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Increasing financing opportunities for green projects in Vietnam

Green project financing has become a global trend in the banking and finance industry. In Vietnam, while traditional financing channels via banks increasingly offer preferential credits to green projects in the country, new legislation was recently adopted this year for enterprises to issue green bonds to mobilise capital for environmental protection projects. This opens yet another channel for financing the green sector in Vietnam.

Significant progress of the traditional financing channel via banks

Banks have increasingly shown interest in providing credits, mainly for medium and long term financing with preferential interest rates for green projects. Some of this impetus also reflects changing internal regulations of certain banks on environmental and social risk management, and the conduct of credit risk assessment in lending activities. Banks are progressively looking towards actively joining the green circle and achieving practical results towards the national goals for sustainable growth and reduction of carbon emissions.

Standard Chartered and HSBC, for instance, announced their commitments to reduce the provision of financing for brown projects such as coal-fired power plant projects, and to gradually switch to green financing. Some banks are taking on more of a significant lending role by co-funding green projects with other banks and lenders. For example, Agribank and Vietnam Development Bank signed a co-financing agreement for the Solar Power Plant TTC Phong Dien in Hue province providing more than half of the required capital for the project.

More recently, Vietcombank and Japan International Cooperation Bank have entered into a credit package of USD 200 million to finance capital for solar and wind power projects in Vietnam. The term of the loan is up to 14 years, in accordance with the demand for loans to invest in green energy projects in Vietnam.

Agribank and Central Power Corporation (EVNCPC) signed a credit contract to invest in the construction of the Central Power Solar Project in Khanh Hoa province. Out of the total construction investment capital of VND1.372 trillion, more than 50% of this cost, being VND735 billion, were loans provided by Agribank.

Vietnamese banks also commit with international funds to finance millions of USD to green projects. Recently, TPBank signed a long-term contract for green credit loans worth USD20 million with the Global Climate Partnership Fund (GCPF). This has opened more opportunities for project companies to access capital funds with attractive interest rates for environmental protection projects.

Taking into account the current progress of green financing in Vietnam, by 2025, the State Bank of Vietnam plans to have at least 10-12 banks establish specialised units or departments for environmental and social risk management while 60% of banks have access to green capital and provide loans for green credit projects.

SBV strongly encourages banks to develop green financing strategies independently or integrate such strategies into their annual business development plans.



The outlook for the new financing channel via green bonds under Decree 163

The concept of 'green bonds' is not a new one in the international financing market. The first green bond was issued by the European Investment Bank and the World Bank in 2007 to finance their environmental projects. However, Vietnam only recently entered this space in February 2019 when the Government's Decree 163 regulating the issuance of corporate bonds took effect. Decree 163 covers green bonds and creates more channels for capital mobilisation for environmental protection instead of solely relying on traditional financing from banks.

A green bond is similar to other types of bonds. However, the funds raised by the issuer are specifically for green projects, which are environmentally-friendly and prioritise climate concerns. Renewable energy is one of the main sectors that stand to benefit most from the issuance of green bonds.

Investors around the world are becoming more and more concerned about climate change risks and the transition to a low-carbon economy. By issuing green bonds, green project companies seek investment from international investors with specific orientation towards sustainable development, renewable energy and environmentally-friendly growth.

Vietnam is not the only country in the region to see the promise of sustainable funding. In February 2019, a USD 95 million sustainability bond was issued to the Tropical Landscape Finance Facility to finance a sustainable natural rubber plantation in Indonesia. In 2015, China officially joined the global green bond market by having its Agricultural Bank issue an almost USD1 billion green bond in London to mobilise capital for eco-friendly projects in China. Since then, the value of green bond issuance in China has rapidly increased to USD36.2 billion which accounts for one third of the global green bond value, making China the top country in the green bond market.

Looking forward, in order to successfully implement the 'green bond' in Vietnam, the Government needs to speed up the economic and financial reformation in Vietnam and improve people's awareness of the social environment. In addition, more relevant investment incentives should be provided to make green bonds a truly efficient funding tool for Vietnam's developing green projects.

If you have any questions or require any additional information, please contact [Kevin Hawkins](#) or [Thu Hoang](#) of ZICO Law Vietnam.

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