GREEN FINANCE AND CHALLENGES TO VIETNAM

● LUU THI NGOC QUYNH

ABSTRACT:

Traditional finance has supported countries to achieve significant growth. However, the current traditional production and consumption models have caused ecological imbalance, leading to increased greenhouse gases (GHG) with negative environmental impacts. For more sustainable development, the world has turned to green growth, in which green finance plays an important role in transforming the economy for greening goals. Green finance refers to financial products, markets, and policies related to environmental protection and sustainable development. This study examined the role of green finance through the application of green finance tools in Vietnam to implement and ensure the goal of reducing net GHG emissions to zero by 2050.

Keywords: green finance, green credit, green bonds, sustainable development.

1. Introduction

Green growth is a common goal of many countries, and it is also an inevitable choice as facing climate change. Vietnam is one of the most vulnerable countries to climate change. It is estimated that climate change could be damaged about 12 million to 14.5% of GDP per year by 2050 and could cause 1 million people to fall into extreme poverty by 2030 in Vietnam (Source: World Bank Group).

At the 2021 United Nations Climate Change Conference (COP26), Vietnam committed to reducing emissions to net zero by 2050. According to the World Bank Report, it is estimated that Vietnam needs an additional 368 billion USD in the period of 2022 - 2040 years to achieve the target of net zero air emission by 2050, of which 130 billion USD will be invested from Government, 184 billion USD will be invested from private sector and 64 billion USD from the others funding sources. It is equivalent to about 6.8% of the country's GDP each year.

Therefore, green transformation and to achieve the Net zero goal by 2050, Vietnam needs a huge financial budget from various sources. The capital invested in the present will determine the production and business model as well as shaping consumer behavior in the future. It is emphasized to green financial development is a nationally strategic mission in Vietnam at present.

2. Theoretical framework

Green finance is a new field, it needs time to understand and more high-level attention. However, green finance can be understood as a two-way interaction between the environment and the activities of financial institutions. It is based on the concept that when an economy grows sustainably, financial activities must take the environmental issue into account. This involves to minimizing the environmental impact of operations and support environmentally oriented businesses into seeking greater financial prosperity. In his original research, Jeucken (1999, 2001) also identified that green finance can support green development.

Green finance is a way to increase the level of financial flows (banking, microcredit, insurance and investment) from the public, private and non-profit sectors to promote sustainable development priorities (Desalegn & Tangl, 2022). According to Scholtens (2017), green finance is the intersection between business finance and environmentally friendly behavior. In addition, Qiu Haiyang (2017) also found that green finance has a role in promoting the economy. Analyzes by Lei Hanyun and Wang Xuxia (2020) showed that green finance can promote high-quality economic development through improved environmental impacts.

In January 2016, the Green Finance Initiative (GFI) was launched in London to raise awareness about green finance. From here, the Green Finance Research Group has identified that the obstacles for green finance in developing countries are the institutions and markets that limit the full funding of investment from the private sector such as pollution control, clean energy, clean transportation, and energy saving products.

Therefore, this research also approaches green finance from the research perspective of the Green Finance Group, and evaluates the barriers to finance in the following aspects:

Greening the banking or green credit.

Greening the bond market or green bonds

Greening institutions or state policies on green growth

Risks and progress in green financial development.

Investors are increasingly aware of the value of green energy for environmental welfare, and this has led to the strong growth of green finance (Ganon et al., 2020). Green finance also reduces credit risk because sustainable business models have less income volatility (Umar, Ji, Mirza, & Naqvi, 2021). Because borrowers have less credit risk it means lenders can benefit in terms of capital requirements, which also helps for achieving environmental goals.

3. Current green finance in Vietnam

3.1. State policy

The first legal document for the green growth strategy is Decision No. 432/QD-TTg dated April 12, 2012 issued by the Government to approve "Vietnam Sustainable Development Strategy for the period 2011 - 2022", which mentioned structure and policies to mobilize financial resources to implement sustainable development.

On September 25, 2012, the Prime Minister issued Decision No. 1393/QD-TTg to approving the "National strategy on green growth for the period 2011 - 2022 and vision to 2050" and defining green growth is a way of development that meets the requirements of innovating growth models and restructuring the economy in the upcoming period.

On March 20, 2014, the Prime Minister continuously issued Decision No. 403/QD-TTg to approving the "National action plan on green growth for the period 2014 - 2020" regulating about capital sources used to perform.

