

DEVELOPING A FRAMEWORK OF CRITERIA TO EVALUATE PROJECT ELIGIBILITY FOR GREEN FINANCING

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Abstract: *This article underscores the need for science-based criteria to define truly green projects and prevent greenwashing. It reviews major international frameworks (GBP, GLP, EU Taxonomy, ASEAN Standards) and outlines key steps for building a transparent, measurable system for green project evaluation. Drawing on Vietnam's recent policies, it shows how clear criteria enhance green bond issuance, green banking and trust in sustainable finance.*

• Keywords: green financing, GBP, GLP, green loans, taxonomy,...

Date of receipt: 25th Jun., 2025

Date of delivery revision: 04th Jul., 2024

DOI: <https://doi.org/10.71374/jfar.v25.i5.19>

Date of receipt revision: 30th Jul., 2025

Date of approval: 30th Aug., 2025

Introduction

With climate change and the drive for sustainable development, green finance has become essential for directing capital toward environmentally beneficial projects. Clearly, science-based standards are required to identify truly “green” initiatives and prevent greenwashing. Establishing a strong evaluation framework ensures green financial instruments such as bonds, loans, and deposits, are properly allocated and produce genuine environmental benefits. This article covers key international principles, methods for designing qualitative and quantitative criteria, and the importance of robust frameworks for issuing green debt and developing green banks.

1. International guidelines and standards for green projects

Various international guidelines and standard frameworks have been established to define and assess green projects, serving as references when developing a domestic criteria system. These include:

1.1. Green bond principles (GBP)

The Green Bond Principles (GBP), issued by the International Capital Market Association (ICMA), define four pillars for green bond issuance: (1) Use of Proceeds, (2) Project Evaluation and Selection, (3) Management of Proceeds, and (4) Reporting (IFC, 2022).

Proceeds must fund projects with clear, quantifiable environmental benefits, and issuers should disclose evaluation methods to ensure transparency. Eligible sectors such as renewable energy, energy efficiency, clean transport, and sustainable water management all contribute to goals like climate mitigation, adaptation, and resource conservation.

Serving as the global benchmark, GBP guide about 98% of sustainable bond issuances worldwide (ICMA, 2023).

1.2. Green loan principles (GLP)

The Green Loan Principles (GLP), issued by the Loan Market Association (LMA), mirror the Green Bond Principles (GBP) to standardize the green loan market through four pillars: use of proceeds, project evaluation and selection, management of proceeds, and reporting (LMA, 2025).

Borrowers must define the project's environmental objectives, demonstrate compliance with eligibility criteria, and outline risk-management and exclusion processes. This internal framework justifies why each loan qualifies as green.

GLP require loans to finance projects with measurable environmental benefits preferably quantified and apply to sectors such as renewable energy, sustainable agriculture, and water or climate adaptation. Transparency is essential: borrowers should disclose both qualitative and quantitative impact metrics with clear methodologies.

1.3. Green deposits

Green deposits are bank deposit products in which funds are used exclusively to finance green projects. To ensure transparency and prevent greenwashing, banks or regulators establish specific management frameworks.

For example, the Reserve Bank of India (RBI) introduced its Green Deposit Framework in 2023, requiring banks to define eligible project lists, apply strict evaluation procedures, and allocate funds solely to qualifying activities (RBI, 2023). The framework

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classifies “green projects” as those supporting climate mitigation, adaptation, or biodiversity conservation, and mandates annual public disclosure of fund allocation and environmental impacts verified by independent auditors.

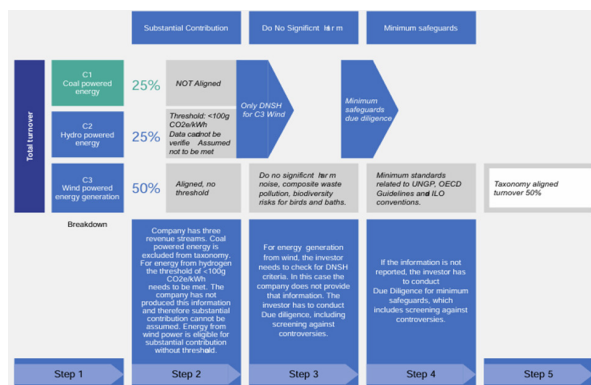
Compared with green bonds or loans, green deposits are more tightly regulated to enhance transparency, accountability, and auditability, reinforcing investor confidence and integrity in green finance markets.

