

APPROPRIATE POLICIES ARE NEEDED ENCOURAGING THE DEVELOPMENT OF GREEN BONDS

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Abstract: *Green bonds are a financial instrument issued by businesses, the Government, and financial institutions to mobilize investment capital for green projects, renewable economic projects, circular economic projects, environmental treatment projects, and climate change response projects. According to the World Bank's calculations, to develop a green economy in the period of 2022 - 2050, Vietnam needs up to 436 billion USD in capital. According to the calculations of the Ministry of Planning and Investment, to develop green and move towards the goal of zero net emissions by 20250, Vietnam needs to mobilize about 144 billion USD. According to the world's experience, an effective tool to mobilize capital is to issue green bonds. The article uses qualitative research methods to analyze the current status of the development of the Vietnamese corporate bond market in recent years, giving some assessments related to green bonds and recommending related solutions.*

• Keywords: *green bonds, corporate bonds, sustainable development.*

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Research Introduction

In recent years, the Vietnamese corporate bond market (TPDN) issued individually has grown strongly in terms of issuance scale. However, the scale and value of bonds on the market are still much lower than other countries in the region in terms of GDP. The value of bonds issued annually compared to other capital mobilization channels on the market is also quite low. Product quality has not met market demand, high risks, the legal system for the corporate bond market is still not complete. Green bonds account for a low proportion and tend to decline sharply. In order to sustainably develop the individual corporate bond market in general, and green bonds in particular, in the coming time, it is necessary to comprehensively implement specific solutions. The article focuses on urgent issues that are being raised in practice.

Research Methodology

Within the framework of a scientific conference paper, the practical article does not have the time and resources to conduct quantitative research, build functions, and determine impact variables. The author also does not have enough time and funds to conduct surveys, investigations, and interview experts. The author's paper uses qualitative research methods, presents key concepts, provides criteria for sustainable development, and analyzes the urgency of development for the economy in general and Vietnamese enterprises in particular. 1. Current status of corporate bond market development

Research content

1. Current status of corporate bond market development

1.1. Regarding the scale of the corporate bond market

The Vietnamese corporate bond market has witnessed significant growth from 2018 to 2023. This development reflects the increased demand for financial instruments to raise capital, as well as the increasing participation of domestic and foreign investors. 2019 marked a strong growth of the corporate bond market compared to the previous period. The amount of corporate bonds issued increased by more than 30% compared to 2018, officially surpassing the amount of government bonds and bringing the outstanding debt equivalent to nearly 11% of GDP, with individual corporate bonds alone being more than 10% of GDP. 2021 is considered a boom year for corporate bonds. The total issuance volume in the year reached VND 742.7 trillion, double that of government bonds and the outstanding debt equivalent to 14.75% of GDP. In 2022, the market witnessed many incidents that caused a decline in confidence, causing consecutive consequences. The Government began to tighten corporate bond issuance activities, especially at the end of the year. As a result, the amount of corporate bonds issued in the year decreased by 64% compared to the peak year of 2021. Entering 2023, corporate bonds were generally relatively quiet in the first half of the year and improved in the second half. In 2023, the total value of corporate bonds issued reached VND 311.2 trillion,

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an increase of more than 15% over the previous year. {VBMA (2024)}

In 2022, the total value of corporate bonds issued in the past year reached VND 258,575 billion, approximately 12.6% of GDP, still quite modest compared to countries in the region such as Malaysia (56% of GDP), Singapore (38% of GDP), Thailand (25.5% of GDP). Corporate bond outstanding debt accounted for 10% of the total outstanding debt of the whole economy at the end of 2022. In 2023, the total value of corporate bond issuance was recorded at VND 324,234 billion, with 29 public issuances worth VND 37,070 billion and 306 private issuances worth VND 287,164 billion (accounting for 88.6% of the total). {VBMA (2024)}

1.2. On the term structure and interest rates of corporate bonds

In addition to the structure of issuance forms, the issuance data also shows a clear classification of the term structure. The term structure of corporate bonds is mainly concentrated in terms of 3-5 years and over 5 years. These two terms account for a fairly large proportion; this situation shows the demand of issuing organizations for medium-term debt instruments. [HNX (2024)]

The average issuance term of corporate bonds in 2023 is 5.96 years, down about 0.4 years compared to the average in 2022. The issuance terms of credit institutions and real estate enterprises are 5.51 and 4.01 years, respectively. [HNX (2024)]

It can be seen that 67% of corporate bonds issued in the fourth quarter have a term of 5 years or less. Average issuance interest rate in Q4/2023: 7.65%/year. Average issuance term in Q4/2023: 5.56 years. The issuance interest rate continued to decrease in the fourth quarter with an average value of 7.65%/year, this is the fourth consecutive quarter of decrease in 2023. The issuance interest rate of the banking group is mostly from 5-7%/year, only a few commercial banks have an interest rate of about 8%. The real estate group has a common interest rate of 9.7%-12.5%/year. [HNX (2024)].

