomberg. Available at: https://www.bloomberg.com/news/articles/2020-03-30/ubs-says-investors-should-prefer-green-bonds-over-regulardebt.*

professional and private investors alike. [27] With natural disasters expected to occur more frequently in upcoming decades due to climate change-related impacts, we are not excluded from the possibility of such a crisis happening again. Financial instruments that are more resilient in times of crisis are becoming more attractive in light of the increasing risks of natural disasters and economic disruption on a global scale.[28]

Green Bonds tend to have lower volatility than regular bonds, [29] because the demand for these papers is currently much higher than their supply. The issuance of green bonds for the promotion of specific sustainability projects that involve long-term investment limits their availability. Because of their purpose and predefined long-term, investors are less likely to trade their Green Bonds in the secondary debt market. When they do, however, it usually comes with a premium due to the scarcity of Green Bonds on the market and increasingly high demand for such products. [30]

While more academic research is needed to better understand the financial impacts of Green Bonds on ASEAN investment portfolios, all signs point to a stronger commitment to Green Bonds. A study in 2015 by the University of Oxford and Arabesque concluded that sustainable business practices can have a direct impact on a company's financial situation. Accordingly, superior ESG governance correlates to better stock price performance, better operational performance, and lower cost of capital. [31] Despite such instruments having comparably lower financial returns than regular bonds, they still provide environmental and social benefits that conventional bonds cannot offer. Another study published in 2018 by the Harvard Business Review concluded that Green Bonds issuance resulted in a positive market reaction (increase in stock price) and improvement in financial performance (2.45%

[27] *Boffo, R., and R. Patalano (2020), "ESG Investing: Practices, Progress and Challenges", OECD Paris, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf*

[28] *Supra 2.*

[29] *Freeburn, L. and Ramsay, I. (2020) "Green Bonds: legal and policy issues", Capital Markets Law Journal, 15(4).*

[30] *Deschryver P, de Mariz F. (2020) "What Future for the Green Bond Market? How Can Policymakers, Companies, and Investors Unlock the Potential of the Green Bond Market?", Journal of Risk and Financial Management, 3(3):61. Available at: https://doi.org/10.3390/jrfm13030061.*

[31] *Stocker, M. and Marsh, R. (2020) Closing the SDG Financing Gap in ASEAN - A Sustainable Finance Guide for Corporates. rep. UN Global Compact Network Singapore (GCNS) and Ernst and Young (EY).*

increase in long-term value).[32] Finally, a 2022 report from Amundi Asset Management (**Amundi**) and IFC (**Amundi Report**) concluded that emerging market Green Bonds were relatively more resilient in 2021, outperforming the broader emerging market bond index by 77 basis points.[33]

Green Premium

The green premium (also known as "greenium") corresponds to the difference in the spread of a Green Bond and a hypothetical conventional bond of the same issuer, currency, and seniority.[34] In the Amundi Report, the secondary market data indicated that the average green premium observed for EMDEs bond issuers was about 3.4 basis points.[35] Sharing similar credit risk profiles, the valuation gap can be attributed to supply and demand effects.

Enhanced Reputation

For issuers participating in the Green Bond market, this activity may have a tangible reputational advantage. First, it serves to contribute to reaching the SDGs targets by financing projects related to national climate adaptation, food security, public health, and energy supply, among others. Before issuing Green Bonds, a company must establish a sustainability strategy that allows investors and financial market participants to assess the underlying mechanisms put in place by the company to fight climate change. By doing so, a company may gain more credibility with potential investors who can use the standards developed by ICMA and CBI and available metrics as a basis for evaluation.

A Risk Management Tool

Probably one of the most important benefits of Green Bonds for both issuers and investors is their incentive to consolidate financial, reputational, social, credit, and legal risks. By issuing Green Bonds, A company may instill more trust in investors and offer security by improving its sustainability strategy, as well as its exposure to climate change and environmental risks. This equals a commitment to enhanced and continuous disclosure requirements as well as increased transparency and accountability on the use and management of proceeds. Furthermore,

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[32] *Flammer, C. (2018) Green Bonds Benefit Companies, Investors, and the Planet, Harvard Business Review. Available at: https://hbr.org/2018/11/green-bonds-benefit-companies-investors-and-the-planet.*

[33] *Amundi Asset Management (Amundi) and International Finance Corporation (IFC) (2022) Emerging Market Green Bonds Report 2021. rep. International Finance Corporation (IFC).*

[34] *Ibid.*

[35] *Ibid.*

issuing Green Bonds that meet international standards and best practices will attract lenders and investors with certain green development and sustainability targets, which are gaining importance in the market and may impact its long-term strategy. This is especially true if the bonds issued are certified.

Moreover, Green Bonds invest in eco-friendly assets (such as green infrastructure, renewable energy technologies, green transportation, water transportation, and accessibility). Affiliated credit risks, thus, tend to be lower when compared to more conventional investment tools that still dominate the markets. Policies and regulations such as "carbon taxation", restrictions on investment, and preferential treatment could lead to stranded assets and non-eco-friendly assets (i.e., "**Brown Assets**") bearing more credit risk.[36] Asset owners are looking for low-carbon investment opportunities to minimize their exposure. At the same pace, litigation in favor of social and environmental outcomes has been on the rise in the last decade and will continue to accelerate.[37] Environmental claims raised in courtrooms across the globe have had an accelerating effect on bringing the role of institutional investors to the forefront of climate change. Courts in several jurisdictions have been concerned with the question of whether investors and enterprises must be held responsible (e.g., through risk management, disclosure, or fiduciary duties)

[36] *Green Bonds can help mitigate climate change risks in the portfolio due to policy developments such as carbon taxation that could lead to failed assets. Instead, a Green Bond invests in climate-friendly assets, such as green buildings, renewable energy, which, over time, have a lower credit risk.*

[37] *Solana, J., 2019. Climate Litigation in Financial Markets: A Typology. Transnational Environmental Law, 9(1).*

and disclose their contributions towards a carbon-free economy.[38]

A Booming Global Market for Green Bonds

The aggregate value of the global bond market was estimated at US$ 128.3 trillion in 2020.[39] The first Green Bond ever issued was a "climate awareness bond" issued in 2007 by the European Investment Bank (**EIB**). Since then, the Green Bonds have continued growing: In 2021, emerging market Green Bond issuances accounted for US$ 95 billion, more than twice the total of 2020 and a 58% increase from 2020 (ex-China). The same year, global annual Green Bonds issuance topped US$ 500 billion for the first time[40] and reached a cumulative issuance value of US$ 2 trillion in 2022.[41] This growth was mostly dominated by issuers in developed markets of Western economies, where climate issues have been lifted to the top of national agendas. However, because developing countries have the most to benefit from new green investment policies, growth prospects are particularly promising in emerging markets. Consequently, the annual issuance value of Green Bonds in developing economies is expected to double the total in 2020 and reach US$ 150 billion in 2023.[42] In 2021, emerging market green bond issuances accounted for US$ 95 billion, more than twice the total of 2020 and a 58% increase from 2020 (ex-China).[43] merging market green bond's cumulative issuance through 2021 reached US$ 323 billion.[44]