To continue implementing green and sustainable economic transformation, Vietnam has implemented Resolutions on Sustainable Development such as Resolution No. 136/NQ-CP dated September 25, 2020, Strategy of National Green Growth with Decision No. 1658/QD-ttg dated October 1, 2021. At the same time, Vietnam has committed to work with the international community to address the issue of responding to climate change, reducing carbon emissions and sustainable development at the 26th Conference of the Parties to the United Nations Framework Convention on climate change (COP26).

Thus, since 2012, Vietnam has had the first orientations and steps to move the economy towards greening trend, however passing over ten years that issues have been applied into the real life is still very slowly with many barriers.

3.2. Current status of Vietnam's recent environmental situation

The chart above was a statistic of all GHG greenhouse gases (CH_4, CO_2, F-Gas and N_2O) of Vietnam in relation to neighboring countries. From this, we can see that Vietnam has an increasingly high level of greenhouse emissions and a higher average increase than compared with other countries, which is consistent with Vietnam's economic development during the period. Over the past period, the annual national growth rate has been very impressive. But on the other hand, it is also a big challenge when Vietnam commits to reducing annual net GHG emissions to Zero by 2050.

Table 1: Greenhouse gas emissions in 2020 and estimation for 2030

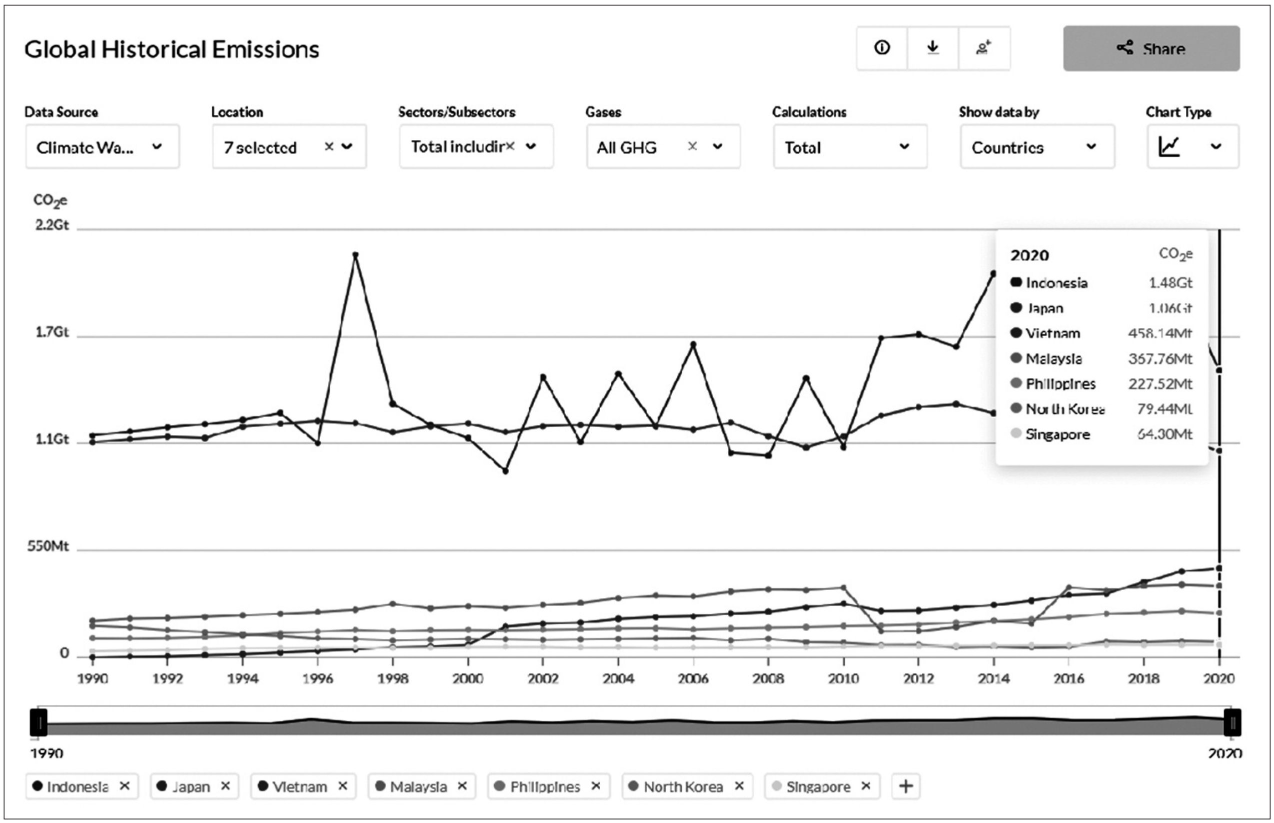
Unit: Million tons of CO_2 equivalent

Field	2020	2030
Energy	381,1	648,5
Agriculture	100,8	109,3
LULUCF	-42,5	-45,3
Waste	26,6	48,0
Total	466,0	760,5

Source: Ministry of Finance and Environment

It is estimated that total greenhouse gas emissions in 2030 will increase over 50% compared to the 2020's, so to decrease this matter and reach the Net Zero in 2050, a large amount of investment capital are required from now.