1.3. Regarding issuance method

Enterprises mainly issue by issuing agency through securities companies or commercial banks. In 2021, issuance by the agency method accounted for 66% of the total issuance volume; credit institutions mainly issued bonds directly to investors. 11.71% of the volume of privately issued bonds was underwritten by securities companies, accordingly, securities companies provide consulting services on documents, underwriting and distributing bonds on the secondary market. [HNX (2024)]

In terms of investors and members participating in the issuance market, the following table shows the structure of domestic and foreign investors participating in the corporate bond market in the period of 2021-2023.

Commercial banks are the main investors participating in the corporate bond market. Unlike government bonds, corporate bonds are classified by commercial banks as credit groups and are often managed by the credit department. The market therefore has more of a credit market than a capital market. There are currently no comprehensive statistics on secondary trading of corporate bonds, so it is unclear how the ownership ratio of investors has changed after issuance. [MOF (2024)]

Individual investors in the market in 2023 decreased sharply compared to 2021 with the regulation that only professional individual investors are allowed to buy and sell privately issued corporate bonds. Instead, securities companies emerged with a large ownership volume in the market, accounting for 22.58% of the total issuance value in 2023. [HNX (2024)]

2. Assessment of the current status of development of Vietnam's corporate bond market

2.1. Achievements

Firstly, the market size is increasingly expanding

In the period 2017-2021, the individual corporate bond market grew strongly, due to the shift of mobilized capital from bank loans to bond issuance in the context of declining credit growth. For corporate bonds, in general, in 2023, the value of individual corporate bond issuance was VND 287,164 billion, the value of public issuance was VND 37,070 billion. The proportion of public bond issuance in 2023 skyrocketed to 11.43%, 7.3 percentage points higher than in 2022 and the highest level since 2015. [HNX (2024)]

On the banking side, BIDV is leading in green bond issuance. By the end of 2023, VND 2,500 billion worth of bonds had been issued according to the green bond standards of the International Capital Market Association (ICMA). BIDV is the first commercial bank to issue green bonds according to international standards in the domestic market. Within just 2 months of issuance, BIDV has disbursed all bond capital to finance renewable energy, wind power, solar power and sustainable transport projects. The issuance of green bonds affirms the bank's sustainable development strategy and the desire to contribute with the Vietnamese Government to fulfill its commitment to achieving net zero emissions by 2050. BIDV also aims to become a Net Zero Bank by 2050. [MOF (2024)]

Secondly, the legal framework is gradually being completed

In addition to the figures on the scale and value of corporate bond issuance, the legal framework on bonds has been and is gradually being completed. Decree No. 65/2022/ND-CP dated September 16, 2022 amending and supplementing a number of articles of Decree No. 153/2020/ND-CP dated December 31, 2020 regulating

the offering and trading of individual corporate bonds in the domestic market and the offering of corporate bonds in the international market. In 2023, the Government issued Decree 08/2023/ND-CP amending, supplementing and suspending the implementation of a number of articles in the Decrees regulating the offering and trading of individual corporate bonds in the domestic market and the offering of corporate bonds in the international market. [MOF (2024)]

Thirdly, the tenor of bonds is increasingly diverse and the interest rate on corporate bond issuance tends to decrease

In the context of the State Bank still managing credit growth limits, corporate bonds have emerged as a new capital mobilization channel, helping businesses not only mobilize capital in the medium and long term but also restructure their debt sources, limiting their dependence on the commercial banking system. Not only is it a new capital mobilization channel for businesses, but the corporate bond market is also a new choice for investors. During the difficult economic market period, the stock market has continuously decreased in points and is on the list of weak markets compared to other countries in the world.

Fifthly, the structure of investors buying corporate bonds is also increasingly diverse

Domestic investors still dominate, the proportion of foreign investors shows signs of increasing but is still insignificant compared to domestic investors. Considering the domestic investor group alone, the domestic banking group accounts for the highest proportion. Regarding the investor structure, securities companies and commercial banks are the main investors in the primary market, the proportion of individual corporate bond purchases by individual investors has decreased compared to 2020.

Sixthly, the possibility of successful maturity and the implementation of the individual corporate bond system is increasingly feasible

The pressure on corporate bond maturity is still increasing at the end of 2024, while many issuers are still facing difficulties in business operations and cash flow, being able to negotiate to extend the maturity of bonds that are about to mature is one of the best solutions that these issuers can choose at the present time to have more time to recover production and business and create enough cash flow to pay for their bond debts.

2.2. Limitations

Firstly, the scale of private issuance of corporate bonds has grown rapidly and rapidly in recent years. However, the size of the Vietnamese bond market only accounts for about 15% of GDP, much lower than other countries in the region. The uneven growth in issuance volume and

quality of bonds leads to the market being easily affected by any changes in legal policies or the market.