The ASEAN+3 Green Bonds market reached an approximate size of US$ 240 billion at the end of June 2021, representing nearly 20% of the global Green Bonds.[45] Notably, ASEAN markets accounted for only 5.6% of the Green Bond stock at the end of June 2021, with the +3 countries (China, the Republic of South Korea and Japan) accounting for more than 90%.[46] As of November 2022, the share of green, social and sustainability bonds remained extremely small compared to the size of the total ASEAN bond market, accounting for less

[38] *Setzer, J. and Higham, C., 2022. Global trends in climate change litigation: 2022 snapshot. [online] Grantham Research Institute on Climate Change and the Environment, p.1. Available at: https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/06/Global-trends-in-climate-change-litigation-2022-snapshot.pdf.*

[39] *Bond Market Size (2020) International Capital Market Association. Available at: https://www.icmagroup.org/market-practice-and-regulatory-policy/secondary-markets/bond-market-size/.*

[40] *Green Bonds market worldwide - statistics & facts (2022) statista. Available at: https://www.statista.com/topics/9217/green-bonds-market-worldwide/#topicOverview.*

[41] *Green Bond Market Hits USD2tn Milestone at end of Q3 2022 (2022) Climate Bonds Initiative. Available at: https://www.climatebonds.net/resources/press-releases/2022/11/green-bond-market-hits-usd2tn-milestone-end-q3-2022.*

[42] *Jones, L. (2022) Sustainable Debt Tops $1 Trillion in Record Breaking 2021, with Green Growth at 75%: New Report, Climate Bonds Initiative. Available at: https://www.climatebonds.net/2022/04/sustainable-debt-tops-1-trillion-record-breaking-2021-green-growth-75-new-report.*

[43] *Emerging Market Green Bonds (2022), Available at https://www.ifc.org/en/insights-reports/2022/emerging-market-green-bonds-report-2021*

[44] *Ibid.*

[45] *(2021) ASEAN+3 Sustainable Bonds Highlights. rep. AsianBondsOnline.*

[46] *Ibid.*

than 1.6% of the total.[47] Non-financial corporate issuers were responsible for most of the ASEAN green volumes issued (79%), a slightly higher proportion than in developed markets.[48] In 2021, three main non-financial corporate sectors represented more than 90% of the EMDEs Green Bond issuance, dominated by power and utilities (59%), construction and real estate (17%), and transportation (15%).[49] Out of that, the largest share of the use of proceeds has been designated for renewable energy (45%), followed by buildings (6.4%) and water (5.8%).[50]

In its World Energy Transitions Outlook 2022, the International Renewable Energy Agency (**IRENA**) expects the share of debt capital to increase from 44% in 2019 to 66% in the 2021-2030 period as the funding structure to reach the 1.5o scenario pathway requires a different distribution in capital sources and types (i.e. Green Bonds).[51] According to the report, energy transition technologies and projects should be able to secure long-term debt financing more easily than brown assets, which will increasingly rely on equity financing.[52]

According to the CBI, annual Green Bonds issuance could hit US$ 1 trillion in 2023[53]. ASEAN countries should ensure developing strong national and regional markets to secure a leading position in the global Green Bond landscape. Facing different structural, financial, and legal challenges, the ASEAN market is in its infancy compared to the others, but the opportunities are there.

Emerging Market Green Bond Issuance Cumulative Issuance, 2012-21 (US$ million).[54]

Country	Volume (US$ million)	Rank (50)
Indonesia	5,462	7
Philippines	2,946	10
Thailand	2,778	12
Malaysia	1,838	16
Vietnam	227	35[55]
Cambodia	-	-
Laos	-	-

[47] *GGGI and Asian Development Bank (2022) Survey on Green Bonds and Sustainable Finance in ASEAN. rep. Asian Development Bank.*
[48] *Supra 32.*
[49] *Ibid.*
[50] *Ibid.*
[51] *International Renewable Energy Agency (2022) World Energy Transitions Outlook: 1.5°C Pathway. rep. International Renewable Energy Agency (IRENA).*
[52] *Ibid.*
[53] *Henry, P. (2021) What are Green Bonds and why is this market growing so fast?, World Economic Forum. Available at: https://www.weforum.org/agenda/2021/10/what-are-green-bonds-climate-change/.*
[54] *Supra 32.*
[55] *Latvia is 34th and Nigeria is 36th.*

Global Green Bond Market – an Opportunity to Close the Gap

As developed markets, particularly those in Europe, seek to finance their green transition through private investment capital and public funding, while facing an increasing backlash from related civil lawsuits, [56] it is hardly surprising to see these countries rapidly developing new financial instruments to transit towards low-carbon economies and honor their commitment under the Paris Agreement. Vietnam, like all emerging markets, has a significant financing gap to close as green private finance will need to rapidly scale its efforts by a tenfold multiple from current levels to meet targets set by the United Nations Environment Programme (**UNEP**) and boost annual green public and private finance will need to increase by 400%.[57]

Investors are craving green finance opportunities, and some recent examples showed how demand outstrips supply. In

[56] *Some worldwide examples of recent climate change litigation cases: Urgenda Climate Case (Dutch Supreme Court confirmed that the Dutch government was responsible for management of carbon dioxide emissions for the country and was bound to protect human rights); Leghari v. Federation of Pakistan (Pakistan's High Court recognized the reality and urgency of climate change and forced the establishment of a national Climate Change Commission); Portuguese Youth Case 2021 (some young activists challenged EU's governments climatic inaction at the European Court of Human Rights); Philippines Case (top 50 investor-owned fossil fuel companies facing national human rights complaint based on their responsibility for climate); French Climate Case (French Court confirmed that the government is liable for climate change inaction); Belgian Climate Case (positive finding by the Court of a violation of international human rights standards based on an insufficient climate policy); Juliana v. United-States (challenged the US government actions on climate change violating the right to life of future generations and failed to protect essential public trust resources); Poland Climate Case (five polish citizen take their government to Court for failing to establish a long-term strategy to meet its climate obligations under the Paris Agreement).*

