

Green Bond Market Development-Case of Vietnam

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Abstract: *Green growth has been identified as a central issue in the development policies of many countries around the world, aiming at sustainable development. Green growth is an inevitable development trend, requiring the mobilization of diversified and abundant capital sources. The green bond market is an important capital mobilization channel for green growth in economies. In Vietnam, although this market development policy mechanism has begun to be formed, it is still a new capital mobilization tool in the market, which has not interested many investors. This paper analyzes the legal basis and current status of green bond development in Vietnam and proposes recommendations to develop the green bond market in Vietnam.*

Keywords: green bond, green finance, Vietnam

1. Introduction

Green growth has been identified as a central issue in the development policies of many countries around the world, aiming at sustainable development. According to the Climate Bonds Initiative (CBI), a green bond is a bond issued to raise capital for climate change solutions, issued and labeled by the Government, banks, localities, or firms. Bonds in the form of debt securities include securitization, private placement, and secured bonds.

According to the 2015 Code of Principles for the Issuance and Use of Revenue from Green Bonds (GBP), a green bond is any type of bond where the proceeds from the bond issue are used for financing or refinancing a part or the whole of a project related to the environment, also known as a green project such as a clean energy project, clean water. . . Each country, organization, or region will have different methods and procedures for issuing green bonds, but these countries are all based on the GBP Code of Conduct. Green bonds need to comply with 4 principles specified in GBP: (i) Use of proceeds; (ii) Project evaluation and selection; (iii) Cash management; (iv) Report on the use of capital.

According to G20 Green Finance (2016), green bonds are distinguished from ordinary bonds by their commitment to using mobilized capital to finance or refinance green projects or businesses. Green bonds are issued by entities such as the Government, local government, or the private sector such as banks and firms to raise capital for projects associated with the environment.

In the Handbook "Guidelines for issuing green bonds, social bonds and sustainable bonds" of the State Securities Commission of Vietnam (2021), green bonds are bonds with two identifying characteristics: (1) Capital obtained from bond issuance is allocated exclusively to projects with environmental benefits (to be associated with social co-benefits); (2) Provide transparency and clear publicity on the management of funds obtained from bond issuance. In other words, structurally, green bonds are similar to ordinary bonds, have similar risk/return characteristics, and follow the same issuance procedures, but the proceeds are used for many climate and environmental projects.

In short, green bonds are a type of fixed-income security to attract capital for projects with environmental benefits.

Accordingly, the proceeds will be committed to investing in programs to mitigate the effect of climate change and enhance climate change adaptation, including clean energy projects, efficient use of energy, public transport, and clean water... Green bonds can be issued by the government, commercial banks, development banks, international financial institutions, companies...

According to estimates by the International Energy Organization, to halve global emissions by 2050, the world will need an investment of up to 46 trillion USD. In that context, green bonds are considered effective tools, which can help mobilize hundreds of billions of dollars per year for the development of a "clean" and sustainable economy. The issuance of green bonds has been a global trend with the participation of major international financial institutions such as the World Bank (WB), the International Monetary Fund (IMF), and the Asian Development Bank (ADB).

Vietnam is a country that is significantly affected by global climate change. Consequences of climate change occur with increasing frequency, seriously affecting economic development, society, and people's lives. Research by international organizations suggests that climate change can cost Vietnam 15 billion USD/year, equivalent to 5% of GDP. The Vietnamese authorities also estimate that a 1m rise in sea level will affect the lives of about 20% of the population. Inundation and saltwater intrusion due to sea level rise will narrow the area of agricultural land in both the Red River Delta and the Mekong Delta. Industries will also be affected due to shortages of raw materials and energy leading to high production costs. In that context, Vietnam identifies green growth as an important strategy for sustainable development. The article assesses the current situation of green bonds in Vietnam, thereby proposing some solutions to enhance the development of this market.

2. Literature Review

Climate change and environmental degradation, the consequences of rapid and unsustainable economic growth, are threatening the world. Green bonds are one of the most important innovations of sustainable finance (Maltais & Nykvist, 2020), as well as an important tool for raising the funds needed to achieve climate goals (Tukhanen & Vulturius, 2020). Furthermore, empirical evidence shows

that green bonds not only contribute to a low-carbon transition, but also positively impact economic growth (Glomsrod & Wei, 2018).