Figure 1: Greenhouse gas emissions in recent times in some countries



Source: climatewatchdata.org

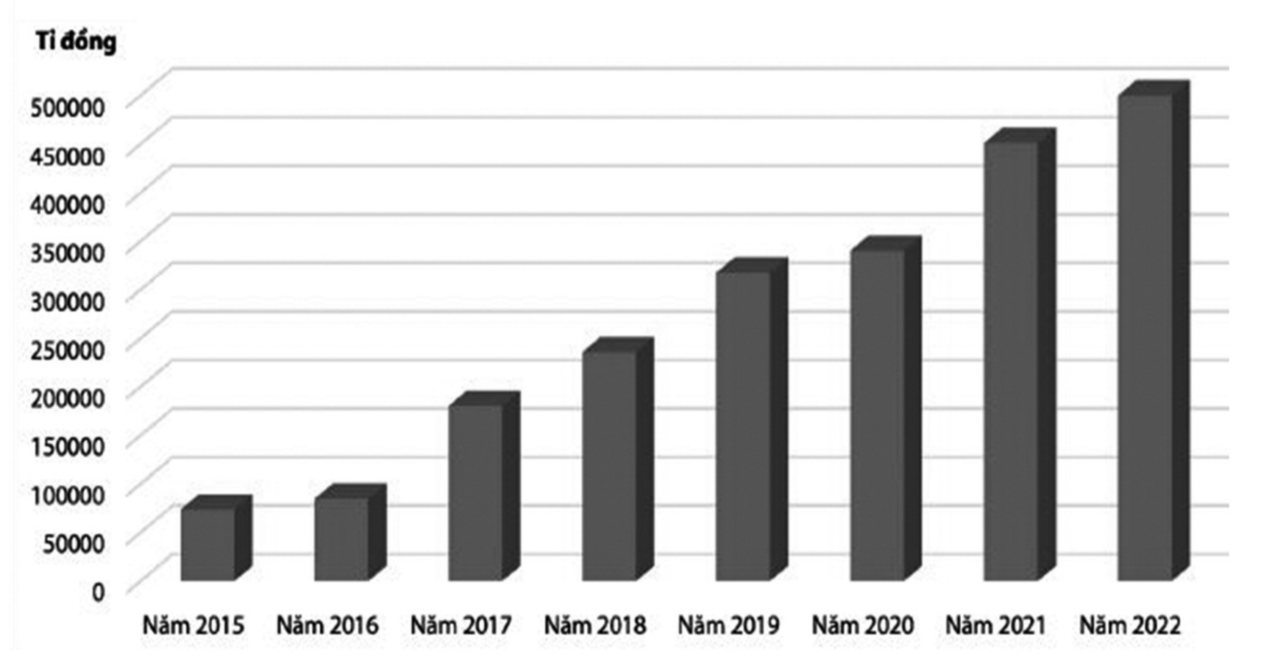
3.3. Green credit

According to Article 149 of Vietnam's 2020 Law on Environmental Protection, effective from January 1, 2022, the regulations on green credit are as follows: Green credit is credit granted to the following investment projects: (i) Effective use of natural resources; (ii) Responding to climate change; (iii) Waste management; (iv) Treating pollution and improving environmental quality; (v) Restoration of natural ecosystems; (vi) Conservation of nature and biodiversity; (vii) Create other environmental benefits.

From 2015 to 2022, green credit has been an average growth rate of over 25%/year, a very high growth rate compared to the average growth rate of credit in the general economy. But the proportion of green credit is still very small, accounting for only 4.32% of the total outstanding debt of the entire economy. By September 30, 2023, outstanding green credit debt reached more than 564,000 billion VND, accounting for 4.4% of the total outstanding debt of the entire economy. Recycled energy and green agriculture are the industries with the largest amount of green credit. Green credit loans are mainly focused on green agriculture (accounting for about 46%), sustainable water management (accounting for about 13%), and recently tend to shift to a number of fields. other such as recycled energy and clean energy (Tran The Anh, 2022). Many important areas in environmental protection and response to climate change such as waste management, garbage treatment, green transportation and sustainable construction... are still very limited in credit loans.