1.4. EU taxonomy

The EU Taxonomy is the EU’s main sustainability classification system, designed to define what qualifies as environmentally sustainable. It guides investors, companies, and policymakers toward a low-carbon, resource-efficient economy and sets technical screening criteria to determine whether an activity is “green” (EU Technical Expert Group, 2020).

Under EU regulation, an activity is considered environmentally sustainable if it simultaneously: (1) Substantially contributes to at least one of six environmental objectives (climate mitigation or adaptation, sustainable water use, circular economy, pollution control, biodiversity protection); (2) Does no significant harm (DNSH) to any of the other objectives; and (3) Meets minimum social safeguards (e.g., OECD due-diligence standards).

Figure 1: Process for applying the taxonomy



Source: EU Technical Expert Group (2020)

The Taxonomy applies a detailed, science-based approach such as CO₂ thresholds (g/km or gCO₂/kWh) and assessments are made at the activity level, not the whole company. It identifies which operations qualify as sustainable and requires major firms and financial institutions in the EU to disclose their taxonomy-aligned activities.

The EU Green Bond Standard will require that EU-labelled bonds finance only taxonomy-compliant projects with independent verification. Though complex, the taxonomy standardises green finance terminology, reduces ambiguity, and raises market credibility. It has influenced global frameworks such

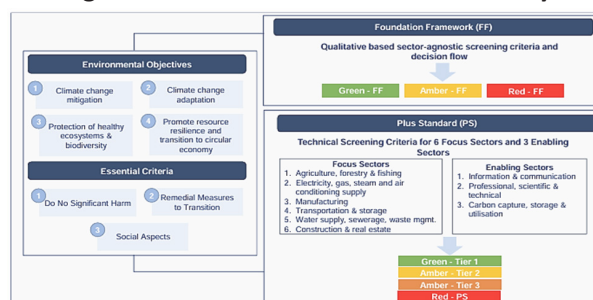
as those in the UK, China, and ASEAN promoting alignment in defining “green” activities worldwide.

1.5. ASEAN green bond standards & ASEAN taxonomy

The ASEAN Green Bond Standards (AGBS), issued by the ASEAN Capital Markets Forum (ACMF), adapt ICMA’s Green Bond Principles (GBP) to the regional context. They are built on four pillars: use of proceeds, project evaluation, management of proceeds, and reporting and provide detailed guidance on eligible sectors, fund tracking, and disclosure (ACMF, 2019). To prevent greenwashing, AGBS excludes high-emission projects such as coal and fossil-fuel production and require issuers to publicly disclose fund use and management. External reviews are encouraged and must be performed by qualified, transparent assessors (Climate Bonds Initiative, 2019).

In addition to AGBS, ASEAN has formulated a Sustainable Finance Taxonomy, of which: Version 2 (2023) introduces a two-tier approach: (i) Foundation Framework (FF): qualitative screening via guiding questions and decision trees; (ii) Plus Standard (PS): detailed quantitative and qualitative technical criteria. Version 3 (2024) further refines this structure, aligning the “green” category with internationally recognized taxonomies (such as the EU Taxonomy) and adapting thresholds for ASEAN’s context. Activities are color-coded: green (significant environmental contribution); yellow (transitioning activities); red (non-eligible).

Figure 2: Structure of the ASEAN taxonomy



Source: ASEAN Taxonomy Board (ATB, 2023).

The ASEAN taxonomy recognizes the varied needs of user groups - including companies, investors, and governments - across all ASEAN nations. To address the limitations of a uniform approach, the FF and PS tiers are designed to accommodate economies at different stages of development. The FF tier delivers an entry-level assessment guided by qualitative criteria, while the PS tier facilitates advanced evaluation through the application of explicit quantitative or qualitative standards.

In essence, ASEAN standards uphold core global principles: defining eligible sectors, ensuring

measurable environmental benefits, maintaining transparency, and enforcing comprehensive reporting to build investor confidence. These shared practices form the foundation for credible green-project evaluation frameworks across Southeast Asia.

