ESG IMPLEMENTATION IN VIETNAMESE BUSINESSES

● DO MINH CHAU - DO MINH NGOC

ABSTRACT:

This paper summarized several studies on the level of readiness for Environmental - Social - Governance (ESG) implementation in government organizations, enterprises, and the awareness of investors and consumers in Vietnam. Some indicators for measuring and evaluating the level of ESG practice in Vietnam were also discussed. In addition, the paper explored the current ESG implementation of Vietnamese businesses and pointed out the barriers and challenges to expanding ESG activities in Vietnam.

Keywords: ESG practice, ESG indicators, Vietnam.

1. The readiness to implement ESG in Vietnam

ESG is an English term that stands for Environmental - Social - Governance, which is a set of standards for environmental, social, and corporate governance in the process of operating a company. ESG serves as a guide and helps the stakeholders to have a deep understanding of how businesses manage risks and opportunities in these three aspects.

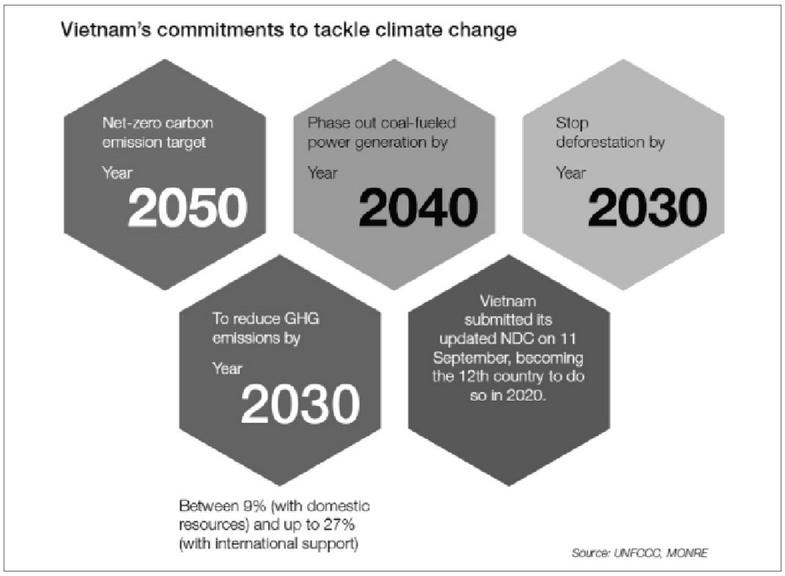
In 2022, PwC Vietnam's audit and assurance services conducted investigations and research, ultimately published the "ESG Readiness in Vietnam 2022 Report"

ESG in the government apparatus: ESG has received widespread attention in Vietnam in recent years. This is largely due to the efforts of the Government of Vietnam to promote the implementation of ESG-related practices along with the rising demand of investors for sustainable investments. At the 2021 United Nations Climate Change Summit (COP26), Vietnam left an impressive mark when Prime Minister Pham Minh Chinh announced a series of commitments on climate change responses.

Image 1 describes the efforts of the Government of Vietnam covering all three aspects of ESG. By pioneering the development of relevant policies and regulations, the Government of Vietnam can encourage businesses to play a greater role in achieving national commitments concerning ESG targets.