However, the legal framework for funding and disbursing green credit capital is not yet complete. The law regulations on credit products are still not complete and clear upon serving green growth. Investing in green fields in Vietnam often requires long payback periods, large investment costs, and high risks, so supporting from government is needed. Meanwhile, capital mobilized by credit institutions is often short-term, at the cost of commercial capital on the market, so it has high costs and cannot meet investment

Figure 2: Green credit balance in the period 2015 - 2022



Source: Department of Credit for Economic Sectors, State Bank of Vietnam needs. Because of many shortcomings, green credit has not been developed commensurably with actual demand. The current outstanding green credit debt is about 23 billion USD, a very small level compared to the necessary needs to develop green projects.

3.4. Green bonds

On October 20, 2016, the Ministry of Finance approved the Pilot Project for green bonds iisued by local governments. Ho Chi Minh City has currently issued more than VND 3,000 billion in green bonds for 34 green projects in the fields of sustainable water resource management, climate change adaptation and sustainable infrastructure projects. In July 2022, Electricity Joint Stock Finance Company issued VND 1,725 billion in green bonds. This is the first time the Vietnamese market has recognized a green bond issuer based on the Principles announced by the International Capital Market Association (ICMA) since 2018.

According to statistics, from the 2019-2023 period, Vietnam has issued 1.157 billion USD in green bonds. To date, the green financial market in Vietnam has formed its foundation and developed with 3 components, including: green credit market; green stock and green bond market. The Ministry of Finance has coordinated with relevant agencies to complete the legal framework on green bonds. The green bond market in Vietnam is not really diverse in terms of issuers and intermediary service providers. The awareness of investors as well as of issuers regarding the investment benefits and issuance of green bonds is still limited and narrow, leading to low investment demand for green bonds from investors, mainly currently are foreign investors and organizations. For green bonds, issued cost are a big challenge, including consulting costs, credit ratings and green project certification... which are still highly charged.

3.5. Awareness of greening strategies in the private sector

According to a survey of readiness to apply ESG (Environmental, Social, and Governance) conducted from May to August 2022 in the company community in Vietnam, it has been shown that some results.

According to survey results, 57% of FDI companies have made clear commitments on ESG. Meanwhile, listed companies in Vietnam are taking a "wait and see" approaching, with 58% of respondents saying they plan to commit to ESG in the near future. But 40% of private/family company surveyed said they had made ESG commitments.

The survey results shows that the barriers to implementation are: 61% are not equipped with proper knowledge, 48% encounter financial ability problem, 46% with company scale, 28% lack of transparency in ESG data.

The survey results also revealed that 62% of company are concerned about governance, 22% are concerned about environmental factors and 16% about social issues.

In addition, some factors affecting green investment of businesses include: lack of infrastructure for green investment; Difficulties in accessing financial sources; Preferential access to capital as well as special incentives for green investment, etc.

4. Recommendations and conclusions

4.1. Recommendations

Through statistical data on the level of attention of the state and organizations on the environment, and the level of investment in green transformation, it shows that Vietnam is taking very slow steps in achieving green transformation towards the goal of Net zero emission by 2050. While the financial resources required to invest in greening projects are huge, implementation is very slow, thereby posing the challenge of the existing big gap between difficult reality and done commitments.

Considering and overcoming the posed challenges is very important in order to mobilize the necessary capital for aiming the Net Zero goal, the Government requires strong innovation and increased implementation of various measures, especially for raising awareness, encourage and support for the private sector to participate more in this green transformation.

4.1.1. Private sector

The private sector needs to contribute about 184 billion USD by 2040 to achieve the goal of reducing net emissions to zero. Therefore, mobilizing private sources to supplement the capital lacking is really indispensable as the shortage of projects with governmental supporting as well as major lack of policy attracting the private sector's participation.

- Banking Sector

All banks must support programs for green and environmental projects. It is necessary to motivate banks when appraising and evaluating loans to take into account environmental factors, creating favorable conditions for loan access and loan costs reserved for enterprises conscious of environmental protection. Develop standards for green projects, environmental protection and clear information disclosure so that borrowers could have sufficient information to access capital sources more effectively.

To issue the supporting policies for small and medium-sized enterprises, because they take a largest number of companies. This group of companies plays an indispensable role in the development process but in reality, the accessing to green finance is especially difficult toward them (ADB, 2017b).