[57] *DBS and UN Environment Inquiry (2017) Green Finance Opportunities in ASEAN. Publication. UN Environment Inquiry.*

October 2021, the European Commission issued the "**NextGenerationEU**" Green Bond to finance its green and sustainable transition, which was more than eleven times oversubscribed (private finance representing more than 55% of the demand).[58] In the ASEAN region, the first sovereign sustainability bond (including green projects), which was issued by the Kingdom of Thailand, attracted a diverse group of investors and was oversubscribed more than three times.[59] Sovereign states are increasingly issuing Green Bonds to finance their transition, and many recent examples have proven successful. In 2021, sovereign sustainability bonds were issued by ten emerging countries, including Indonesia and Malaysia.[60] Malaysia's sovereign sustainability bond was oversubscribed 6.4 times.[61]

The Amundi Report estimated the need for large-scale investment to be as high as US$4.5 trillion per year in EMDEs to achieve the SDGs.[62] For green finance, the demand for additional ASEAN green investment from 2016 to 2030 was estimated at US$ 3 trillion. Vietnam is expected to be one of the greatest beneficiaries of the new trends.[63]

The estimate is spread across four core sectors:

- **renewable energy** (mostly solar photovoltaics, hydropower, wind, and bioenergy),
- **infrastructure** (i.e., water supply, telecommunications, power transmission and distribution grids, which is particularly relevant for Vietnam where privatization should drive private sector investments, especially in high voltage transmission),
- **energy efficiency**, and
- **food, agriculture, and land use** (innovative technology to develop climate-resilient and sustainable agriculture practices).

Additionally, reports from IRENA and the UNEP target some specific markets in the ASEAN region with some of the highest growth potential: renewable energy, electric vehicles, and smart cities.[64] Regional demand for electricity which is forecast to increase by 83% between 2011 and 2035 (twice the global average)[65]. Vietnam's National Power Development Plan (**NPDP**), which is a comprehensive roadmap established by the Vietnamese government to guide the development of the country's power sector over a specified period. These plans are part of Vietnam's strategic efforts to ensure energy security, meet growing energy demands, support economic growth, and transition

[58] *"NextGenerationEU: European Commission successfully issues first Green Bond to finance the sustainable recovery" (2021) European Commission [Preprint]. European Commission. Available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5207.*

[60] *Supra 32.*
[61] *(2022) Green Bond Market Survey for Malaysia. Rep. Asian Development Bank.*
[62] *Supra 58.*
[63] *Supra 55.*
[64] *Supra 55.*
[65] *Supra 49.*

towards more sustainable energy sources. The most recent iteration, as of my last update in April 2023, is the Power Development Plan VIII (PDP VIII), which outlines the country's energy strategy up to 2030, with a vision extending to 2045.[66] With many business entities seeking alternative energy sources to meet their emission reduction targets, the Vietnamese renewable energy sector is poised to lead regional development and outpace many global competitors.

ASEAN and Vietnam's Unique Challenges

Facing unique demographic, social, environmental, and financial challenges, finding a way to finance a path towards a greener economy in Vietnam through Green Bonds is urgently needed.

Climate Change Vulnerability

ASEAN countries sit above the global average vulnerability to environmental shocks caused by climate change. Heat waves, drought, saltwater intrusion, floods, and tropical cyclones are expected in the coming decades. Such environmental shocks could send their ripple effects across one of the world's most populous regions [67] , and undermine prosperity and long-term economic stability prospects. Many of the ASEAN economies strongly depend on simple production and basic rural/agricultural structures – industries that are particularly sensitive to climate change because they dwell on the availability of certain natural resources and other environmental conditions. Vietnam remains a country highly dependent on natural resources, with agriculture and fisheries representing 15% of its GDP and 37% of its labor force in 2020, and industry representing 34% of its GDP and 27% of its labor force.[68] Out of all ASEAN countries, Vietnam is one of the most vulnerable. In its 2021 assessment report of Vietnam's climate risk profile, the World Bank Group (WBG) concluded that Vietnam is one of the most hazard-prone countries in the Asia and Pacific (APAC) region. It was also ranked 1st out of 191 countries for flood risks and 8th for its exposure to tropical cyclones.[69] The most alarming part of this report is that most of Vietnam's population and economic assets, such as its industries, are in its most vulnerable regions, the low-lying coastal and river deltas. [70]

Because Vietnam is thus clearly one of the world's most vulnerable countries in the world to the predicted rise of sea levels, an estimated twelve million people are at risk of

[66] *Supra 49.*
[67] *Across all nations of ASEAN, the total population amounted to an estimated 665.17 million inhabitants (https://www.statista.com/statistics/796222/total-population-of-the-asean-countries/).*
[68] *Across all nations of ASEAN, the total population amounted to an estimated 665.17 million inhabitants (https://www.statista.com/statistics/796222/total-population-of-the-asean-countries/).*
[69] *Across all nations of ASEAN, the total population amounted to an estimated 665.17 million inhabitants (https://www.statista.com/statistics/796222/total-population-of-the-asean-countries/).*
[70] *The Mekong Delta region encompasses a large portion of south-western Vietnam of over 40,500 km2 (15,600 sq mi).*

losing their homes and livelihood. If the world fails to achieve lowering GHG emissions, an estimated 2.4% of Vietnam's GDP is at risk from permanent inundation in the Red River Delta [71] region in the northern part of the country. [72] Still a rural state, 62% of its GDP stems from rural activities (e.g., farming, fishing, etc.) - Vietnam is still at the beginning of its economic transition towards industrialization. In the past decade, it has seen its urban population increase by 7% and assemble in highly condensed urban centers that are not prepared for the climate change-related aggravation of living conditions. Both urban and rural areas have issues with drinking water access and other staple resources. Vietnam's vulnerability to climate change is enhanced by its levels of poverty and deprivation – 10% of the population remains undernourished.[73]

The political leaders of Vietnam have started passing laws and drafting policies to mitigate the country's vulnerability to such climate change-related impacts. As good examples of such national change legislation, the "**National Climate Change Strategy**", and the "**National Green Growth Strategy**" were approved and the "**Law on Natural Disaster Prevention and Control**" and the new "**Law on Environment**" (LEP) that covers various aspects of environmental pollution and climate change. However, specific laws and regulations on financing such strategies remain poorly developed.

