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Green Finance: A Foundation for Sustainable Development

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Abstract

In today's context, sustainable development is becoming a general trend in the world and the world is moving towards "greening" activities such as: Green growth, green finance, green accounting, green bonds. Green finance is an important tool in promoting a sustainable business environment, by integrating environmental and social

factors into business decision-making and financial reporting. This article highlights the role of green finance in supporting businesses to adapt to sustainable development trends, from resource management to minimizing negative impacts on the environment and society.

Keywords: Green Finance, Sustainable Development

1. Introduction

Sustainable development is becoming a common trend in the world and the world is moving towards "greening" activities such as: Green growth, green bonds, green accounting, green finance... Sustainability is not only related to protecting the environment, but also about building a business platform from which both the environment and society benefit. According to research around the world, green finance is considered an important tool related to aspects of the influence of the natural environment on the economy and is considered a direction for transformation towards sustainable development. Sustainable, towards developing a green economy.

In recent years, green finance has been recognized as an important component, contributing to a country's green growth strategy, and is a useful tool that provides environmental information in addition to general information. Information about the production and business situation of enterprises, as a basis for enterprises' environmental protection obligations. As a result, it will help reduce environmental risks, as well as public health risks, while improving financial performance at the enterprise level.

In that context, the development and application of green finance becomes an inevitable need for countries, including Vietnam. Green finance is considered an important tool related to aspects of the influence of the natural environment on the economy and is considered a direction for transformation towards sustainable development. However, how to apply green finance effectively is a current issue.

2. Overview of Green Finance

In recent years, there have been many studies discussing green finance:

According to Chowdhury (2013)^[1], green finance is financial policies that create incentives for businesses and consumers to change their production and consumption behaviors to be more environmentally friendly.

According to the European Investment Bank (EIB), green finance is defined as financial services provided for economic activities to support environmental improvement, climate change mitigation and financial use. More effective. These activities include financing, operations management and risk management of projects aimed at environmental protection, energy saving, clean energy, green transportation and green construction.

According to the definition of the United Nations Environment Program (UNEP), Green Finance is solutions towards sustainable development and climate change adaptation through financial products and services provided by financial institutions. In other words, green finance is understood to increase the level of financial flows (from banks, microcredit, insurance and investment) from many sources (public sector, private sector and non-governmental organizations). Profit for sustainable development and climate change adaptation priorities. From there, negative environmental and social externalities are effectively resolved. Funded projects are not only profit-oriented but also generate environmental benefits. At the same

time, greater accountability is also required.

According to UNEP, compared to previous approaches, green finance solutions are multidimensional coordination between the government, businesses and people as diagram 1 depicts. In particular, the Government plays an important role in applying, regulating and orienting green finance solutions in many different ways. At the national level, public finance solutions can be promoted through changes in countries' legal frameworks, harmonization of public finance solutions, and strengthening of green finance solutions. From different fields. Meanwhile, local governments play an important role in adjusting the financial decision-making process of businesses, promoting the private sector to pay more attention to environmental aspects, in accordance with development goals. Sustainable development of the region, increasing investment in clean sectors and green technology, financing a green economy based on sustainable natural resources.

According to the Green Finance Program, it is a worldwide trend with the participation of international financial organizations, Governments of countries as well as the financial systems of each country and region. With the commitment to bring net emissions to zero by 2050 and reduce methane emissions by 2030, the need for countries to invest in projects that minimize environmental impacts will be increasingly greater. Therefore, green finance plays an extremely important role in each country's sustainable development goals.

3. Benefits of Green Finance

The green growth strategy from the perspective of the Government of Vietnam is to promote the process of restructuring and perfecting economic institutions towards more effective use of natural resources, improving the competitiveness of the economy, through enhancing technological innovation and economic tools, thereby contributing to responding to climate change, reducing poverty and ensuring sustainable economic development. Thus, green growth is basically synonymous with sustainable growth, or it can be understood as development that can meet current needs in all aspects without affecting or harming the ability to meet current needs. Needs of future generations. This is the targeted task of many countries and each country builds appropriate strategies based on its economic, political and cultural characteristics. Although it is a new field, green finance soon achieved positive results. Applying green finance brings many benefits, including:

▪ For Businesses

Creating a competitive advantage: To cope with the growing challenges from climate change and other economic and environmental issues, low-carbon green development can shift from a voluntary to a strategic obligatory. Expanding green finance will give organizations a competitive advantage as environmental regulations tighten.