2. Designing a green project criteria system

Developing a framework to identify projects eligible for green financing requires a systematic, evidence-based approach. The recommended process involves the following key stages:

(1) Define objectives and scope

Determine how the criteria system will be applied whether for green bonds, green loans, or a broader green-credit policy. Clarify whether “green” focuses solely on climate mitigation (e.g., CO₂ reduction) or also includes wider environmental goals like biodiversity protection and pollution control. Clear objectives ensure consistency with the institution’s sustainability strategy.

(2) Refer to existing standards and taxonomies

Identify relevant green definitions and reference frameworks. Options include: (i) broad international lists (e.g., GBP), (ii) regional or national standards (ASEAN GBS, China’s green guidelines), and (iii) detailed taxonomies (EU or Climate Bonds Initiative).

The choice depends on legal requirements and market targets. Institutions seeking global investors should align with strict frameworks such as the EU Taxonomy, while those focused on local markets may adopt national or ASEAN standards. Many combine both starting with ICMA’s framework and adding specific exclusions (e.g., coal bans) to enhance credibility and reduce greenwashing risks.

(3) Identify eligible green sectors and categories

Create a list of qualifying sectors or project types based on selected definitions. Common areas include renewable energy, energy efficiency, sustainable transport, waste and water management, organic agriculture, afforestation, and emission-reduction technology (IFC, 2022). Each category should link to a clear environmental objective, and exclusions (e.g., coal power, fossil extraction, deforestation) must be specified to ensure transparency and consistency (ACMF, 2019).

(4) Develop quantitative criteria for each project type

For each category, establish measurable indicators or thresholds that projects must meet. Examples include: minimum renewable energy capacity, CO₂ reduction targets, or energy-saving percentages. Standards like the EU Taxonomy’s <100 g CO₂/kWh benchmark can guide these thresholds, adjusted to regional contexts. Indicators should be scientifically

grounded and practical, with input from sector experts to ensure environmental relevance.

(5) Establish qualitative and process-related criteria

Complement numerical benchmarks with qualitative factors such as valid Environmental Impact Assessments (EIA), alignment with national environmental plans, technology innovation, and transparency in management (e.g., ESG teams, disclosures). Certifications like LEED, EDGE, or CDM registration serve as qualitative indicators. These criteria also incorporate governance and social safeguards (“do no significant harm” principles per the EU Taxonomy, 2020).

(6) Design the project appraisal and approval process

Develop a transparent process covering proposal submission, screening against eligibility and exclusion lists, and evaluation using both quantitative and qualitative criteria. Outcomes may include approval, rejection, or a “green score.” A designated committee (e.g., Sustainable Finance Committee) reviews applications, with external experts consulted for complex cases. All procedures should be documented in the institution’s Green Financing Framework and publicly disclosed to ensure investor confidence (ICMA).

(7) Integrate monitoring and verification mechanisms

Embed compliance checks to ensure funds are used as intended. Monitoring should track project implementation, fund allocation, and environmental performance. Annual impact reports covering metrics such as emissions reduced or renewable energy generated are essential (LMA, 2025). Independent audits, as required by the Reserve Bank of India’s Green Deposit Framework (RBI, 2023), can strengthen transparency and credibility. Continuous verification ensures ongoing compliance rather than one-time approval.

(8) Update and refine criteria over time

Review and update the framework regularly (every 1-2 years) to reflect advances in technology and evolving international standards (e.g., GBP revisions). Updates may add new project types, adjust thresholds, or remove outdated criteria. Expert consultation and benchmarking against newer taxonomies help maintain relevance and balance between rigor and practicality.

By following these stages, institutions can build a robust, transparent green-project criteria system aligned with international best practices and local needs serving as a solid foundation for objective project evaluation and effective green capital allocation.

3. Assessing green projects: Quantitative and qualitative indicators

3.1. Quantitative indicators

Quantitative indicators serve as numerical metrics that evaluate a project's environmental benefits or sustainability performance. These measures are critical for enabling objective and comparable assessments among different projects. In establishing assessment criteria, each green project category should be aligned with a defined set of primary quantitative indicators, such as:

+ *Greenhouse Gas (GHG) Emissions Reduction*: measured in tons of CO₂ equivalent avoided per year (tCO₂e/year) relative to a business-as-usual scenario. Applies to most climate-related projects (clean energy, clean transport, energy efficiency, waste management).

+ *Energy Savings*: measured in megawatt-hours saved per year (MWh/year) or tons of oil equivalent per year (TOE/year). For example, a building retrofit project might report X MWh in annual electricity savings due to high-efficiency HVAC systems.

