

Vietnam Green Bond Market

Sang Tang My¹, Nhi Tran Nguyen Uyen², Van Nguyen Thi Hong³,
Ngoc Do Hong⁴

^{1,2,3,4} Faculty of Finance and Commerce, HoChiMinh City University of Economics and Finance, Vietnam

Corresponding Author: Sang Tang My

ABSTRACT

Through secondary data, the study synthesizes the basic issues related to green bonds, green bond standards, and experiences in developing the green bond market in some countries. Then, the research considers the current development of the green bond market in Vietnam, and identifies opportunities and challenges of the market. Based on the research results, the research proposes some implications for the development of the green bond market in Vietnam.

Keywords: bond market, bond, environment

INTRODUCTION

The world is now facing huge environmental problems such as biodiversity loss, ecosystem destruction, natural disasters, seriously affect the economic and social life. However, economic growth has always been a top priority for countries; green bonds have emerged as a financial support tool for climate-friendly projects. Green bonds are an effective funding opportunity for a world of sustainable and long-term development, gradually playing an important role in forming capital sources to serve sustainable growing countries, as well as a useful tool for projects associated with the environment. On a global scale, especially for developed countries, green bonds have become one of the newly developed capital mobilization tools. The total value of global green bond issuance reached 155.5 billion USD in 2017. Three prominent markets are the US, China, and France, accounting for

56% of the total issuance value (Initiative Climate Bond, 2020).

The green financial market in Vietnam is in its infancy. The market activities are mainly new at the start-up stage. The green bond market is in the pilot stage and implementing programs to propagate and introduce green bonds to the subjects in the market. The green stock market was kicked off and implemented most strongly by putting the VNSI index into operation at the same time with regulations requiring listed businesses to provide information on the environment, society, and the community. In Vietnam, green bond is a relatively new financial tool, but is also gradually receiving attention from society (Thi Thanh Loan, 2019).

According to the bond market report of the Department of Finance and Banking, the Vietnam bond market in recent years has developed quite well in terms of size and issuance value in 2017 (Ministry of Finance, 2017). Regarding bond market balance, the government bond market balance at the end of 2017 reached more than VND 1,882,000 billion, up 13.3% from the end of 2016 (equivalent to about 37.59% of GDP. The corporate bond market as of the end of 2017 was 310,117 billion VND, equal to 6.19% of GDP, and has a huge room for growth compared to the average level of ASEAN countries from 20-22% of GDP).

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Overview of green bond

There is no single definition of a green bond, despite a growing consensus on what this bond means. Green bonds are bonds issued to raise capital for climate change solutions issued by governments, banks, localities or businesses, and labeled green bonds as debt securities including securities (Initiative Climate Bond, 2020). In essence, this is a bond with the same characteristics as a regular bond but is issued to support green investments, investments aimed at reducing environmental impacts such as reducing gas change. or increase energy efficiency (Falsen, 2015). Green bonds can be issued by public entities such as governments, local authorities, or the private sector such as banks and businesses to raise capital for projects associated with the environment (Berensmann et al., 2017).

Green bonds have the same feature as the traditional bond, this is a fixed-rate financial instrument used to raise capital from investors through the capital market. The issuer mobilizes a fixed amount of term capital from investors, pays principal at maturity, and pays interest periodically during the mobilization period. However,

green bonds have many other characteristics, including the proceeds from the sale-related costs used to finance or refinance green projects, the environment, while other types of bonds that can be used to finance many other projects may not be green projects. Green bonds have other provisions on the mechanism of debt repayment, recourse, and exemption from recourse to issuers. Authorities can apply green labeling to bonds and include a green bond index, or differentiate through tags on widely used analytical tools in the financial market as on Bloomberg (Ehlers, 2017).

Global green bond standard

Countries with developed green bond markets are based on the International Capital Markets Association of Green Bond Principles (GBP), which consists of four main principles of issuance. The first principle is that the purpose of using proceeds from issuance for green projects must be publicly disclosed before issuance so that investors can follow. The second principle is the project evaluation and selection process, green bond issuers need to develop an internal process to identify eligible projects using green bonds. The third principle is that the proceeds from green bonds must be separately accounted for and facilitate the issuer to manage, track and allocate to green projects. The fourth principle is the reporting regime, the issuer must report and update on the full use and disbursement of the proceeds from the green bond issuance, and encourage the use of quantitative indicators to evaluate project effectiveness. Besides, having an independent appraisal and certification body recommended by the ICMA is essential to determine a green-eligible bond in the form of advisory, credit rating, labeling ... Sometimes due to lack of Globally accepted standards or consistently verified, the perceptions of green bonds can also vary.

Vietnam green bond market

Vietnam has a fossil fuel-intensive economy, with nearly two-thirds of its

energy supplied from coal, oil, and gas. Increasing energy demand in recent years has made Vietnam a coal importer since 2015. An excessive dependence on fossil fuels is threatening the nation's energy security. Besides, Vietnam is already experiencing serious environmental problems related to climate change and air pollution. Research by international organizations shows that climate change can cost Vietnam 15 billion USD per year, equivalent to 5% of GDP. All of these problems require Vietnam to gradually replace fossil fuels with environmentally friendly energy sources. So, Vietnam needs to establish a green financial policy framework and create green financial instruments to mobilize funding for sustainable development, promote green energy, and implement adaptive solutions. and mitigating the impacts of climate change in Vietnam (Quan Thu Trang, 2020).