Add business value: Businesses can enhance the value of their portfolios by increasing (and promoting) their involvement in green finance. It gives the company a green edge, attracting more environmentally conscious investors and customers.

Enhance economic prospects: Governments that promote green finance will help protect their societies from resource scarcity. They do this by building and encouraging local markets for renewable energy, as well as entering new

markets with high employment potential.

▪ For the environment

Encourage environmentally friendly activities: Green finance provides capital for renewable energy projects, efficient use of resources and environmental protection. Helps reduce pollution, greenhouse gas emissions and conserve natural resources.

Promoting sustainable development: Green finance supports businesses in transitioning to sustainable business models, while encouraging individuals and households to adopt green lifestyles.

Responding to climate change: Green finance plays an important role in mobilizing resources to finance activities to respond to climate change, such as dyke construction, afforestation and development. Early warning system.

▪ For economy:

Job creation: Green projects often require a lot of labor, thus contributing to job creation and promoting economic growth.

Attracting investment: The green finance market is growing rapidly, attracting investors interested in environmental and social issues. For example, pension funds and investment funds can invest in green bonds or companies operating in the renewable energy sector.

Minimize risks: Green finance helps minimize risks related to climate change and environmental pollution, contributing to improving business performance and stabilizing the economy.

▪ For society

Improve quality of life: A green, clean and beautiful environment and stable climate bring many benefits to human health and quality of life.

Reduce inequality: Help close the gap between rich and poor and ensure that everyone has access to financial services and green infrastructure.

Promoting community development: Green projects are often implemented in local communities, contributing to improving the material and spiritual lives of people.

4. Some Achievements and Difficulties in Applying Green Finance

Vietnam has begun to pay attention and implement action plans to launch and develop green finance and achieve certain achievements.

The legal framework for green finance began to be built when the Prime Minister approved the national action plan on green growth for the period 2014-2020 in 2014. On October 1, 2021, the Government issued Decision Decree No. 1658/QĐ-TTg approving the National Strategy on Green Growth for the period 2021 - 2030, vision to 2050 with the goal of green growth contributing to promoting economic restructuring associated with innovating growth models, achieving economic prosperity, environmental sustainability and social equity, moving towards a green, carbon-neutral economy and contributing to the goal of limiting global temperature rise.

Based on the direction of the Government, the system of legal documents and policies includes a number of Decrees, Circulars, and Decisions guiding ministries, departments, branches and the State Bank on green finance each year. Steps have been completed, regulations on many types of tools such as green bonds, green stocks, green credits create conditions for businesses to mobilize domestic and international green capital such as Decree No. 95/2018/ND -

The Government's CP regulates government bonds and green local government bonds, and the 2020 Environmental Protection Law regulates the carbon market development roadmap. The Law on Environmental Protection 2020 and Decree No. 08/2022/ND-CP dated January 10, 2022 detailing a number of articles of the Law on Environmental Protection also regulate the lists of projects eligible for credit. Green and issue green bonds. On December 4, 2018, the Government issued Decree No. 163/2018/ND-CP, which is considered the first legal framework for green bonds in Vietnam and provides leverage to encourage further investment in green bonds. Green projects in the private sector. On December 31, 2020, the Government continued to issue Decree No. 153/2020/ND-CP (replacing Decree No. 163/2018/ND-CP) that further stipulated private offering and bond trading. Corporate bonds in the domestic market and offering corporate bonds to the international market. In addition, the 2020 Environmental Protection Law also officially recognizes green bonds as an important economic tool for environmental protection.