Many previous studies have focused on green bonds and related issues. The evolution of the green bond market and the correlation between financing and green projects were analyzed by Baker et al. (2018), Upbin et al. (2014), Preclaw & Bakshi (2015), Ludvigsen (2015), Hjort (2016). . . The expansion of the green bond market and its dependence on macroeconomic conditions are pointed out by Cochu (2016) and Jun et al (2016). Tolliver (2020), Gilchrist et al (2021), and Banga (2019) showed the green bond issuance volume and the main factors that affect the green bond market growth. Liaw (2020), Cheong & Choi (2020), Flammer (2018), Karpf & Mandel (2017), Packer & Ehlers (2017), Reboredo (2018), Zerbib (2018) discussed green bond pricing issues and green bond premiums. Although the theoretical and practical issues of the bond market have been analyzed in many scientific studies, the green bond market is still new, so it still lacks a comprehensive analysis.

Studies on green bonds in Vietnam mainly refer to the experience of developing green bonds in countries around the world such as the study of Nong Minh Trang (2015), and Nguyen Thi Tuyet Mai (2019). Researching green bonds in Vietnam, authors Minh Chau, Dang Dong, and Le Nam (2020) have analyzed the level of interest and needs of investors in the market to assess the advantages and difficulties in developing green bonds. Vu Thi Nhu Quynh (2021) analyzes the opportunities, challenges, and development orientation of the green bond market in Vietnam.

It can be seen that there are many studies on green bonds, but specific research on the green bond market in Vietnam is still very limited.

3. Current Status of the Green Bond Market in Vietnam

The green bond market is an important capital mobilization channel for green growth in economies. In Vietnam, although the market development policy has begun to be formed, this is still a new capital mobilization tool in the market, which has not interested many investors.

Regarding policies and regulations for green bonds

In the orientation of sustainable development to 2030, the Government of Vietnam has focused on green growth, as well as green financial products, including green bonds.

The Government has issued many policies on green growth and the development of the green bond market. Specifically, the National Strategy on Green Growth for the period 2011-2020 and a vision to 2050 (in the Prime Minister's Decision No.1393/QD-TTg dated September 25, 2012) has identified green growth as a development method in line with the requirements of renovating the growth model and restructuring the economy in the coming period of Vietnam. Next, the National Action Plan on Green Growth (in Decision No.403/QD-TTg dated September 20, 2014, of the Prime Minister) determined that since 2012, Vietnam has had a green finance and green financial products orientation

for Vietnam's stock market to create financial resources for green growth. On August 14, 2017, the Prime Minister promulgated Decision No.1191/QD-TTg approving the Roadmap for the development of the bond market in the period of 2017-2020, with a vision to 2030. This is the important legal basis for the development of the green bond market in Vietnam. According to this Decision, mechanisms and policies on the development of the green bond market are built in the direction of creating favorable conditions for entities to mobilize green bond capital to implement green projects. On December 4, 2018, the Government issued Decree No.163/2018/ND-CP regulating the issuance of corporate bonds, which introduced the concept of green corporate bonds and the principles of issuance and use of green bond capital; information disclosure before the issuance, periodic information disclosure. . . Besides, Decree No.95/2018/ND-CP of the Government also has regulations on green bonds, promoting issuing, listing, and trading activities.

Following the strategy on the national action plan and the Government's Decisions on green growth, the ministries have also implemented action plans to do the national strategy on green growth; develop a plan to issue criteria for identifying green projects. Accordingly, the proposed green project areas include renewable energy, energy saving, and efficiency, land use, conversion and management, sustainable forestry, sustainable waste management sustainable, and green agriculture. The Ministry of Finance has issued Decision No.2183/QD-BTC dated October 20, 2015, promulgating the Action Plan of the Finance sector to implement the National Strategy on Green Growth to 2020 with specific tasks: establishing a green financial framework for activities in the capital market such as promulgating regulations and conditions when listing shares (green listing), reporting (in the sustainability report) and in monitoring (according to green finance criteria); Issuing bonds, investment certificates,. . . for green projects, programs and fields; Building green indicators to monitor, evaluate and trade on capital markets; And specifying green bonds including bonds of green businesses, issued for green projects or green products, is one of the products of the green capital market.

In short, mechanisms and policies for green growth in general and green bonds in particular, which have been issued in recent years, are an important legal basis for organizations and individuals in Vietnam when participating in the green bond market, as well as creating favorable conditions for green projects in Vietnam to have access to capital (Do Thi Thu Thuy, Trinh Mai Van, 2021).

Although the policy mechanism for issuing green bonds in Vietnam has existed, this legal system still does not meet international standards and practices.

