

Vietnam: Eyeing COP26 target of net-zero by 2050 by expanding environmental incentives

Draft regulation identifies investment projects eligible for green credit and green bonds

In brief

Vietnam continues to develop regulatory structures incentivizing a shift to a green economy. The proposed classification framework for green credit and green bonds is introduced via the Draft Decision of the Prime Minister on environmental criteria and certification for projects eligible for green credit and green bonds ("**Draft Decision**") released in December of 2022. This Draft Decision identifies investment projects eligible for environmental incentives in the form of green credit (*Tín dụng xanh*) and green bonds (*Trái phiếu xanh*) as provided for in Articles 149 and 150 of Law No. 72/2020/QH14 on Environmental Protection ("**Law on Environmental Protection**"), and includes a number of definitions related to the green economy in Vietnam. Relatedly, a regional classification structure, namely, the ASEAN Taxonomy for Sustainable Finance – Version 2 was released in March of this year, providing updated science-based methods for classifying activities according to their contribution to the environment.¹

Once promulgated in its final form, this Draft Decision will be an important instrument advancing the circular economy in Vietnam. Furthermore, the inclusion of energy, transportation, and manufacturing and processing projects may facilitate the reduction of Scope 3 emissions for foreign investors, by providing incentives and preferential financing terms for suppliers in Vietnam who minimize their carbon output.

Specifically, the Draft Decision includes a Green Classification List of 80 types of investment projects eligible for environmental incentives in the following industries:

Energy



Transportation



Water resources



Construction



Manufacturing and processing



Agriculture, forestry, fisheries, and biodiversity conservation



Information, media and services



Waste



Green transformation



¹ ASEAN Taxonomy Board (ATB): *ASEAN Taxonomy for Sustainable Finance Version 2*, updated 9 June 2023, available at: <https://asean.org/book/asean-taxonomy-for-sustainable-finance-version-2/>

In detail

The Draft Decision recognizes eligible investment projects in two forms:

	Definition	Criteria
Investment projects listed on the Green Classification List	Investment projects that have environmental protection activities or bring environmental benefits and at the same time meet the requirement of not causing significant harm to other environmental protection objectives (" Green Investment Projects "). ² Green Investment Projects include renewable energy projects, clean water treatment, recycling activities, and other environmental protection projects.	Must satisfy project specific environmental criteria provided in the Draft Decision, as well as satisfy respective screening criteria and indicators provided for in referenced regulations.
Certified Green Transition Projects	Investment project with large greenhouse gas emissions but applying technical solutions and technologies to reduce greenhouse gas emissions and ensure requirements for environmental protection (" Green Transition Projects "). ³	Must be certified before they will be eligible to enjoy preferential treatment.

Benefits

As the legal framework for green bonds and green credit was introduced in the Law on Environmental Protection, which took effect only from 1 January 2022, applicable incentive programs are limited at this time. Ideally, broader incentives will be available in the future, especially given the importance of green financing for Vietnam to achieve its net-zero goals. Draft regulations are contemplating further incentives, for example, the draft Law on Corporate Income Tax proposes recognizing income interest from green bonds and income from transferring green bonds as tax-free income.

As noted above, these green financing incentives allow Green Investment Project owners to issue green bonds and obtain green credit on the basis of a self-assessment, provided that they otherwise comply with applicable regulations. This self-assessment is based upon the types of projects and the relevant criteria for such projects provided in the Draft Decision, whereas, the owners of Green Transition Projects must be certified first in accordance with the prescribed procedures in the Draft Decision in order to enjoy green incentives.

In addition to the Draft Decision, Vietnam continues to advance an environmental protection agenda, via the Prime Minister issued Power Development Plan No. 8 under Decision 500/QĐ-TTg issued on 15 May 2023 approving the national power plan for the period 2021-2030, with a view to 2050. The detailed power development plan is expected to help Vietnam meet its goal of net-zero carbon emissions by 2050, by

² Draft Decision, Art. 3.

³ Draft Decision, Art. 3.

prioritizing power generation from renewable energy sources. This power development plan is the culmination of several preceding power plans.

Green Classification List

The Green Classification List recognizes 80 investment projects in 9 industries, summarized as follows:⁴

	Summary
A. Energy	<p>Solar power, wind power, geothermal, bioenergy, marine energy production</p> <p>Producing heat or cooling from solar energy, or geothermal</p> <p>Producing, processing and manufacturing solid biofuels, biogas, liquid or biofuels</p> <p>Renewable energy capacity building infrastructure</p> <p>Installation, operation of the system, transmission and distribution of gas pipelines</p> <p>Installation and operation of electricity, or thermal energy storage systems from renewable energy</p> <p>Construction, repair and upgrading of power distribution systems</p> <p>Installation, operation system of production, storage and distribution of green hydrogen fuel</p> <p>Install heating, air conditioning and other power consuming equipment to use energy economically and efficiently</p>
B. Transportation	<p>Procuring and using low carbon transportation vehicles and developing infrastructure for low carbon transport</p>
C. Water Resources	<p>Extraction, treatment and supply of clean water</p> <p>Quality management and protection of water resources</p> <p>Installation or operation of water desalination, water saving, water circulation, drainage systems, or smart irrigation systems</p>
D. Construction	<p>Renovating and repairing construction works to achieve green construction goals; new green buildings; building and renovating public works to align with environmental protection goals</p>
E. Agriculture, forestry, fisheries, and biodiversity conservation	<p>Conducting agriculture and livestock activities in accordance with good agricultural practice standards;</p> <p>Application of ecological, sustainable, or high-tech agricultural models</p> <p>Conservation of genetic resources in indigenous agriculture and rare and endangered animals and plants</p> <p>Forestry preservation, regeneration, care, conservation and growth activities</p> <p>Sustainable aquaculture and fisheries and clean product supply chain</p> <p>Protect, maintain, and develop and restore natural ecosystems</p> <p>Developing technical infrastructure for disaster risk reduction and prevention</p> <p>Pollution treatment, reclamation, restoration and protection of land, and collection and processing of livestock and aquaculture waste</p> <p>Processing agricultural by-products</p>

⁴ Draft Decision, Appendix I.

F. Manufacturing and Processing Industry	<p>Producing energy efficient electrical equipment, machinery and equipment,</p> <p>Producing components and electronic devices for low-carbon technology development</p> <p>Producing transportation vehicles using low-carbon technology</p> <p>Producing and supplying equipment, products and technologies to meet environmental protection requirements</p> <p>Producing components, equipment for the production of green H2 fuel and other applications of green H2 technology</p>
G. Waste	<p>Separation, collecting, transferring, transporting, treatment, and reuse of solid waste</p> <p>Waste recycling</p> <p>Collection, classification and treatment of hazardous waste</p> <p>Collecting and treating wastewater</p> <p>Waste gas Treatment</p>
H. Information, Media and Services	<p>Data processing, information infrastructure leasing and related activities</p> <p>Scientific research, technology development, application of technology transfer on environmental protection</p> <p>Organizing education, training and retraining on environmental protection</p> <p>Application of information technology in environmental protection</p> <p>Producing media on environmental protection</p> <p>Support services for environmental protection activities</p> <p>Financial activities supporting services for environmental protection</p>
I. Green Transformation	<p>Producing electricity from gas fuel</p> <p>Producing heat or cooling from natural gas or liquefied petroleum gas (LNG) fuel</p> <p>Sustainable fisheries product processing</p> <p>Energy efficient production of iron and steel</p> <p>Energy efficient cement production</p>

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For more details on the Draft Decision, please do not hesitate to contact us.