5. Result

About green credit: In recent years, there has been an increase in awareness of green credit from both banks and customers in Vietnam. Banks provide financial products and services with green goals and customers tend to support financial activities aimed at protecting the environment. The banking system plays a huge role in promoting green credit growth and managing environmental and social risks in credit granting activities. As one of the main pillars of the green financial system, green credit plays an important role in providing the necessary capital to achieve sustainable development goals. The Vietnamese government has introduced policies and measures to encourage green credit, including preferential credits for businesses operating in the fields of environment, renewable energy, water treatment, and water reduction. Emissions. The development of the green finance market in Vietnam can be seen, including the launch of green financial products such as green bonds, green loans and green investment funds.

According to Nguyen Xuan Bac - Deputy Director of the Credit Department of Economic Sectors of the State Bank (2023), in the period 2017-2022, the system's outstanding credit balance for green fields has an average growth rate of outstanding balance reaching more than 23%/year. By June 30, 2023, outstanding green credit loans reached nearly 528.3 trillion VND, accounting for about 4.2% of the total outstanding loans of the entire economy. Among the 12 green fields that the State Bank guides credit institutions to lend, outstanding loans focus mainly on renewable energy, clean energy (accounting for 45%) and green agriculture (31%). Credit institutions have enhanced the assessment of environmental and social risks in credit granting activities with outstanding loans assessed for environmental and social risks reaching nearly more than 2,485 million billion VND, accounting for nearly 20% of total outstanding loans for credit institutions. Borrowing from the economy. Most banks have regulations on safety and sustainability control when financing investment projects, and requirements on environmental protection and saving energy and resources.

About green bonds: Besides Social Bonds and Sustainable Bonds, green bonds are one of the means of mobilizing capital from the private sector for projects with environmental and social benefits, innovative finance to

support Sustainable Development Goals and the 2015 Paris Climate Agreement. As of October 2022, Vietnam has only issued 5 rounds of green bonds with a relatively modest total value of 200 million USD. The majority of proceeds from bond issuance (57%) are used for renewable energy - the main industry of interest to Vietnam, in addition to the water, waste and agriculture sectors (MOF, 2021).

About green stocks: The green stock market in Vietnam is just in the creation stage. Authorities have launched programs and indicators to encourage businesses to focus on sustainable development. The main activities that have been implemented to date can be divided into 3 groups: (i) Enhance market-wide understanding of green finance; (ii) Encourage the participation of businesses in green finance; (iii) Develop and apply a sustainable development index for the entire market. A number of activities have been implemented to promote the development of green stocks. The State Securities Commission coordinates with IFC, the Global Reporting Initiative (GRI), HNX and HOSE to deploy many training programs to improve the capacity of listed companies on disclosing ESG information, published the Guidebook for implementing ESG reporting for listed companies.

On July 18, 2022, Ho Chi Minh City Stock Exchange. Ho Chi Minh City (HSX) has announced the publication of the VNSI index basket (Viet Nam Sustainability Index - Sustainable Development Index), including 20 stocks in the VN100 with the highest sustainable development potential on the market. This information shows the development potential of the green stock market in Vietnam in the future. With the trend of sustainable development, large investment funds are especially fond of investing in projects that meet ESG (Environmental, Social and Governance) standards, which means that businesses are selected. Choosing to join the VNSI index will have the opportunity to access large investment capital from abroad for sustainable development.

Some Existing Limitations:

Therefore, the implementation of green finance in Vietnam today will also encounter many difficulties and challenges, specifically:

In terms of institutions, Vietnam has many laws and legal documents related to supporting businesses to invest in green finance, such as the Law on Environmental Protection, Law on Land, and Law on Energy Conservation. Economical and effective..., along with a series of other guiding documents. However, institutions and policies mainly stop at the central, single-sector level. Policies are issued slowly, do not keep up with the general progress of science and technology, and have not created clear changes. Many policies are not enough to motivate businesses to invest in green finance.

Lack of information and evaluation standards: The green bond market is still in the development stage and does not have its own information channel, as well as no common standards for evaluating the environmental performance of sponsored projects. This makes it difficult for investors to access information and accurately assess the sustainability and environmental impact of projects.