Economic Losses

Initial calculations suggest that Vietnam lost US$10 billion in 2020 – equal to 3.2% of its GDP – to climate change-related impacts. Without proper adaptation and mitigation measures, it is estimated climate change may cost Vietnam as much as 12% to 14.5% of its national GDP each year by 2050. [74] Consequently, this would reduce the national average income by up to 3.5% by 2050.[75] To avoid this outcome, Vietnam must mobilize about US$ 3.5 billion each year on average in addition to state resources and spend around 1.5% of its GDP on climate change adaptation in the 2021-2030 period.[76] It will be important

[71] *The Red River Delta or Hong River Delta is the flat, low-lying plain formed by the Red River and its distributaries merging with the Thái Bình River in northern Vietnam.*
[72] *Ibid*.
[73] *Ibid.*
[74] *(2022) Vietnam - Country Climate and Development Report. rep. World Bank Group.*
[75] *Ibid.*
[76] *Supra 8.*

to create a sound regulatory environment to attract investment in its pivot towards adaptation and transition..

Bonds' Credit Rating Impacts

The effects that climate change could have on Vietnam's global financial market participation are consequential. Credit ratings for Vietnam (just like other developing economies) are their key indicator for economic success and form one of the bases for investors' decision to enter the market. Credit ratings should not be undermined. Instead, they should be supplemented with new ideas for sustainable finance to incentivize investors to become active in Green Bond markets (i.e., sovereign wealth funds, pension funds, insurance companies, etc.). This will allow gauging these instruments' creditworthiness, thereby directly impacting the country's costs of borrowing. Currently, Moody's and S&P give Vietnam a stable outlook at "**Ba2**" and "**BB+**", while Fitch gives a rating of "**BB**",[77] meaning that Indonesia, Thailand, Malaysia, and the Philippines all have better credit ratings than Vietnam. According to a study made by United Kingdom Universities, some countries, including Vietnam, could see their credit ratings downgraded by 2030 because of the impacts of climate change.[78] In light of this risk, investors could be more reticent to end to markets like Vietnam. To catch up with other countries in the region, Vietnam must double down on its efforts to decarbonize its economy.

Challenges and Solutions for a Green Bond Market in Vietnam

Vietnam faces some immediate challenges regarding the development of a Green Bonds market. Concerted positive actions from all the key players[79] in the domestic bonds market allows competitive access to the global Green Bond market and may stimulate foreign investment in Vietnamese alternatives.

Developing Policies and Frameworks

Vietnam's Green Bond market is at a nascent stage. Vietnam set out objectives towards a green economy in its "**National Green Growth Strategy** and in legislation such as Resolution 136. The government also drafted a "**National Action Plan**", and a "**Financial Sector Action Plan,** and together with its **"Finance Sector Strategy 2030**", it tries to implement such objectives into its financial markets and economic sectors.

Some new legislation was passed to regulate the Vietnamese debt market regarding the

[77] *Vietnam - Credit Rating (2022) Trading Economics. Available at: https://tradingeconomics.com/vietnam/rating.*

[78] *WEF (2021). Study: Global warming could cut 63 countries' credit ratings. Available at: https://www.weforum.org/agenda/2021/04/global-warming-countries-credit-ratingseconomics/.*

[79] *Issuers, investors, government and para-governments, third-party verifiers, market facilitators (banks), and other relevant stakeholders.*

acceptance of new "*green*" financial instruments[80]:

- Decree No. 95/2018/ ND-CP for sovereign green debt instruments;
- Decree No. 93/2018/ND-CP for provincial-government debt management; and
- Decree No. 153/2020/ ND-CP for privately placed corporate bonds[81].

However, none of these decrees specifically addressed green bonds. In 2022, the first articles encouraging the promotion of green credit and green bonds appeared on Vietnam's regulatory landscape.

- Under Decree No. 08/2022/ND-CP elaborating several articles of the LEP and its articles 154 and 157, green projects will have to qualify under the "green list" (Vietnam's first ever green taxonomy). Green Bonds issuers will have to use the proceeds to execute green projects and they will have to disclose the type of information set out in the regulations on the issuance of bonds and the LEP.
- In 2021, the Ministry of Finance introduced in Circular No. 101/2021/TT-BTC preferential fees and charges in the securities sector for Green Bonds.[82]

Vietnam also needs to improve its non-financial disclosure requirements and align with international best practices. As outlined above, transparency and reporting are key components to participating in the Green Bond market. Currently, only Circular No. 155/2015/TT-BTC (Circular 155) focuses on greater corporate transparency. Under Circular 155, publicly listed companies must report the company's impact on the environment (mostly concerning energy and water consumption) and society on a "comply or explain" basis. Furthermore, Circular 155 makes ESG reporting required to be listed on securities markets, such as the Hanoi Stock Exchange (HSE). The current disclosure requirements should be updated to better reflect current international best practices. More and more stock exchanges include a "sustainability bond" listing segment and form part of a sustainability index. In Vietnam, this has not yet happened but would be an important step towards attracting more investment from "green financers". The current lack of policies and regulatory frameworks undermines Vietnam's bonds market credibility for potential investors as policy certainty and continuity create a predictable investment environment attracting capital. The emergence of regional and national green taxonomies has become essential to facilitate cross-border capital flows providing international comparability between markets as it helps define green economic activities and eliminates uncertainty. The ASEAN Taxonomy Board (of which the State Securities Mission is a member) recently published its first sustainable taxonomy taking into account its regional challenges. Vietnam's Ministry of Natural Resources and Environment has taken the initiative in consultation with other

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[80] *None of these laws have specifically addressed Green Bonds. More recently, in 2022, the first articles encouraging the promotion of green credit and Green Bonds appeared in Vietnam's regulatory landscape.*
[81] *Supra 45.*
[82] *Ibid*.

ministries to draft Vietnam's first national green taxonomy.

To enhance international compatibility, Vietnam's ministries should closely monitor the "**Common Ground Taxonomy**" framework proposed by the working group of the "International Platform on Sustainable Finance" (**IPSF**). The drafting of the framework was supervised by the EU and China, which form two of the biggest bonds markets in the world. It is meant to be used by all global market participants and set global standards for investment into the world's sustainable future. While Vietnam's green taxonomy should reflect the country's specific environmental challenges, it should also aim to remain as consistent as possible with these international guidelines. Standards and recognized frameworks are only sensible if a majority of participants adopt them and monitor compliance.

Risks of Greenwashing

Policies and regulatory frameworks are also key in the fight against greenwashing, one of the most important risk factors related to Green Bonds. Greenwashing is defined as *"making false, inaccurate, or misleading claims about a company or a financial product's impact on the environment that can often lead investors, banks, markets, or the public to believe that the company or financial product is greener than it is."*[83]

A stricter framework to evaluate the real inherent *"green value"* of bonds would be beneficial to the fight against greenwashing in the market. In an unregulated environment, a bond issue may be certified as *"green"* according to one standard, while not obtaining the same label under a different standard. This opens up space for issuers to "greenwash" their bonds, sometimes even unwillingly, due to overlapping or contradictory taxonomies. In addition to the high reputational risk, corporate institutions, funds, and banks face increasing compliance hurdles that sometimes result in costly agreements and fines.

