

## Environment, Social and Governance Investment, the Current Situation and Proposed Solutions for Vietnam



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**ABSTRACT:** Currently, ESG is a global trend due to climate change and the urgency of green development. Therefore, many investors have the demand for sustainable investment in general and ESG investment in particular. This presents an opportunity for businesses and governments to attract investment through ESG practices. To contribute to a better explanation of ESG investment, this study aims to synthesize and analyze the concepts related concepts, current situation and proposed solutions should be conducted during the development process of ESG investment, especially applied to Vietnamese economy.

**KEYWORDS:** ESG investment, Vietnamese economy, sustainable development, green investment, Net zero, investment decision.

### I. INTRODUCTION

Currently, we are living in the era of global warming, with annual occurrences of a series of climate-related disasters. This raises the alarm about the necessity of sustainable development goals. Following the Covid-19 pandemic, the practice of sustainable development, especially ESG practices, has become a mandatory objective for all businesses worldwide under the pressure of society, governments, and especially investors. When asked about the importance of ESG in their investment approach in 2022, over a quarter of global investors stated that ESG is a "focus" in their investment approach (26%, compared to 28% in 2021). However, a higher proportion expressed their views on ESG investment as "acceptance" (34% compared to 32%) and "compliance" (29% compared to 24%). Besides, ESG is increasingly solidifying its position in the investment community, with research indicating that only 13% of global investors agree that ESG is a short-term and temporary trend (Ground, 2022). This suggests that the majority of investors view ESG as an essential trend in the context of long-term investments.

The ESG principle is a framework including environmental (E), social (S), and governance (G) factors, and was first proposed in 2004. Henceforth numerous milestones of progress in each factor and ESG as a whole were attained, such as the establishment of the ESG valuation system, the ESG disclosure standards and the ESG index system. Moreover, ESG stems from responsible investment. The principles for responsible investment (PRI) define responsible investment as "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership" (UNPRI, 2022). Therefore, ESG is usually a standard and strategy used by investors to evaluate corporate behavior and future financial performance (Ting-Ting Li, Kai Wang, Toshiyuki Sueyoshi, Derek D. Wang, 2021). Hence, ESG is an investment philosophy that pursues long-term value growth, and it is a comprehensive, concrete, and down-to-earth governance method (Ting-Ting Li, Kai Wang, Toshiyuki Sueyoshi, Derek D. Wang, 2021).

According to Virlics (2013), investment decisions in economic theory are made based on 2 criterias: the expected rate of profit and the riskiness of various potential investment opportunities, and the finance cost; "if the expected rate of profit exceeds the cost of finance by the margin required to cover the risk element, the businessman would wish to undertake the project." (Harcourt, 1967). Investments, aimed at profit, can be in physical assets like buildings or machinery, or financial assets like stocks or bonds, both aiding business growth. They can replace existing assets or add new ones. The decision to invest hinges on expected profit, asset cost, and financing availability and method (Harcourt, 1967). However, as the investment decisions are under the economical and financial environment (Virlics, 2013), in order to achieve highest performance in investing, environmental and social environmental effects could be neglected.

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Thus, ESG investing refers to companies' investment actions that consider the environment (Environment), society (Social), and corporate governance (Governance) together. "Environment" refers to activities such as reducing carbon dioxide emissions and energy consumption. "Social" refers to activities such as human rights issues and promoting women's activities. "Corporate Governance" refers to activities such as compliance and management transparency (Shigeyuki Hamori, Xiao-Guang Yue, Lu Yang, James C. Crabbe, 2022).

### **II. CURRENT SITUATION OF ESG INVESTMENT IN VIETNAM**

#### **Great potential ESG investment market in the region**

In general, Vietnam is considered as a potential market with the market size and growth recently. With the significant difficulty in the business environment in 2023, the scale of listed and registered transactions in the market as of the end of November 2023 reached 2,092 trillion Vietnamese dong, representing a 5.5% increase compared to the same period in 2022. In addition, the market also continues to attract active participation from investors with the upward trend to more than 7.25 million securities accounts, equivalent to 7.3% of the population.