Since 2012, Vietnam has been oriented towards green finance and green financial products for the Vietnam stock market to create finance for green growth. After opening the first trading session in 2017, the first green securities products appeared on the Vietnam stock market. Then, it initially attracted the attention of investors and issuers. The development of the green bond market in Vietnam has many opportunities and challenges as follows:

- **Opportunity**

In Vietnam, the consequences of climate change have increased the extent and cycle of natural disasters such as droughts, floods, sea-level rise ... which have seriously affected socio-economic development and people's lives. Inundation and saline intrusion caused by sea-level rise will narrow the area of arable land in agriculture in both the Red River Delta and the Mekong River Delta. Industries will also be affected due to a shortage of raw materials and energy, leading to higher production costs.

- **Challenges**

Although the global green bond market is developing rapidly, Vietnam in particular as well as developing countries in general are facing many challenges, the application of strategies and policies. Green finance also faces many barriers including institutional-market barriers. Vietnam also faces institutional challenges. Also, issuing a green bond issuance process requires the skills and techniques to track and evaluate the use of proceeds throughout the life of a project, ensuring that projects are implemented under Green Bond Principles. Another challenge in the implementation of green bond capitalization is the challenge from the market including the issue of minimum size, the issuing currency, and the non-convertible currency of issuing foreign currency bonds if they want to issue a large volume. Finally, the cost of issuing is high, because the issuer has to incur additional costs to obtain green bond certificates from an independent rating agency and disclosure of information and reporting activities on the distribution of green bond proceeds throughout the life of the project.

- **Lessons learned to develop the green bond market**

In South Africa: In 2011, South Africa issued the Code for Responsible Investing in South Africa (CRISA). This promotes the realization of five principles to support institutional investors in applying responsible investment activities, including socio-environmental factors. CRISA also requires listed companies to provide aggregate reports on corporate activities and social and environmental risks. Together with international organizations, the South African government initially introduced and tested the rules and regulations on standards applicable to green bonds. Under this CRISA, key industries that meet the criteria for funding and investment from green bonds, such as renewable energy, energy efficiency, clean transportation, sustainable water management, waste, land use, infrastructure. A standard South African bank will be selected by the issuer to ensure

the issuer complies with the green project as well as the green project. Issuing organizations are encouraged to hire independent auditors, confirm the allocated funding from the proceeds ...Due to positive governmental measures and investor support, green bonds issued in South Africa finance sustainable and eco-friendly development projects in a variety of sectors from energy, waste treatment, transportation ... continuously recorded impressive growth and development. Since the first green bond was first issued in South Africa in 2012 for a green energy project until the end of 2015, the actual number has grown by 20 times with widespread institutional participation multilateral business, local government. In 2012, the capital raised from the issuance of green bonds reached \$ 2.6 billion, then this figure reached \$ 41.8 billion in 2015. Besides, the field of business receiving capital from green bonds is also very diverse, from energy to waste treatment, transportation ... In 2014, Johannesburg successfully issued 1,458 billion Rand (equivalent to 140 million USD) local government bonds in Africa to finance emissions mitigation projects, including projects on biofuels, solar energy, and sustainable transportation. Johannesburg local government bonds have a 10-year term, coupon rate 10.18%, and are issued with a yield difference of 185 basis points, 1.85% higher than government bonds of the same period. The issuance took place successfully with the bidding volume equal to 150% of the total bidding volume. After Johannesburg pioneered the issuance of green local government bonds in Africa, other localities also followed suit to issue bonds to raise capital for many infrastructure investment projects, environment-friendly projects. In fact, before the issuance of green bonds, Johannesburg had a successful process of issuing municipal bonds, attracting interested investors, so the information, promotion of the green bond issuance more favorable. Johannesburg also has a very high credit rating, AA (Fitch), and Aa +

(Moody's), and the City government is very interested in maintaining this rating, to guarantee bond issues successfully. The success of Johannesburg's green municipal bond issuance is because, since 2006, Johannesburg established the Sinking Fund (responsible for social projects) to ensure trust. Green bond investors have a term of 5 years, while green bonds usually have a term of 10 years (Hoang Phuong, 2016).

In Singapore: The Monetary Supervisory Authority of Singapore (MAS) announces the plan to finance green bonds through the second-party appraisal fee support applied with an issue value of 200 million to 100,000 million USD and term at least 3 years. Besides, this agency also takes measures to determine issuers qualified for this sponsorship program, including businesses or financial institutions issuing green bonds. The issuance of bonds must be conducted by a Singapore-established enterprise and after being issued bonds must be listed on the Singapore Stock Exchange (SGX). Enterprises also need to submit an independent assessment report or credit rating based on internationally recognized green bond standards (Nguyen Thi Tuyet Mai, 2019).

In China: Careful legal and technical preparations as well as systematic and synchronous steps have contributed to helping China's green bonds achieve positive results and in the coming years. This is still one of the important capital attraction channels to help China achieve its plan to green its economy in the future. China's experience shows that for green bonds to thrive, it is necessary to ensure contents including raising environmental awareness in the whole society, building a legal basis, and issuing Preferential policies to encourage the development of the green bond market, develop green bonds both in the domestic market and abroad, in which, to focus on the development of the domestic green bond market.

Implications for the solution to develop the green bond market in Vietnam

For businesses, commercial banks, localities, and organizations to have a clear orientation in the process of approaching and preparing to issue green bonds in the market, it is necessary to have a guide manual on green bond issuance. Based on development experience as well as opportunities and challenges, the main contents covered in this handbook should include guidance on the use of proceeds from the issuance, evaluation, and selection projects process, management of proceeds from issuing, environmental impact assessment reports. Link with foreign organizations for advice and guidance. Learn from these organizations' knowledge and experience in developing the green bond market. There should be preferential policies on taxes, fees, and other profits from the government to encourage and encourage issuers, as well as domestic and foreign investors, to pay attention to this type of bond. Procedures related to the implementation of a green bond project need to be shortened for the appraisal and financing process to take place quickly. To perfect the domestic bond market as well as consider issuing bonds internationally.

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