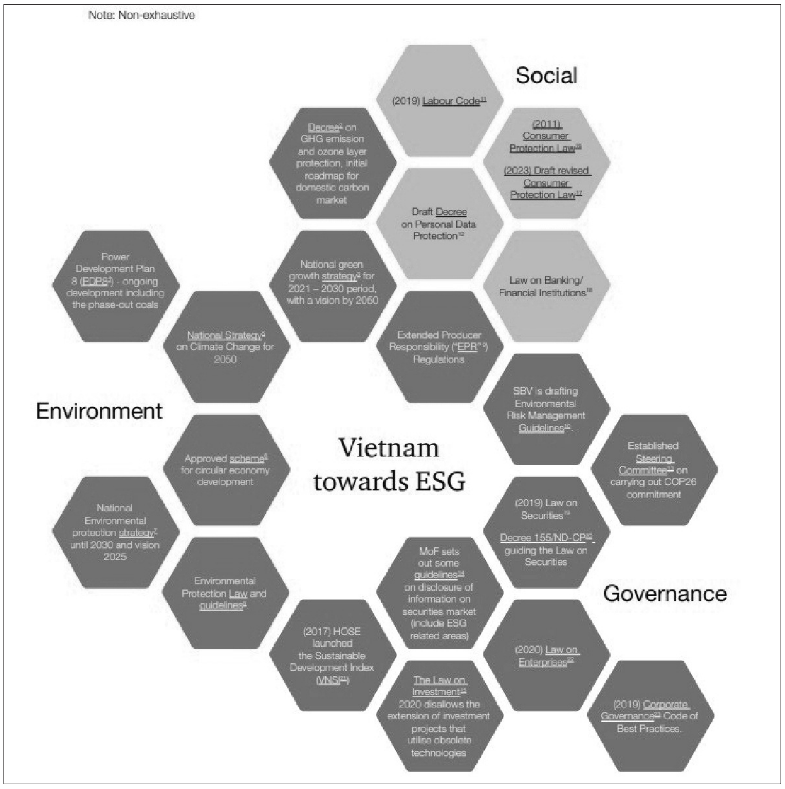
Regarding the ESG reports, on 16/11/2020, the Minister of Finance issued Circular No. 96/2020/TT-BTC walkthrough on the disclosure of information on the stock market, which stipulates certain requirements about reporting ESG for public and listed companies on Vietnam's securities market. In particular, public and listed companies in Vietnam are required to publish their annual ESG report, which includes greenhouse gas emissions, resource management, energy consumption, water consumption, compliance with environmental protection laws, employees-related policies, responsibilities to local communities, reports that

Image 1: Vietnam's commitment to tackle climate change



Source: UNFCCC, Ministry of Natural Resources and Environment

Image 2: Vietnam on its way to implementing ESG



Source: PwC Vietnam 2022

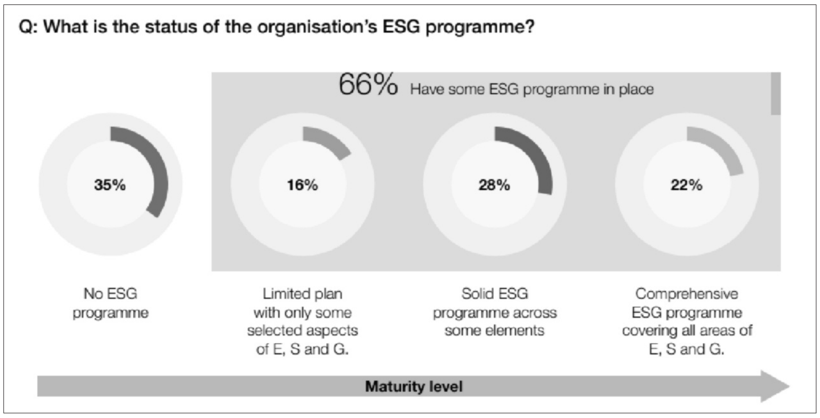
concerns the green capital market activities in accordance to the instructions of the State Securities Commission.

ESG in businesses: While ESG may be an overreaching problem overall, businesses are still seeing the importance of ESG. This is demonstrated by the fact that businesses in Vietnam are ready to take the next steps in line with ESG orientation. The level of commitment of Vietnamese enterprises to ESG practice now is quite high, with 80% of surveyed businesses stating that they have plans for accomplishing ESG or are planning to do so within the next 2-4 years and 66% of enterprises are currently implementing ESG programs (PwC Vietnam, 2022).

Furthermore, in Vietnam, businesses are prioritizing Governance (G) over Environment (E) and Social (S). According to a PwC 2022 survey, 62% of businesses ranked Governance as the top priority in their program. Meanwhile, environmental and social factors ranked lower at 22% and 16% respectively. However, according to MSCI (Morgan Stanley Capital International – a financial services organization that measures and publishes ESG ratings to the public), although Governance in ESG has a greater impact on the performance of businesses in the short term (one year), data analyzed over a 13-year period shows that over the long term, the overall ESG rating of all three aspects, which is Environment, Social, and Governance, was better than any individual indicator.

ESG in investors and consumers: The common need between consumers, employees, and investors is the driving force that helps companies step up efforts to address and resolve ESG-related issues

Image 3: Survey's results on ESG implementation in Vietnamese enterprises



Source: PwC Vietnam 2022

in their businesses. 88% of investors believe that companies focusing on ESG initiatives will provide better long-term profitability opportunities. 82% of PwC survey respondents from varied industries choose brand image and reputation to be the top reasons why businesses pursue ESG, and maintaining competitiveness is the second reason (68%).