- Green bond market

The Government should have clear regulations and support for the private sector in issuing green bonds. Currently, issuance costs are large, knowledge and legal framework about green bonds are very lacking, making it difficult for the private enterprises to access and implement. The evaluation process is complex, requiring many standards... so there needs to be regulations to support costs and procedures for this area to boldly mobilize capital.

- Raising awareness and greening domestic investors and companies.

Currently, the level of interest and access to ESG is quite low and small, thereby limiting investment in green projects and environmental protection. Therefore, encouraging or facilitating for accessing capital, reducing taxes toward green projects... so that companies and organizations could invest and develop more firmly and sustainably.

4.1.2. Public sector

Public sector on green finance plays an important role in the process of implementing the Net Zero goal. By allocating the investment budget, using the budget to build infrastructure, invest in research and development of green technologies... will support to the private sector and external resources.

- Develop policies and enhance transparency and information disclosure

The state needs to simplify the issued policies and clearly stipulate criteria and standards for green finance, so that environmental risks showed when formulating projects is calculated appropriately, thereby helping investors makes decisions easy.

Strengthen supervision and transparent information disclosure from the Securities Commission and the Stock exchange to support investors clearly know the criteria and data about green securities and issuers.

- Diversify green financial sources

For Vietnam, green finance only occurs in green credit and green bonds. According to international standards, in addition to green finance, there are also climate finance, environmental finance, sustainable finance... each kind of finance will have its accompanying tools, but all of those issues are implemented for a common goal is to protect the environment. Therefore, diversifying financial sources with diverse products will help investors easily to choose investment opportunities for themselves and help mobilizing the necessary capital to reduce greenhouse emissions. and move toward your goals faster.

- Diversify sources, promote public and private sector relationships

Of the 368 billion USD needed to invest in the process of net emissions to zero, the investment portfolio of these projects is spread across all fields, this is also an opportunity for investors to participate in seeking profits. These projects are both a necessity and a long-term investment opportunity. Therefore, the Government needs to clearly introduce the list of necessary fields and projects so that all domestic and foreign investors can access information and find investment opportunities. When promotion work is largely encouraged and the Government's support is really maximized, there will be more sources invested in, and the pressure to achieve the green finance goal will reduce considerably.

4.2. Conclusion

The Net Zero emission goal that Vietnam committed to the world community has been actively received by investors and other countries, this is a mandatory transition in the future. However, more than ten years since the first policy was issued, the results achieved are still very modest. Thus, there are only more than twenty years left to bring GHG emissions to zero, whether Vietnam can make it or not?

With the strong recommitment to implementing net emissions as committed in the COP27 conference, it shows that the Vietnamese Government has determined to reach this vital goal. Therefore, green finance, at the present and in future, is the biggest concern. Climate change and its disastrous environmental consequences have been witnessed by human being recently with the Covid-19 pandemic, storms, floods, etc., so now is the time for people around the world to join hands to change, from awareness to action. The world today has enough knowledge, theory, expertise and financial sources to solve all challenges, the problem is how to combine all those favorable factors together to gain great results, bigger and faster ■

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TÀI CHÍNH XANH VÀ NHỮNG THÁCH THỨC ĐỐI VỚI VIỆT NAM

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TÓM TẮT:

Tài chính truyền thống đã giúp thế giới nói chung và các quốc gia nói riêng có bước nhảy vọt to lớn về tăng trưởng. Những những mô hình sản xuất và mô hình tiêu dùng hiện đại đã gây bất bình đẳng sinh thái dẫn đến các loại khí nhà kính (GHG) gia tăng và cuối cùng tạo ra các vấn đề môi trường toàn cầu. Tăng trưởng xanh là đều cần thiết cho mỗi quốc gia để phát triển bền vững, trong đó tài chính xanh đóng vai trò quan trọng nhằm chuyển dịch nền kinh tế cho mục tiêu xanh hóa. Tài chính xanh đề cập đến các sản phẩm tài chính, thị trường và chính sách liên quan đến bảo vệ môi trường và phát triển bền vững. Nghiên cứu này nhằm phân tích thực trạng về tài chính xanh, các công cụ của tài chính xanh ở Việt Nam được triển khai ở mức độ nào nhằm thực hiện và đảm bảo mục tiêu giảm phát thải ròng.

Từ khóa: tài chính xanh, tín dụng xanh, trái phiếu xanh, phát triển bền vững, ESG, Việt Nam.