The situation of issuing green bonds in Vietnam

Achievements

Since the end of 2015, the Hanoi Stock Exchange has developed a green bond market development project in the cooperation program between the State Securities Commission and the German Development Cooperation Organization (GIZ). On October 20, 2016, the Ministry of Finance approved the project on pilot issuance of green bonds by the local government. Accordingly, green bonds are built to mobilize capital to serve green projects such as projects on irrigation, environmental protection, and wind power...

The majority of green bonds are issued by the Government and local government. In 2016, Ho Chi Minh City issued bonds under the underwriting of the Vietnam Bank for Investment and Development Securities Joint Stock Company (BSC), with a term of 15 years and a volume of VND 3, 000 billion. Ho Chi Minh City State Financial Investment Company (HFIC) was approved by the People's Committee of Ho Chi Minh City to perform all operations of the issuer. There are 11 projects on the list of green projects, with a total investment of 2, 619.8 billion VND, which is expected to be arranged from the capital of bonds issued in 2016 of 523.5 billion VND. In 2017, Ho Chi Minh City issued bonds with a volume of VND 2, 000 billion, and a maturity of 10, 15, 20, and 30 years. In which, there are 8 green projects with a total investment of VND 2, 989 billion, arranged from the capital of bonds issued in 2017 of VND 364 billion. By 2018, Ho Chi Minh City has issued 3, 000 billion dong of green bonds for 34 projects. The proceeds of green local government bonds are used for green projects in the fields of sustainable water management and adaptation to climate change and sustainable infrastructure. Proceeds from bond issuance have been disbursed by TP. Ho Chi Minh City for green projects. However, there are no tax and fee incentives for green bonds and no list of priority green and environmental projects.

Ba Ria-Vung Tau also piloted the issuance of green bonds in 2018 with VND 500 billion of green bonds with 5 years term for 8 projects, in which resources were focused on projects on water resource management.

Besides government bonds and local government bonds, the number of firms issuing green bonds is limited. In August 2019, Trung Nam Solar Power Joint Stock Company successfully issued VND 2, 100 billion of separate bonds with a term of 9 years, and Trung Nam Joint Stock Company (which owns 70% of the capital of Trung Nam Solar Power Joint Stock Company) also successfully issued 945 billion dong with 5 years term, floating interest rate equal to 2 years term deposit rate plus a margin of 3.5%/year, the first year is 10.5%/year. The total amount raised by these two companies is VND 3045 billion and is used for the solar power project in Ninh Thuan. In July 2022, Electricity Finance Joint Stock Company (EVN Finance) issued VND 1, 725 billion of green bonds with an interest rate of 6.7%/year, ten years maturities, underwriting by a multinational underwriting company Guarant Co. This is the first time that the Vietnamese market has recorded an issuer of green bonds based on the Principles announced by the International Capital Market Association (ICMA) since 2018. EVN Finance's operation is said to be a big boost for Vietnam's green bond market, which is still new.

In Vietnam, the total value of GSS (green, social, and sustainable) will reach 1.5 billion USD in 2021, nearly 5 times higher than 0.3 billion USD in 2020, and maintain stable growth throughout 3 years. Most of the issuers of green bonds and green loans in Vietnam in 2021 belong to the transportation and energy sectors. In ASEAN, Vietnam is the second largest source of green debt issuance, reaching 1 billion USD after Singapore.

According to the Central Economic Commission, in Vietnam, by the beginning of 2021, green bonds will have an issuance volume of 284 million USD and most of the capital collected from the bond issuance will be used for renewable energy, waste, and agriculture sectors.

Some limitations

Issuing Green Bonds has achieved certain results, but there are still some limitations. Green bonds provide an effective capital mobilization channel for local governments to finance green projects. However, the issuance value of green bonds is limited compared to the size of Vietnam's bond market. The value of capital mobilization from green bonds in Vietnam is not only low compared to the region but also small compared to the national annual green growth project funding needs.

In terms of structure, green bonds in Vietnam today are mainly local government bonds to finance green projects, almost firms that have not yet participated in issuing green bonds to raise capital. This is consistent with the characteristics of Vietnam's bond market with the majority of government bonds (about 90% in the period 2010-2018).