2. Indicators for measuring and evaluating the level of ESG practice of Vietnamese enterprises:

Vietnam Sustainability Index: In Vietnam, the Vietnam Sustainability Index (VNSI) was launched in July 2017, with the HCMC Stock Exchange (HOSE) in collaboration with the German International Cooperation Organization (GIZ) and the State Securities Commission conducted research and implementation. VNSI includes the top 20 companies selected from the VN100 index with the highest sustainable scores listed on HOSE, evaluated based on 3 aspects Environment (E), Social (S), and Governance (G).

The objectives of the VNSI index are to:

- Highlight the best measures for sustainable development currently executed among public companies in Vietnam;
- Intensify the promotion of sustainable development implemented by listed companies;
- Create investment products in the market.

Corporate Sustainability Index (CIS): Established annually by the Vietnam Business Council for Sustainable Development formed by the Vietnam Chamber of Commerce and Industry (VCCI), it recognizes businesses in various sectors. The CSI indicators were launched in 2016 and underwent 6 years of implementation, has been adjusted to assess the level of sustainable development of enterprises more accurately. The CSI 2022 indicator set, with 119 indexes in 4 areas: sustainable development performance index; Environmental index; and Labor-Social index. The most impressive hallmark of CSI 2021 is the decentralization of the indicators into 3 levels for different business sizes.

ISO Standard 26000: is an international standard set that includes guidelines on corporate social responsibility with employees, issued by the International Standards Organization (ISO). The standard can be applied to all kinds of organizations, types, and sectors. For businesses starting to practice social responsibility, ISO26000 is used as a brief document on social responsibility. For businesses that have experience in implementation, obtaining the ISO26000 certification is important to improve existing operations and integrate social responsibility into the organization more effectively.

International Standards Organization (ISO), GRI, and SDG are the 3 most applied sustainability reporting standards and frameworks in Vietnam, with application rates of 54%, 50%, and 32% respectively (PwC Vietnam, 2023).

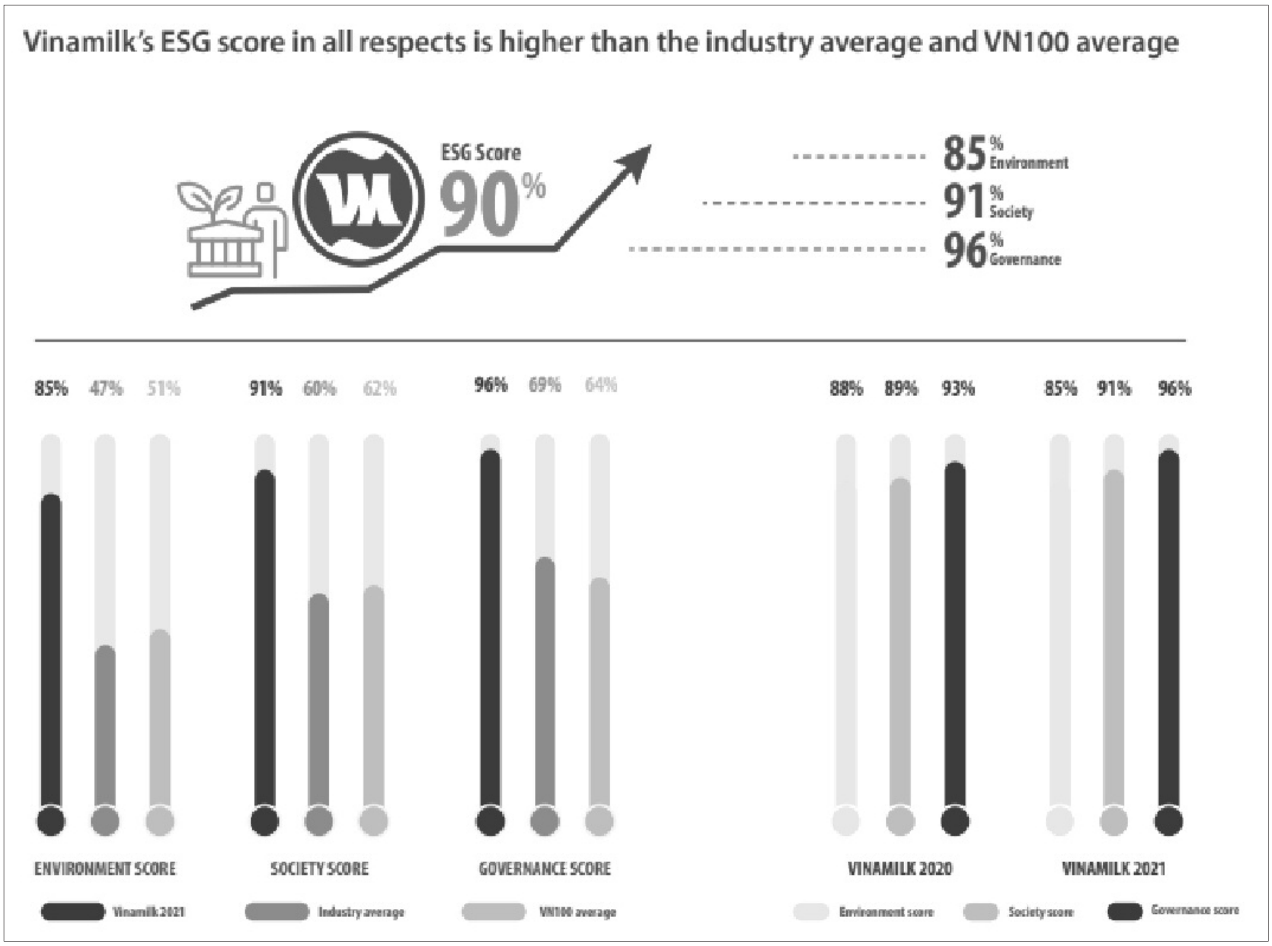
3. Some Vietnamese businesses that have been adopting ESG standards