As mentioned above, litigation in which claimants hold respondent companies responsible for promoting desirable social and environmental outcomes has been on the rise in the last decade and is likely to continue to accelerate.[84] The latest report of the **"Grantham Research Institute on Climate Change and the Environment"** on

[83] *Hayes, A. (2022) What Is Greenwashing? How It Works, Examples, and Statistics, Investopedia. Available at: https://www.investopedia.com/terms/g/greenwashing.asp.*

[84] *Solana, J., 2019. Climate Litigation in Financial Markets: A Typology. Transnational Environmental Law, 9(1).*

global trends in climate change[85] litigation paints a compelling case for the growing role of judicial activism, as this type of litigation has been very impactful in changing governments' behaviors and responses in fighting climate change. Those claims certainly had a positive effect on bringing the role of institutional investors at the forefront of climate change litigation, whether to clarify their legal obligations (risk management, disclosure, fiduciary duties amongst others) or the role they should play in the global path towards a carbon-free economy.[86]

Role of Some Key Institutions

In parallel to Vietnam's recent government actions, support has come from some institutions to develop the Green Bond market:

The SSC (State Securities Commission) mentioned in a 2021 report that developing a Green Bond market[87] will be a key factor contributing to the sustainable development of Vietnam's capital market. The SSC published its handbook on Green Bonds issuance to guide issuers and investors, as well as other financial institutions[88], in the issuance process. The State Bank of Vietnam (**SBV**) identifies categories of green projects and provides some further guidelines for financial institutions in its **"Green Project Catalogue 1"**[89]. The SBV and SSC are Vietnam's pioneering financial institutions that spearhead Vietnam's Green Bond market development. However, the SBV is not yet part of the **"Network for Greening the Financial System" (NGFS),** a network consisting of 114 central banks and financial supervisors that aims to accelerate the growth of green finance and develop recommendations for central banks' role in climate change.[90] Contrary to SBV, the respective central banks of Cambodia, Malaysia, Indonesia, Thailand, and the Philippines are members of the NGFS.

Third-Party Certification

Vietnam only recently appears to be joining the regional curve in the domain of independent domestic third-party verifiers.[91] Indonesia, Thailand, and Malaysia have been promoting their own, as is now Vietnam.[92] Vietnam's "FiinGroup" and Malaysia's "RAM Sustainability" are both accredited by the CBI. Certification has gained popularity as a type of external review mechanism in the ASEAN region. Thailand leads the pack in this respect, with most Thai deals obtaining Climate Bonds Certification.[93] Some ASEAN governments (such as Malaysia and Thailand) offer grant schemes to allow issuers to offset parts of the

[85] *Setzer, J. and Higham, C., 2022. Global trends in climate change litigation: 2022 snapshot. [online] Grantham Research Institute on Climate Change and the Environment, p.1. Available at: https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/06/Global-trends-in-climate-change-litigation-2022-snapshot.pdf.*

[86] *Setzer, J. and Higham, C., 2022. Global trends in climate change litigation: 2022 snapshot. [online] Grantham Research Institute on Climate Change and the Environment, p.1. Available at: https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/06/Global-trends-in-climate-change-litigation-2022-snapshot.pdf.*

[87] *Supra 13.*

[88] *Ibid*

[89] *(2019) Country Progress Report - Vietnam. rep. Sustainable Banking Network.*

[90] *Membership (2022) Network for Greening the Financial System. Available at: https://www.ngfs.net/en/about-us/membership.*

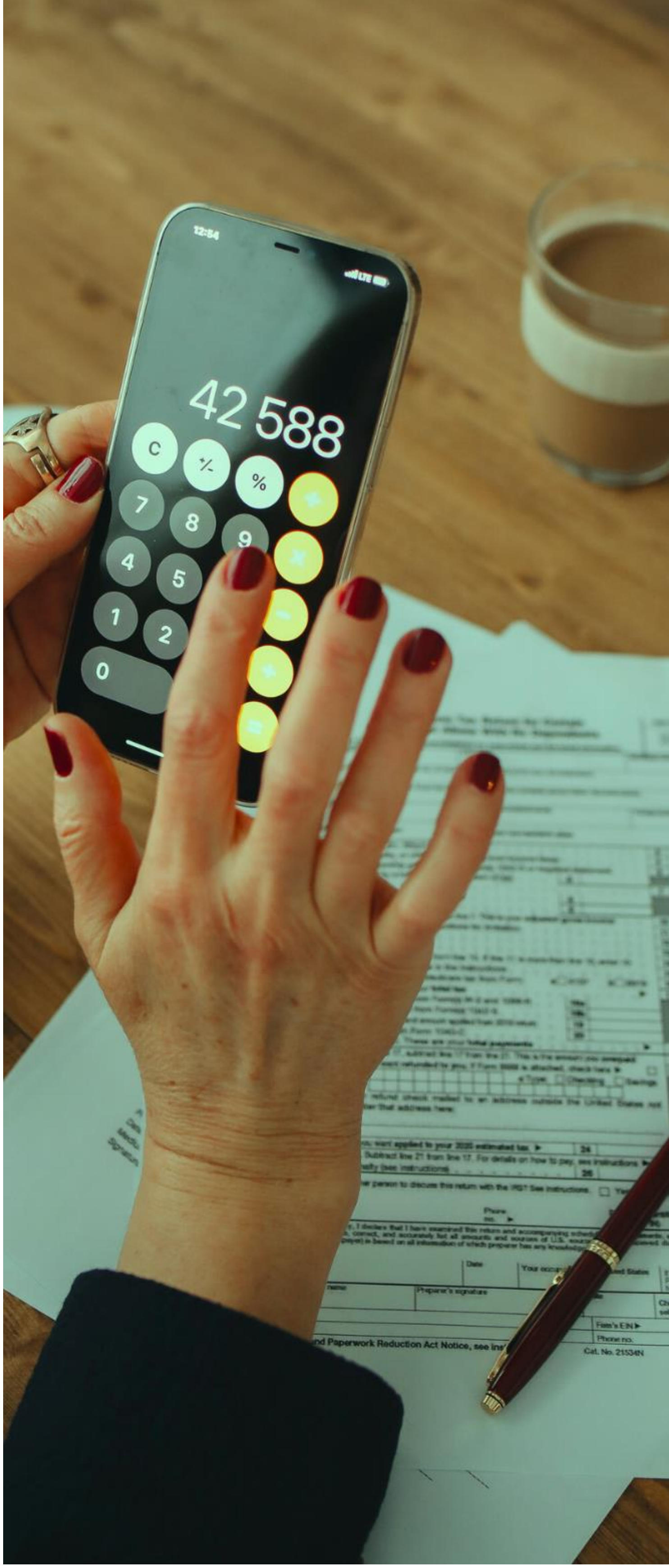
[91] *OECD (2015) Green Bonds: Mobilising the debt capital markets for a low-carbon transition. rep. Bloomberg Philanthropies.*