Secondly, the structure of investors from private issuance of corporate bonds has not been diversified when the results show that they are mainly concentrated in two groups: securities companies and domestic commercial banks. Banks are the largest issuers of bonds and also the largest buyers of bonds, leading to the consequence of lack of transparency in capital flows and the risks that follow.

Thirdly, the short-term and medium-term bond maturity structure - high interest rates but the purpose of raising capital for long-term projects leads to future financial risks if cash flow is not well managed, having to pay principal when the project has not yet generated profits, resulting in low capital efficiency. Potential risks such as the form of lending capital, even a way to avoid credit limits. Fourth, the possibility of successful maturity is low due to short-term bonds, businesses may not be able to respond in time to overcome the consequences, the risk of facing bankruptcy is very high. It is difficult to ensure payment sources for maturing bonds. Fifth, the Government, the Ministry of Finance and relevant ministries and branches do not have specific policies to encourage the issuance of green bonds, so the issuance results in this field are tending to slow down. If in 2022, businesses issued 37,000 billion VND of green bonds, then in 2023, only 3,000 billion VND of this type of bond was issued and there were no results in the first 5 months of 2024. [MOF (2024)]

2.3. Causes of limitations

Causes from management agencies

The draft legal framework amends the circular many times, making it difficult for management organizations, issuing enterprises, and investors to adapt and get used to it.

A new regulation in Decree 153/2020/ND-CP is that the subjects buying corporate bonds are only for professional investors. Specifically, privately issued bonds are only issued to professional investors and do not need to be licensed. Professional securities investors when buying private corporate bonds must self-assess and take responsibility for the risks. Issuing enterprises and organizations providing corporate bond services when committing violations will be subject to administrative sanctions according to regulations. [MOF (2024)]

* The management and supervision system is not really effective

The corporate bond market still has some potential risks, and needs to be closely monitored for the market to develop healthily. Specifically, for the collateral of bonds. The collateral of bonds is mainly real estate, securities, programs and projects. Although the rate of bonds with

collateral is high, in reality, the quality of collateral is mainly projects, future assets or corporate stocks.

* Infrastructure has not yet met the transaction needs of investors in a timely manner

To increase the liquidity of privately issued corporate bonds as well as help the market have information on bond transactions after issuance, Decree 153/2020/ND-CP has regulations on the organization of a secondary trading market for privately issued corporate bonds. Before the corporate bond trading system was put into operation, the number of privately issued corporate bonds traded centrally or listed was often very limited, meaning that bond transactions mainly took place on the OTC market or through securities companies and depository organizations by transferring ownership.

* Absence of credit rating agencies

Lack of organizations to evaluate and rate corporate credit. Current investors rely entirely on the information disclosure table published by the issuing organization when investing, without an independent source of data to check the transparency of the market. Recognizing that the credit rating puzzle is still lacking for investors to have more tools to evaluate and trust corporate bonds when up to now, there are only 2 organizations allowed to operate credit rating in the market.

Causes from investors

Investors mainly rely on the psychology of the majority without a full understanding and analysis of the corporate bond market, and do not have awareness of green bonds. Individual investors do not have the ability and resources to fully assess the risks of bonds, so each investor needs to learn and have a certain amount of knowledge. Some prominent reasons from investors include:

Lack of legal knowledge: The Securities Law, the Enterprise Law and the Decrees on the issuance of corporate bonds clearly stipulate that only professional securities investors are allowed to buy and trade privately issued corporate bonds. Accordingly, investors need to learn about the regulations on conditions, supporting documents and regulations on sanctions for violations against professional securities investors.

Lack of information about the issuing enterprise and the bond: Bonds need to be evaluated and analyzed in terms of the field of operation, the issuing enterprise, financial situation, purposes of capital use, quality of collateral as well as the conditions and terms of the bond.

3. Recommendations for sustainable development of the corporate bond market

In the context of economic tensions between countries in the world due to political conflicts, the Vietnamese stock market is also greatly affected. In addition, the nature of the market still has many limitations as analyzed above. This article recommends some solutions

to contribute to stabilizing and sustainably developing the corporate bond market in general and green bonds in particular in Vietnam in the coming time.

3.1. Solutions for sustainable development of the bond market in general

Firstly, it is necessary to urgently complete the legal framework and organize the implementation of the Government's policies to promote the development of the corporate bond market in general and green bonds in particular

It is necessary to have specific regulations on the responsibilities of the State Securities Commission, the State Bank of Vietnam, and the Stock Exchange as specialized management agencies in managing and supervising the issuance and provision of corporate bond services for securities companies and credit institutions; focusing on the focal point for managing the corporate bond market at the State Securities Commission in the direction of distinguishing the management and supervision methods between bonds issued to the public (licensed) and bonds issued privately.