On 18/7/2022, the HCMC Stock Exchange announced 20 businesses selected from the VN100 index (including the 100 largest listed companies in the Vietnamese stock market) and evaluated

Comprehensively in three aspects of ESG criteria: Environment, Social and Governance.

Vietnam Dairy Joint Stock Company (Vinamilk):

Image 4: Vinamilk's ESG scores



Source: Vinamilk Sustainable Development Report 2021

Vinamilk is one of the representative enterprises, maintaining continuously for 6 consecutive years as a unit in the Top 10 sustainable development enterprises of Vietnam in the field of production. Since 2012, this company has published annual sustainability report, which transparently presents the ESG standards adopted by the company and measures results following the United Nations Sustainable Development Goals (SDGs) model.

Picture 5: Vinamilk promotes green energy

36.8% BIOMASS RATIO/ TOTAL ENERGY USED IN PRODUCTION ACTIVITIES AT VINAMILK FACTORY	**10.3%** CNG RATIO/ TOTAL ENERGY USED IN PRODUCTION ACTIVITIES AT VINAMILK FACTORY
100% FACTORIES HAVE BUILT ENERGY MANAGEMENT SYSTEMS UNDER ISO 50001:2018	**09 FACTORIES** FACTORIES USING ENERGY FROM BIOMASS

Source: Vinamilk Sustainable Development Report 2022

+ Environment: Vinamilk is in the process of stepping up the use of green energy sources such as CNG, Biomass, as well as expanding, and installing solar energy systems at factories and farms. In 2022, 86,8% of green, clean energy/ fuel energy was used in production at the Vinamilk factories. (Vinamilk, 2022). In addition, the waste management process is also promoted and interested by Vinamilk.

+ Social: Vinamilk has contributed to the national economic development with VND 4415 billion contributed to the State Budget, among the top 12 businesses largest income tax paying

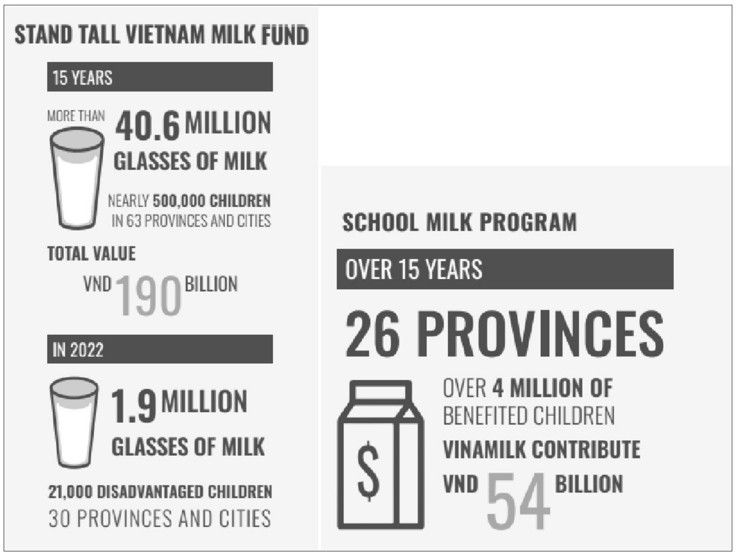
Picture 6: Vinamilk focuses on watse management