[92] *See, https://vietnamnews.vn/economy/1165736/fiingroup-becomes-green-bond-approved-verifier.html*

[93] *(2021) ASEAN Sustainable Finance State of the Market 2021. rep. Climate Bonds Initiative.*

initial cost of a green issuance which reduces the price tag on third-party certification. An analysis made by the Global Green Growth Institute suggested that independent third-party certification leads to a positive market reaction, indicating a doubling of respective stock price gains upon bond issuance. [94] Moreover, certification plays a major role in promoting credibility and instills greater confidence in investors. According to the Asian Development Bank (ADB), engaging local Green Bond verifiers with a deep understanding of the domestic market environment and practices is an important factor in developing a sustainable finance ecosystem. [95]

In 2022 – under the guidance of the Global Green Growth Institute (GGGI) – Vietnam witnessed the issuance of its first onshore internationally verified Green Bond with an outstanding value of US$ 75 million by EVNFinance.[96] This Green Bond will be used to finance green infrastructure projects. The GGGI helped EVNFinance develop its Green Bond framework (based on the ICMA's GBP) and gain access to external verifiers. The transaction received great attention from international institutional investors such as Manulife and AIA. For Vietnam, this is a milestone transaction that makes for a great example of how impactful external support can be for Green Bonds issuance, and it may serve as an incentive for other issuers to follow.



[94] *Supra 22.*
[95] *Supra 46*
[96] *Accelerating the green transition: First onshore verified Green Bond issuance in Viet Nam (2022) GGGI. Available at: https://gggi.org/accelerating-the-green-transition-first-onshore-verified-green-bond-issuance-in-viet-nam/.*

Restructuring the Market

The characteristics of Vietnam's financial market ecosystem still lack sophistication on a legislative and administrative level. If the domestic market is set to gain attractiveness and incentivize private and institutional investors to invest in the country, it must rapidly evolve and provide more favorable conditions. Traditionally, Vietnam is a bank-centered economy. This means that 70% of capital need is financed by the domestic banking system with little access to foreign money sources. In more developed capital markets, such as the US, the corresponding figure is less than 45%. In this vein, Vietnam must aim to increase the share of private sources of financing, especially to gain access to long-term financing. Vietnam's financial institutions are not yet ready to provide long-term financing as their own resources are chronically limited to the short-term.

Prospects for Reshaping the Financial Market in Vietnam for Green Bonds

Green bonds have been suggested as a means of capital mobilization within the spectrum of financial solutions aimed at implementing the Government's policies on sustainable economic growth:

- Resolution No. 06/NQ-CP of the Government dated January 21, 2021, on the Action Program to continue implementing Resolution No. 24-NQ/TW of June 3, 2013, of the 11th Party Central Committee on proactively responding to climate change, strengthening resource management, and protecting the environment;
- Decision No. 149/QD-TTg of the Prime Minister dated 28/01/2022 approving the National Strategy on Biodiversity to 2030, Vision to 2050;
- Decision No. 242/QD-TTg of the Prime Minister dated February 28, 2019, on restructuring the stock market and insurance market until 2020 and orientation to 2025;
- Decision No. 450/QD-TTg of the Prime Minister dated April 13, 2022, approving the National Strategy for Environmental Protection to 2030, with a vision to 2050;
- Decision No. 6179/QD-UBND dated 23/11/2017 of the People's Committee of Ho Chi Minh City on the project "Building Ho Chi Minh City into a smart city in the period of 2017 - 2020, vision to 2025";
- Decision No. 3337/QD-UBND dated December 6, 2017, of the People's Committee of Hai Phong on the implementation plan of the Prime Minister's Decision No. 2053/QD-TTg dated October 28, 2016, on the issuance of the Implementation Plan Paris Agreement on climate change in Hai Phong city;
- Decision No. 52/QD-BTNMT of MONRE on Action Program of the natural resources and environment sector to implement Resolution No. 01/NQ-CP

The Government, as well as ministries and local agencies, have strongly emphasized the development of green bonds through their respective policies, underscoring their commitment to promoting sustainable economic development and addressing climate change. The multiple decisions taken at various governmental levels demonstrate the systemic push for a greener economy, which includes the reformation of financial markets to accommodate the issuance of green bonds.