The issuance of green bonds by local governments lacks accrediting organizations to determine whether the project is really "green", such as whether the project is effective in reducing emissions into the environment, or whether the loan of the project is used for environmental purposes. . . There are no legal provisions on ICMA's green bond principles such as monitoring the purpose of proceeds, separate accounting, and post-issuance reports. In addition, there are also no specific guidelines for 4 international standards on green bonds (GBPs) in Vietnam and no locality has yet issued a report to evaluate the effectiveness of projects using capital from green bonds. Specifically, the Ministry of Finance guides the general management of proceeds from green bonds, which have not yet been recorded and managed by separate accounts. The Ministry of Finance and the State Securities Commission do not promulgate regulations on the "green project list" and regulations on valuation and reporting for green bonds. There are no regulations on the control of information disclosure, capital use, and project supervision.

Moreover, the bond market lacks the activities of intermediaries such as credit rating agencies and independent rating agencies. Awareness of investors, as well as issuers about green bonds, is limited. Domestic investors are not fully aware of responsible investment, leading to very low demand for green bonds.

4. Solutions for the green bond market development in Vietnam

Green bonds are a tool to ensure sustainable economic development. Therefore, developing the green bond market in Vietnam is necessary. So, several solutions need to be implemented synchronously.

Firstly, completing the legal framework for the development of green bonds-issuing directives and guiding documents related to green bonds. In particular, it is necessary to clearly define standards in identifying green bonds and green projects as well as principles in the issuance and management of capital generated from green bonds. These standards need to be developed according to GBP 2015 but must also be suitable for Vietnam's unique characteristics in the process of economic, political, environmental, and social development. It makes green bonds more attractive.

The principles related to green bonds also need to be concretized and detailed for the issuer of green bonds to comply. Management agencies need to create a clear set of environmental standards and have a specific monitoring mechanism to identify "green" projects according to the advanced standards in the world today. As a result, new projects in Vietnam can attract more foreign capital flows. The government needs to cooperate with foreign organizations such as the World Bank, UNEP, and GIZ. . . for advice, guidance, and evaluation in the green bonds market.

It is necessary to study the process of technical evaluation of green technologies and projects. Along with the rapid development of science and technology, environmental problems are at an alarming rate. Projects are gradually turning to be greener. Processes for the technical evaluation of projects have also become more rigorous. Vietnam is a new country entering the green bond market, so the Ministry of Natural Resources and Environment needs to carefully study this process to avoid errors and confusion.

Secondly, increasing the supply and demand of green bonds.

To develop green bonds, the Government and relevant agencies need to issue many incentive policies for market participants because this is a relatively new financial asset in Vietnam. The government may consider offering tax, fee or other incentives to issuers as well as to domestic and foreign investors. In the project on green bonds, the Hanoi Stock Exchange has proposed to the State Bank of Vietnam to approve the green bonds in the open market with the incentive of a higher discount rate than other bonds. In addition, to increase liquidity for green bonds, the State Bank could accept the use of some types of green bonds as compulsory reserves... It could encourage banks to buy green bonds in their asset portfolio, contributing to the development of the market.

Besides, it is necessary to raise people's awareness about green bonds. This is also an important prerequisite for China to successfully develop the green bonds market. The policies related to green growth in general and the green financial system in Vietnam, in particular, has been good orientations

for economic actors to pay more attention to environmental factors in their activities. It creates the supply and demand for green bonds in the market. Investors will consider environmental factors when making investment decisions, and at the same time, financial institutions and firms, which have not yet focused on sustainable growth, will be interested in green bonds as a tool to attract funding sources for green projects.

Thirdly, it is essential to improve the domestic bond market as well as consider international bond issuance. The stock market, especially the debt trading market in Vietnam, has not developed strongly. Therefore, to develop green bonds, Vietnam needs to develop the debt trading market, creating favorable conditions for the development of the green bond market. On the other hand, after successful overseas bond issuances, the Government also needs to have orientation for the issuance of green bonds to the international market to obtain a large source of foreign capital for green economic development.

Fourthly, it is necessary to control information disclosure, capital use, and project supervision. Any project that comes into operation needs strict control in many aspects. Green bond projects are quite special, in addition to the common characteristics of bonds, green bonds also bring social benefits. Green bond projects are often related to environmental protection, so it is difficult to control.

In summary, green bonds are one of the new green financial assets in Vietnam. To be able to form and develop the green bonds market in the future, it is necessary to carry out economic and financial reforms to raise environmental responsibility in society and complete the legal framework for green bonds as the basis for this asset class to be born and developed in the future. In addition, other measures should be implemented to attract the demand and supply of green bonds to push the development of this market.

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