Source: Vinamilk Sustainable Development Report 2022

enterprises in Vietnam in 2021 (Vinamilk, 2022). Moreover, the company is also a unit that has several programs to help the local communities, enhance nutrition for children on a large scale, implemented in the long term, such as the Stand Tall Milk Fund, School Milk Program, and other projects like Central flood support, Assisting poor patients with heart surgery, etc.

+ Governance: to ensure professionalism, objectivity, and independence in the evaluation of management processes, the company establishes a model of three lines of defense. Thus, some of the following risks are controlled and managed: product quality, environmental responsibility, climate change, regulatory compliance, health, worker safety, etc.

Image 7: Vinamilk and long-term community programs



Source: Vinamilk Sustainable Development Report 2022

Thanh Thanh Cong - Bien Hoa Joint Stock Company is the only sugar cane enterprise five years in a row to be named in the Top 20 sustainable development enterprises of Vietnam.

Image 8: Vinamilk and the 3 lines risk-management system

Source: Vinamilk 2021

The company has made the transition to an organic farming model and optimized the value of sugarcane while making the most of the waste by-products in the production process.

Masan Group (active in manufacturing - trading consumer goods and retail: is a typical model in the application of ESG. The Group has carried out many activities in terms of sustainable development such as focusing on building wastewater treatment systems at factories in Binh Duong, Nghe An, and Hai Duong. The quality of wastewater treatment output of these plants meets the A-class standard, the highest standard in Vietnam. In the retail sector, Masan Group replaces nylon by using 100% biodegradable bags in the WinMart and WinMart+ chains.

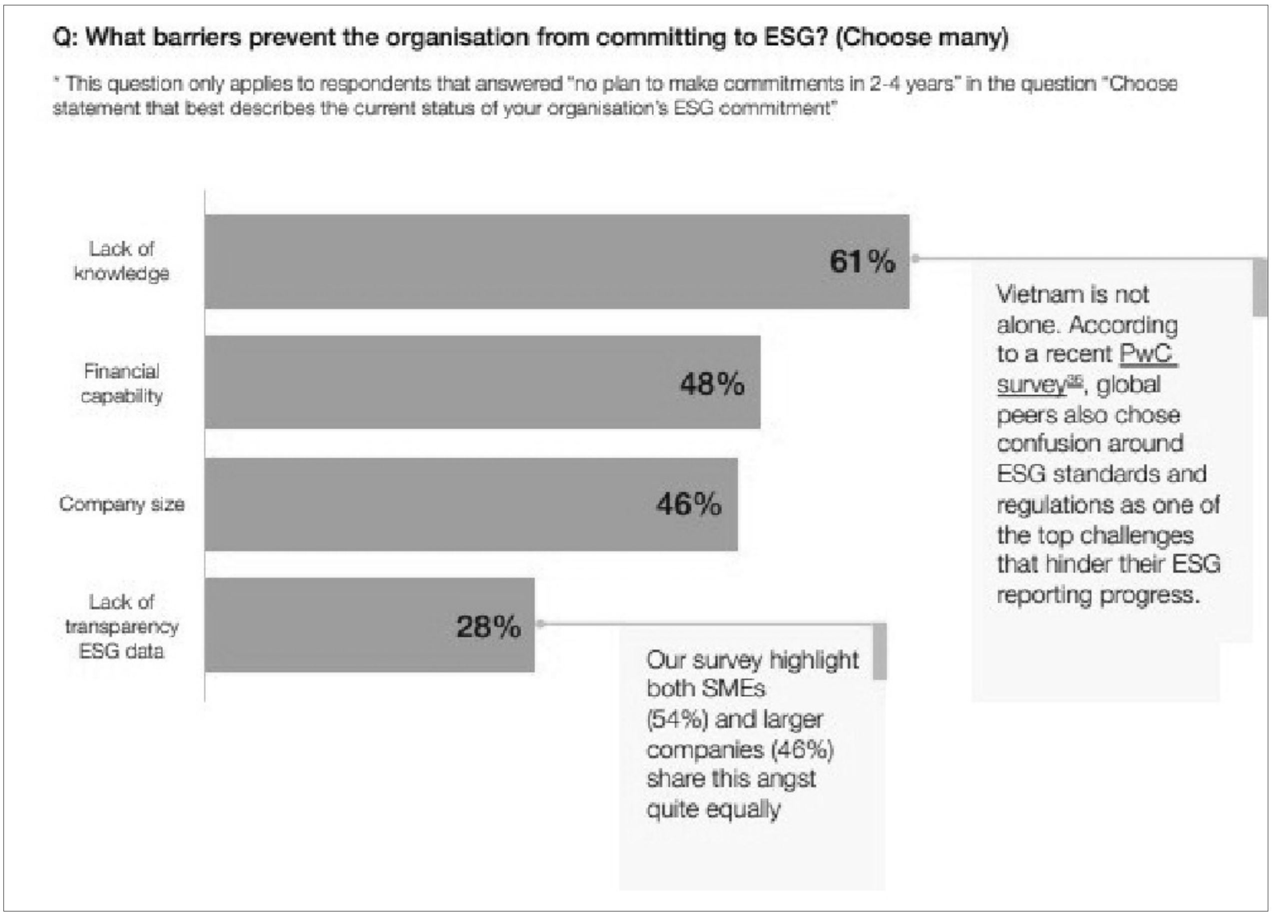
VinFast emphasizes electric cars, which help minimize emissions to the environment. In 2022, the company was listed in the Top 10 automakers with the highest ESG rating in the world. Especially in the low potential risk category, VinFast has ranked highest compared to other pure electric companies.