In addition, to restore the attractiveness of the corporate bond market, the Government needs to review all taxes that investors must pay in the corporate bond investment sector, creating conditions to encourage long-term investors through exemption or reduction of all or part of taxes on bond income and taxes on bond repo transactions.

The National Assembly needs to have a plan, the Government needs to direct relevant ministries and branches to urgently complete the legal frameworks related to green cities, including: (i) Regulations on classifying and certifying national green projects to apply incentive policies need to consider the similarities between Vietnam's green criteria and international standards. This makes it easier for businesses to implement projects, attract domestic and foreign investment according to the same system of standards.

When developing or promulgating legal documents under their functions, relevant ministries and branches need to stipulate green criteria including levels corresponding to different levels of policy incentives. At that time, enterprises issuing green bonds can gradually access preferential policies as well as create goals/motivations to achieve sustainable growth; at the same time (ii) Issue guidelines for issuance activities and post-issuance reporting of green bonds, taking into account specific regulations between the operations of credit institutions and economic organizations.

The issued mechanisms and policies need to support and encourage enterprises to green transformation and issue green bonds through continued research and expansion of policies to support enterprises to issue green bonds such as supporting issuance costs, tax

incentives, etc.; promoting training and developing human resources on the environment; promoting propaganda and encouraging enterprises to implement green transformation. It is necessary to encourage investors to participate in investing in green bonds: consider issuing preferential policies large enough to encourage investors to buy bonds (for example, incentives on credit limits, taxes on investment yields, etc.); raise awareness of investors' responsibility towards sustainable development, community and society.

Secondly, it is necessary to encourage enterprises to conduct credit ratings

Instead of suspending credit ratings, the Government needs to consider solutions to encourage enterprises to conduct credit ratings before issuing corporate bonds in general and green bonds in particular.

Thirdly, it is necessary to promote and strengthen the activities of market makers of corporate bonds in general and green bonds in particular

+ Promote the role of market makers

It is necessary to encourage investment funds to participate in the corporate bond market. This is one of the members that actively contributes, contributing to increasing liquidity for the entire bond market. Investors will gather small capital sources from non-professional investors, thereby allocating their investment portfolios to bonds or stocks. With the available advantages of expertise as well as financial potential, investment funds will buy and sell corporate bonds to make a profit.

+ Professionalize the stock brokerage team It is necessary to improve the expertise and professionalism of stock brokerage experts, and there should be sanctions and regulations on ethical standards for brokers.

Fourthly, organize a secondary trading market for privately issued corporate bonds The secondary trading market is where investors can buy and sell issued bonds without having to wait for the maturity date. This creates liquidity for bonds, making investment in bonds more flexible and attractive. Thereby, it also helps the bond market develop more strongly, increasing capital sources for businesses.

Fifthly, it is necessary to build a credit rating system for businesses According to international practice, the corporate bond market needs the participation of valuation and credit rating organizations to increase the quality of bonds traded in the corporate bond market in general, and green bonds in particular.

Sixthly, it is necessary to increase publicity, transparency, and limit risks for investors through regulations to manage separately between private issuance and public issuance for investors for issuing enterprises, it is necessary to improve the management of private issuance of corporate bonds by the enterprises themselves. Issuing enterprises must enhance autonomy

and self-responsibility when mobilizing bond capital; comply with issuance conditions and investors buying bonds and fully disclose information to investors and the Information Portal on corporate bonds in general and green bonds in particular.

3.2. Solutions to promote the development of green bonds

The National Assembly needs to supplement the Resolution on law making, the Government directs relevant ministries and branches to urgently submit to the Government and the National Assembly the draft Law on Green Economic Development, or the Government's Decree on Green Economy, or the Circular of the Ministry of Finance on issuing green bonds. Accordingly, legal regulations need to ensure the following requirements:

First, regulations on classifying and certifying national green projects to apply incentive policies need to consider the similarities between Vietnam's green criteria and international standards. This makes it convenient for businesses to implement projects, attract domestic and foreign investment according to the same system of standards.

In addition, consider regulating green criteria including levels corresponding to different levels of policy incentives. At that time, businesses issuing green bonds can gradually access incentive policies as well as create goals/motivations to achieve sustainable growth; At the same time (ii) Issue guidelines for the issuance and reporting of green bonds, taking into account the specific regulations between the operations of credit institutions and economic organizations.

Second, there are specific and clear regulations on the support mechanism, encouraging enterprises to make green transformation and issue green bonds through continuing to research and expand policies to support enterprises issuing green bonds such as supporting issuance costs, tax incentives, etc.; promote training and development of human resources on the environment; Promote propaganda and encourage enterprises to make green transformation.

Third, encourage investors to participate in green bond investment: consider issuing preferential policies large enough to encourage investors to buy bonds.

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