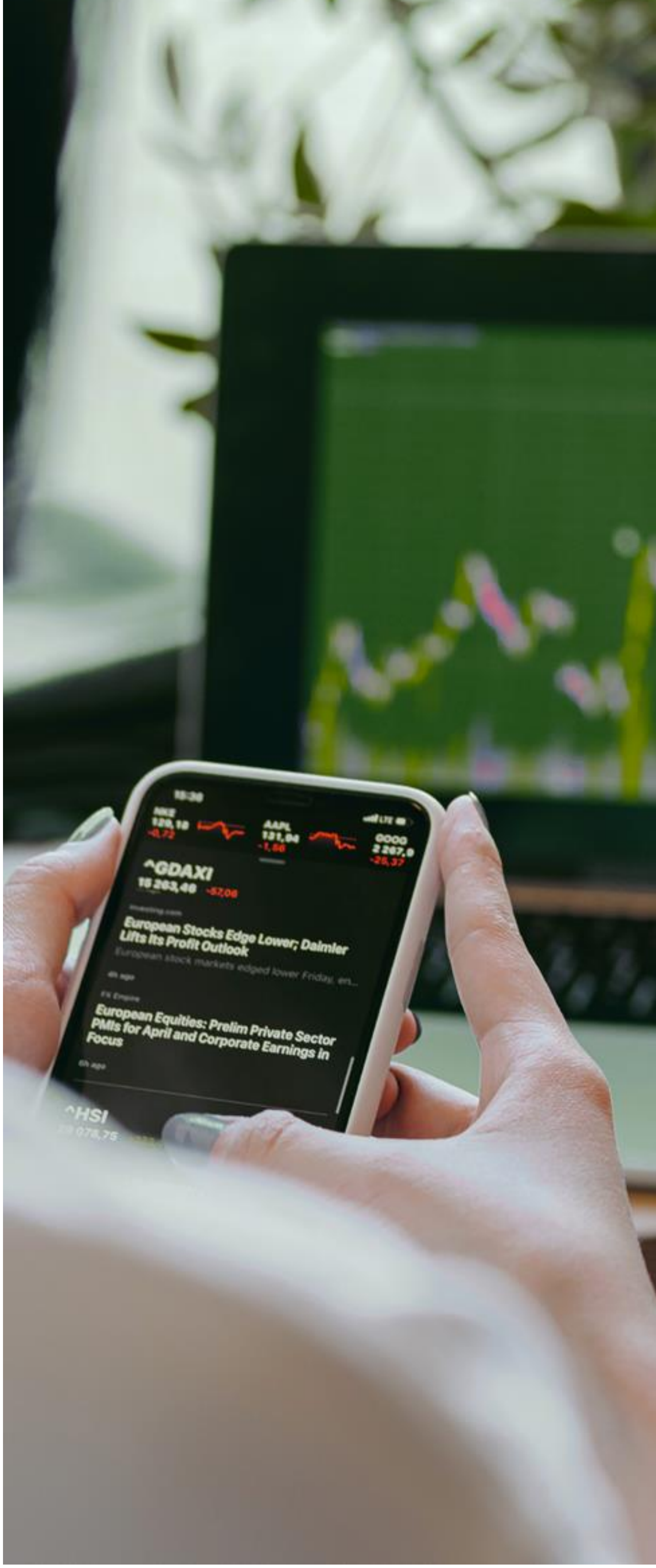
Vietnam, with its vast yet unexplored potential for green energy projects, represents a lively market for green bonds. According to a report by Climate Bonds Initiative (CBI), global outstanding green bonds reached over US$1 trillion by the end of 2020, with Vietnam identified as one of the budding markets in the Asian region. It further showed that, as of the end of 2020, the total issuance of green bonds in Vietnam amounted to US$1.4 billion, indicating significant growth potential. Vietnam's efforts in promoting green bonds are likely to boost private investments in green projects, such as renewable energy, green buildings, and waste management.

As environmental concerns grow worldwide, investors are increasingly focused on sustainable and responsible investments. International financial institutions, development banks, and green funds are keen to invest in green bonds as part of their commitment to sustainability. On the other hand, domestic institutional investors, such as insurance companies and pension funds, could also serve as major buyers of green bonds, effectively mobilizing domestic capital for green projects. This alignment in investment values makes green bonds a promising instrument.

Despite the favorable conditions, there are still some obstacles to the issuance and investment in green bonds in Vietnam. These include a lack of a clear regulatory framework and standards for green bonds, low awareness among investors about green finance, and the risk perception of green projects. To combat these challenges, regulatory enhancements, capacity-building efforts, and financial guarantees for green projects could be considered.

In conclusion, the policy support, potential market growth, and investor interest in green bonds in Vietnam are abundant, indicating a promising prospect for the reshaping of the financial market in favor of green bonds. Still, measures to overcome existing barriers are indispensable. Further research, policy developments, and increased public awareness might, furthermore, contribute to a successful transition to a sustainable economy supported by green finance.

Takeaways from Key Neighboring ASEAN Countries



The Philippines [97]

As briefly mentioned above, the Philippines is one of the pioneers in the ASEAN Green Bond market and its Securities Exchange Commission (**SEC**) co-chairs the **"ASEAN Capital Markets Forum's Sustainable Finance Working Group".**

In 2018, the SEC adopted the AGBS and issued **"Memorandum Circular No. 12/2018",** which establishes guidelines for the issuance of Green Bonds in the Philippines. In 2019, the SEC made sustainability reporting mandatory under **"Memorandum Circular No. 4/2019",** applicable to all listed corporations by 2023. More recently, in 2022, the Bureau of the Treasury published the "Philippines' Sustainable Finance Framework". The SEC is also a member of the Task Force on Climate-Related Financial Disclosures (**TCFD**).

The Philippines' financial institutions provide strong support for the development of the Green Bond market. Bangko Sentral ng Pilipinas' (BSP), the country's central bank, has a policy that promotes ESG integration in all its supervised institutions. In 2020, BSP issued **"Circular No. 1085"** to create a sustainable finance framework. Two years later, in 2022, the roadmap was completed in **"Circular Letter No. CL-2022-011".** BSP is also a member

[97] *(2022) Green Bond Market Survey for the Philippines. rep. Asian Development Bank.*

of the NGFS and, in 2022, invested in the **Bank of International Settlements Asian Green Bond Fund.**

In 2021, the Philippines' task force on green finance **(Green Force)** published the **Philippine Sustainable Finance Roadmap and Guiding Principles**, and the BSP issued the **Environmental and Social Risk Management Framework**. Both frameworks provide guidance on the management of environmental risks for financial and credit institutions related to green projects. Even the corporate sector joined hands in pushing for the development of a national Green Bond market. **The Insurance Commission of the Philippines** issued **"Circular Letter No. 2019-19"** to encourage insurance companies to invest in various green infrastructure projects based on the **UNEP Finance Initiative's Principles for Sustainable Insurance** – a global framework for the insurance industry to address ESG risks and opportunities. The Philippines boasted an outstanding amount of Green and sustainability Bonds worth US$ 4.2 billion as of December 2021.

Indonesia[98]

Indonesia also sets standards by introducing Green Bonds to its domestic financial matrix. It has already issued four sovereign bonds and published its first **Green Taxonomy** in 2022, which together have kick-started a booming domestic green debt market. [99]

In 2021, the **Otoritas Jasa Keuangan** (OJK), Indonesia's financial services authority, issued **"Circular Letter 16/ SEOJK.04/2021"** to extend the scope of the annual reporting requirements, as well as **"Regulation No. 29/2016"** to include a sustainable reporting component. According to this new legislation, financial service institutions are now required to submit sustainable finance action plans and a sustainability report for the first time in April 2022.

Indonesia also has four local green indices:

- SRI KEHATI Index,
- IDX ESG Leader Index,
- ESG Sector Leaders IDX KEHATI and
- Index ESG Quality 45 IDX KEHATI

The **Indonesia Stock Exchange** is set to receive support from the TCFD to help Indonesia's listed companies to implement the TCFD's requirements. The OJK also issued a **"Sustainable Finance Roadmap Phase II (2021–2025)"**, which provides guidelines for market participants and financial institutions on the ways of financing Indonesia's transition toward a low-carbon economy. Indonesia's central bank, Bank Indonesia, is a member of the NGFS and published its "Blueprint for Money Market Development, 2025" in 2020 – a roadmap to develop green financing.