4. Barriers to ESG implementation at Vietnamese businesses

However, there still exist some difficulties and challenges that hinder the practice of ESG in Vietnamese businesses. Of the remaining 20% of businesses that have not committed to ESG, the majority are small and medium-sized enterprises (SMEs), defined in Vietnam as having less than 200 employees.

The main reason comes from the lack of knowledge that companies (mainly SMEs in PwC's survey group) have not yet made plans to implement any commitments related to ESG. In addition, the fact that there are many sets of

Image 9: Survey results on factors that hinder businesses from committing to ESG



Source PwC Vietnam 2022

standards including different criteria issued by a number of organizations to evaluate and rank sustainable development for businesses also creates certain difficulties for businesses to select and apply (e.g.VNSI, CSI, ISO26000, etc.)

Second, financial ability. Evaluation and publication of ESG reports for public enterprises issuing listed securities at stock exchange centers according to regulations will have to be done annually. Furthermore, to effectively implement an ESG program, it is necessary to regularly monitor and evaluate performance indicators to determine the business's position on the ESG chart. For businesses with limited resources in finance, technology, etc., the development strategy and ESG plan will face many difficulties in satisfying all criteria at the same time. Therefore, up to now, only a few large-scale Vietnamese enterprises and public enterprises issuing listed securities at stock exchange centers have implemented the ESG program.

Third, 46% of businesses said that company size is also an obstacle in practicing ESG; Finally, 28% of businesses believe they lack transparent information to implement ESG.

In addition, companies in Vietnam are lagging global companies in ensuring the independence of ESG reporting. Ensuring independence in ESG reporting will help businesses build trust. According to the July 2022 Global Sustainability Standards Study, half of global businesses (58%) have ensured the independence of ESG information. On the other hand, in Vietnam, only 36% of businesses confirm that their ESG reports are reviewed and verified by independent external partners ■

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TÓM TẮT:

Bài viết này trình bày kết quả của một số nghiên cứu về mức độ sẵn sàng thực hành ESG (Môi trường - Xã hội - Quản trị) tại các cơ quan chính phủ, doanh nghiệp, cũng như nhận thức của nhà đầu tư và người tiêu dùng tại Việt Nam về vấn đề này. Bài viết cũng đưa ra các thảo luận về một số chỉ số đo lường, đánh giá mức độ thực hành ESG của các doanh nghiệp Việt Nam hiện nay. Đồng thời, bài viết chỉ ra những rào cản, thách thức đối với việc tăng cường thực hành ESG tại Việt Nam.

Từ khoá: thực hành ESG, chỉ số ESG, Việt Nam.