Regarding the ESG market, this is still a new potential market in Vietnam. Vietnam is a developing country, focused on industrialization and modernization, which leads to less sufficient attention to sustainable development. It does not mean that ESG is not widely known here; however, investors, enterprises and the government are in the research and experiment process, repairing for the future market in 3-5 years. As a result, there will be a lot of problems that are necessary to solve to make this potential market become a big one.

#### **The high ESG trend in Vietnamese enterprises**

Recently, Vietnam's enterprises are gradually aware of the importance of ESG. 80% businesses have made ESG commitments or plan to do so in the next 2-4 years. To be more specific, 57% FIEs had their ESG plan while most listed companies were in the planning phase. Of the remaining 20% of businesses that have not committed to ESG because of the lack of knowledge (PwC, 2022). But in 2023, the ESG trend is increasingly strongly responded to by Vietnamese businesses. To be more specific, 94% of businesses participating in the survey are clearly aware of the importance of sustainable development and 51% have officially practiced ESG (UOB group, 2023) For example, Vietnam Dairy Products Joint Stock Company (Vinamilk) announced action programs to achieve net zero emissions by 2050, providing specific roadmaps to reduce emissions; Vietnam Joint Stock Commercial Bank for Investment and Development (BIDV) recognizes and sets the goal of "striving for sustainable development" as a pervasive objective in the bank's operations, making green credit and green financing a priority in the development strategy. In addition, young people nowadays is increasingly interested in environmental issues and sustainable growth. On the one hand, this means there is an upward trend in using green products that lead to the increasing demand and potential market in the near future. On the other hand, with the early green knowledge, the next businesses leaders generation may lengthen the ESG trend in Vietnam market. Specifically, up to 68% of the next generation in Vietnam believe that they have a responsibility to fight climate change and 45% see an opportunity for private businesses to take the lead in climate change. Moreover, 77% of them showed their desire to participate in sustainable corporate in the future (PwC, 2022).

#### **The effort of the government**

Recently, the government has gradually improved ESG practices in Vietnam. Firstly, more and more ESG performance measurement tools appeared in the market such as ESG ranking list of Vietnam Chamber of Commerce and Industry, VNSI score of Ho Chi Minh City Stock Exchange that evaluate ESG performance based on Global Reporting Initiative in order to supply more information and measurement for investors to reference. Next, government also train and enhance ESG capabilities ESG practices by organizing a large number of seminars in all sectors like the scientific workshop on "Implementing ESG in the Banking Industry: Opportunities, Challenges, and Solutions" organized by the State Bank of Vietnam or the seminar "ESG - Inevitable Shift in the Global Supply Chain" organized by the Ho Chi Minh City Investment and Trade Promotion Center (ITPC) in collaboration with the Ho Chi Minh City Mechanical and Electrical Enterprise Association (HAMEE).

The government also created favorable conditions to encourage projects related to ESG and ESG investment. Specifically, in 2012, the national policy on green growth was a crucial directive of the Party and the State aimed at greening the economy. The focal point was the National Green Growth Strategy for the period 2011-2020, with a vision towards 2050, to promote sustainable development, particularly in the context of declining biodiversity and deteriorating environmental conditions. The strategy also underscored the role of financial policies in mobilizing, allocating, and incentivizing organizations, individuals, investors, and businesses to invest in green initiatives, engage in green production, and adopt green consumption practices. In 2023, according to the Ministry of Finance, the budget policy has given priority to green growth, and the state budget for environmental protection has become increasingly specific and transparent; additionally, public investment in green growth also has been integrated into

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investment priorities for industries, sectors, regions, and targeted programs. As a result, the government could encourage the ESG practices of local enterprises, limit their environmental destructive actions and repair a long-term strategy for sustainable development.