[98] *Ibid*.
[99] *(2018) Indonesia's Green Bond & Green Sunuk Initiative. rep. Ministry of Finance, Republic of Indonesia.*

Thailand[100]

The Securities and Exchange Commission, Thailand (SEC), which is also a member of the TCFD, introduced its initial Green Bond regulations in 2018. In 2021, Thailand's Working Group on Sustainable Finance published "Sustainable Finance Initiatives for Thailand", which established the domestic framework for sustainable finance in the financial sector. In 2022, the SEC published its "SEC Strategic Plan, 2022–2024", which covers the development of Thailand's sustainable capital market. The SEC also launched an "Investment Governance Code" that reflects international best practices for responsible investment.

Since 2019, the SEC has waived approval and filing fees for Green Bond issuance, which serves as a commercial incentive to issuers. In 2022, the SEC issued regulations for the disclosure standards of the "Sustainable and Responsible Investing Fund", which contains stringent disclosure requirements on Green Bonds' environmental objectives, plans, and targets. Finally, the SEC and the Thai Bond Market Association (ThaiBMA) launched an online platform to help track Green Bond issuance and obtain information. Thailand's government has done a good job in securing support from all sides of the industry and is well supported by most market participants.

In 2018, the Fiscal Policy Office, Bank of Thailand, Office of Insurance Commission, and Stock Exchange of Thailand (SET) launched the "Thailand Sustainability Investment List" and the "Thailand Sustainability Investment Index" to attract SRI and ESG investors. The Thai Bankers Association introduced the "Sustainable Banking Guidelines for Responsible Lending" to develop Thailand's sustainable banking practices. The Bank of Thailand is also a member of the NGFS and published numerous strategies and guidance on sustainable finance and Green Bonds. The total outstanding amount of Green, social, and sustainability Bonds in Thailand was US$ 5.7 billion at the end of December 2021.[101]

Malaysia [102]

Malaysia boasts one of the longest-established ASEAN frameworks for sustainable development and has taken numerous recent initiatives to offer a sound regulatory landscape to attract foreign capital. An ASEAN sustainability leader, Malaysia launched the first ever Green Bond under the AGBS. In Malaysia, climate-related financial risk disclosures will become mandatory in 2024. It established its first Green Bond verifier, RAM Sustainability, in 2020.

In 2014, the Securities Commission Malaysia (SCM) introduced the "Sustainable and Responsible Investment Sukuk Framework" to facilitate the financing of sustainable and responsible investment initiatives. In 2019, the SCM, together with the Central Bank of Malaysia, senior officials from Bursa Malaysia, and 21 industry players, founded the Joint Committee on Climate Change. The Committee looks at the development of the sustainable market and, in 2022, submitted its

[100] *2022) Green Bond Market Survey for Thailand. rep. Asian Development Bank.*
[101] *Ibid.*
[102] *(2022) Green Bond Market Survey for Malaysia. rep. Asian Development Bank.*

draft ' Task Force on Climate-related Financial Disclosures' Application Guide for Malaysian Financial Institutions" to provide key recommendations and assist financial institutions in preparing for climate-related disclosure. In 2021, the SCM adopted its Capital Market Masterplan that will facilitate the intermediation between sustainable finance and Malaysia's capital market.

In 2021, the Central Bank of Malaysia released a "Climate Change and Principle-based Taxonomy", which sets out guiding principles to reach some climate objectives for financial institutions and market players. The Central Bank of Malaysia is also a member of the NGFS. In 2018, Malaysia developed the "Green Sustainable and Responsible Investment Sukuk Grant Scheme" (renamed the "SRI Sukuk and Bond Grant Scheme" in 2021), an incentive structure to support Green Bond issuance and to provide tax exemption benefits for the issuers. Grants under this scheme may reach up to 90% of the external review costs incurred (for a maximum of US$ 68,785) and will enhance credibility and transparency in the market and provide certainty to foreign investors about the issued bonds.

Malaysia's total outstanding amount of Green, social, and sustainability Bonds stood at approximately US$ 6.1 billion at the end of June 2022, making it the largest one in the region.

Cambodia [103]

Next to Vietnam, Cambodia's Green Bond market is one of the youngest in the ASEAN region and is at the first stage of development. The National Bank of Cambodia committed to helping develop green finance when it became a member of the NGFS in 2020.

In 2022, the **Securities and Exchange Regulator of Cambodia** (SERC) launched the Green Bond Issuance Handbook that introduces green definitions based on ASEAN and international (ICMA and CBI) standards and taxonomies, providing the first ever Cambodian guidance on such matters. According to the ADB, the SERC will soon issue complimentary guidelines on the issuance of green, social, and sustainable bonds to inform potential issuers of the regulations and standards they may apply for. [104]

Laos[105]

Laos might be the ASEAN country with the least developed Green Bond market. In 2022, the Lao Securities Commission Office promulgated a "Capital Market Development Strategy 2021–2025" to introduce sustainable finance in the capital market. Everything that touches green finance remains new for regulators and market participants.

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[103] *Supra 100.*
[104] *(2022) Green Bond Market Survey for Cambodia. rep. Asian Development Bank.*
[105] *(2022) Green Bond Market Survey for the Lao People's Democratic Republic. rep. Asian Development Bank.*

Conclusion

Since the launch of Đổi Mới policy in 1986, Vietnam has undergone a remarkable development success story. Rising from the ashes as one of the world's poorest countries, the Southeast Asian Nation had to rebuild itself from scratch after decades of armed conflict in the mid to latter half of the last century. Since then, Vietnam's economy, education system, public health sector, labor market, food security status, general access to water, and level of digitalization, have all reached much better standards. Extrapolating this staggering and self-driven trajectory, forecasts see the Vietnamese economy becoming a high-income country by 2045. To hit this ambitious target, Vietnam must deal with the rampant threats of climate change-related impacts that have the potential to stifle its economic development prospects. Vietnam is aware of its mandate to adapt and mitigate climate risks in the coming years.

Commitments and intentions may not be enough to make the desired changes become a reality. To let actions follow words, Vietnam has started rolling out its own national Green Bond strategy and is drafting new legislation to regulate the new market. Green Bonds are one of the best ways to attract foreign capital into the domestic market to finance Vietnam's transition to a low-carbon and sustainable economy. Surrounded by more advanced and attractive ASEAN Green Bond markets, Vietnam also has untapped potential in the Green Bonds segment. To leverage its full potential, it must rapidly shape its financial market to make for an appealing and predictable investment proposition.

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