Liquidity in Vietnam's green finance market is still quite low. Green finance markets are often smaller and less liquid than traditional markets. This can lead to higher transaction costs and less flexibility for investors. On the demand side, due to limited awareness of green finance, many investors

are not interested in this product. The lack of organized investors participating in all segments of the credit market, stocks, and green bonds leads to a lack of professionalism and unattractiveness in the market for international investors.

Meanwhile, the market supply is still limited due to a lack of green projects and not many issuing organizations. Furthermore, when market liquidity is low and information is not readily available, it is difficult for potential buyers in the market to meet potential sellers, leading to market inefficiency. Reality shows that the growth motivation of the green finance market in Vietnam from 2015 up to now mainly comes from the policy orientation of the State Bank and the Ministry of Finance, not from the market.

Besides, green credit is currently still mainly focused on large credit institutions. Green credits have complicated procedures and unclear regulations, making it difficult to borrow capital to implement green projects. Deploying green credit requires a large amount of capital, a long investment time, a complex appraisal process while financial efficiency is not high, and the main goal of commercial banks is profit.

6. Solutions for Applying Green Finance Associated with Sustainable Development

Currently, green finance plays an important role in shaping and promoting business activities and environmental management to ensure sustainable development. Below are some specific solutions to apply green finance associated with sustainable development:

On the management side:

Need to be properly aware of the development and application of green finance in practice. In particular, with the Party and State's policy of sustainable development and "greening the economy", it is necessary to realize that the application of green finance is a mandatory requirement, but needs a long-term reasonable roadmap.

Continue to supplement and complete regulations on green finance needed in the coming time. Vietnam needs to promulgate the Green Finance Law to create a unified legal foundation for green finance activities. This law needs to clearly stipulate the principles, criteria, standards, and procedures for issuing green bonds, green credit, green insurance, etc. At the same time, it is necessary to perfect the system of legal documents related to green finance, ensuring transparency and accountability in this activity. The state needs to play a leading role in implementing green financial development. Accelerate the completion of mechanisms and policies, promote the development of the market for green bonds, green stocks, green credit, and green financial products. At the same time, prioritize Government investment and spending in green fields and issue appropriate policies to attract resources from economic sectors to invest in the green economy such as tax and fee incentives.

Develop green securities and green credit criteria and standards uniformly applied throughout the market. Strengthen the activities of green credit rating and valuation organizations, publicize and transparent green rating indicators. It is necessary to focus on developing domestic consulting organizations that provide independent assessment services for green projects using revenue from green stocks or green bonds.

Continue to promote the participation of commercial banks

in the green finance market as credit providers and green bond investors. Commercial banks need to develop a set of rules on environmental and social risk management in credit granting activities, conduct environmental and social risk assessments in credit granting activities, and apply Environmental standards for projects funded by banks, incorporating environmental risk assessment as part of the bank's credit risk assessment. Banks need to be facilitated to access green capital and deploy loans for green credit projects.

Have policies to remunerate, encourage, and praise businesses that carry out their good social responsibilities, thereby widely propagating the application of green finance in practical activities. For example: Enterprises that perform green finance well over a period of time (usually about 5 years) will be given priority in tax reduction or deferral, and preferential credit loans for feasible projects...

On the business side:

Need to change perception in applying green finance in production and business activities. Green growth is a trend, so businesses need to have strategies in greening business activities, innovating technology towards green technology, and enhancing social responsibility. This not only creates competitive advantages for businesses but also works towards the common goal of society, which is sustainable development and environmental protection.

It is necessary to further promote propaganda, training, and dissemination of knowledge about policies, environmental and social responsibilities of businesses, and introduce green financial products to the investing public. At the same time, information transparency related to green investment activities and green financial products also contributes to promoting demand for green finance. Continue to enhance and improve the quality of accounting human resources to meet job requirements in the new context... Currently, because green finance is not popular in businesses, the accounting department of businesses is mostly as there are very few accountants with knowledge of environmental accounting or specialized environmental accountants. Therefore, in the coming time, businesses need to focus on training and developing capacity for managers and employees in green finance and sustainable development.

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