In addition, although Vietnam is lagging behind developed countries in green transition efforts, after the conference COP 26 in Glasgow, the government has outlined a comprehensive roadmap to realize climate goals. This includes establishing a National Steering Committee to implement Vietnam's commitments at COP26, issuing new management regulations related to auditing, greenhouse gas reduction, environmental protection, biodiversity preservation, and climate change adaptation; specially, there is a direction towards developing the domestic carbon market with an official plan and target for it to operate by 2028.

### Challenges in developing ESG investment in Vietnam

At present, the integration of ESG assessment into the investment process in Vietnam is still quite limited, despite the increasing awareness of ESG among businesses and investors and the effort of the government. There are some main challenges in developing ESG investment that need to be addressed.

- Firstly, the majority of companies in the market have not yet fully recognized the importance of implementing good ESG practices in their business operations, resulting in inadequate allocation of resources to ESG. At present, only large enterprises show a proper level of interest and investment in ESG, as evidenced by their sustainable development reports. For small and medium-sized enterprises, activities related to ESG are still not given enough attention or are not publicly disclosed. This poses challenges for investors who have a demand for green investments but lack sufficient information.
- Secondly, the current legal framework for this field is still incomplete, leading to a lack of confidence for businesses to issue ESG bonds, and investors do not feel secure in their investments.
- Thirdly, environmental, social, and governance factors are not receiving equal attention from businesses. Vietnamese companies prioritize the governance factor more, while for long-term sustainable development and attracting green capital, prioritizing all three factors is necessary.
- Fourthly, as a relatively new market, the information disclosed about ESG still lacks validation from international credit rating organizations. Consequently, there is a lack of genuine 'green' stories with the potential for sustainable greenwashing, causing hesitation among green investors in the decision-making process.
- Finally, businesses lack long-term strategies for ESG and sustainable development. The majority of publicly listed companies have short and medium-term ESG goals (84% and 70%, respectively), but less than half (48%) have long-term goals (i.e., over 5 years), and only 8% disclose Net Zero targets (PwC, 2022) while green investments require a longer payback period and return on investment.

### III. SOLUTIONS

Through analyzing the economical situation in Vietnam, it can be concluded that ESG investment plays an important role in developing a sustainable economy in Vietnam. In order to develop this kind of investment effectively, in the near future, the central tasks and solutions need to be carried out as follows:

On the government's side, there is a need to expedite the process of refining the legal framework, creating favorable conditions for green funds to flow into Vietnam and instilling a sense of security for investors. Additionally, the government should pay more attention to the implementation of sustainable development in general and ESG practices specifically in small and medium-sized enterprises, developing policies that facilitate these businesses. Furthermore, the government should establish standards and criteria for information related to green and ESG to minimize information dilution or greenwashing.

Regarding enterprises, for businesses that have begun practicing ESG, the focus should be on developing a balanced approach to all three factors: environmental, social, and governance. These businesses should also take a leadership role, assisting and guiding other enterprises in the market to enhance their ESG performance. For small and medium-sized enterprises, it is crucial to first recognize their significant role in the Vietnamese economy and then actively implement ESG practices to attract green capital. Moreover, all businesses need to be transparent in their disclosures related to sustainable development, avoiding exploiting legal loopholes that can negatively impact the entire market and affect investor confidence.

### IV. CONCLUSION

In summary, amidst the global challenge of severe climate change, the role of the green economy in general and ESG in particular is crucial in reducing emissions and pollution, giving rise to a trend of green and sustainable investments worldwide. Although ESG has only recently emerged in Vietnam and faces numerous challenges, the government and businesses have made efforts to refine policies to attract green investments. As a result, the ESG investment market in Vietnam has become dynamic with significant

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potential. Despite issues such as legal incompleteness, uneven prioritization among environmental, social, and governance factors, and a lack of transparency in information, the ESG market in Vietnam remains promising for the future as these challenges are addressed.

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