+ *Renewable Energy Generation*: measured in MWh of clean electricity produced per year or installed capacity in kWp. Applies to solar, wind, biomass, and hydropower projects.

+ *Renewable Energy Share*: percentage of total energy supply derived from renewable sources. Relevant for energy utilities or grid projects demonstrating portfolio greenification.

+ *Clean Water Supply or Conservation*: measured in cubic meters per day (m³/day). Used for water-treatment, water-reuse, and leakage-control projects.

+ *Reforested or Restored Area*: measured in hectares. Applies to afforestation, biodiversity conservation, and ecosystem restoration projects.

+ *Waste Diverted or Recycled*: measured in tons per year. Relevant for circular-economy and waste-management initiatives.

+ *Pollution Reduction*: measured in tons of pollutants (SO₂, NO_x) reduced or volume of treated effluent per year. Used for air- and water-pollution control projects.

Certain sectors may adopt specific indicators suited to their activities such as the number of electric vehicles deployed, kilometers of rail built, or recycled material share in manufacturing. Indicators should match project characteristics, use reliable data, and apply internationally recognized units to ensure investor comparability.

To strengthen transparency and accountability, environmental benefits must be quantified. Frameworks

like the GBP and GLP require issuers and borrowers to disclose quantitative impacts wherever possible (IFC, 2022; LMA, 2025). For example, the RBI's 2023 Green Deposit Framework suggests metrics such as renewable energy capacity (MW), clean power generation (MWh/year), and emissions avoided (tCO₂e/year), illustrating how standardized indicators improve clarity and credibility in green finance

Figure 3: Key sustainability performance metrics



Source: ADB (2021).

3.2. Qualitative indicators

Qualitative indicators evaluate project dimensions that defy simple quantification. They are often expressed as narrative criteria, pass/fail thresholds, or rating scales. Key qualitative measures include:

+ *Project Environmental Objectives*: alignment with the sponsor's ESG strategy or national environmental goals. For example, an offshore wind farm may score highly if it aligns with the national renewable-energy roadmap and contributes toward a net-zero commitment.

+ *Compliance with Standards or Certifications*: presence of recognized green labels (LEED, EDGE for buildings; GlobalGAP organic certification for agriculture; ISO 14001 environmental management systems for industrial facilities). These certifications serve as qualitative proxies for green performance.

+ *Environmental-Social Risk Management*: evaluation of how projects identify and mitigate negative environmental or social impacts. GBP and GLP encourage issuers to describe their risk-management processes, including stakeholder consultations and mitigation plans (IFC, 2022). For instance, a large-scale solar plant should outline post-decommissioning module disposal to avoid environmental contamination.

+ *Social Co-benefits*: consideration of social outcomes such as green job creation, community livelihood improvements, or inequality reduction. Although environmentally in focus, green projects with strong social co-benefits often receive priority under comprehensive sustainability frameworks.

+ *Innovation and Scalability*: projects that implement advanced clean technologies or pioneer

innovative green business models with strong replication potential may receive further qualitative recognition.

+ *Reporting and Monitoring Commitment*: projects whose sponsors pledge regular, transparent reporting and independent assurance of environmental outcomes.

Within a comprehensive criteria framework, quantitative and qualitative indicators complement each other to ensure a balanced evaluation. The Green Bond Principles (GBP) recommend using quantitative impact data alongside qualitative disclosures for clarity (LMA, 2025). Similarly, the EU Taxonomy combines sector-specific quantitative thresholds with qualitative Do No Significant Harm (DNSH) and social safeguards. Institutions should establish a concise set of indicators for each category, integrating numerical precision with contextual analysis to enhance transparency and comparability.

It is recommended to choose a specific set of relevant indicators instead of a large quantity. Common indicators that can be reported by all projects (such as CO₂ avoided) should be prioritized to allow for portfolio-level comparisons, while specialized indicators may be offered as optional additions.

Ensuring the feasibility of data collection is essential. Quantitative indicators provide value only when data can be consistently obtained and verified, while qualitative criteria should also be supported by documentary evidence such as EIA reports or certification documentation. Consequently, it is imperative that the criteria system is directly integrated with a practical monitoring and reporting framework.

4. Importance of a criteria system in issuing green debt instruments and building green banks

The development and effective implementation of a green project criteria system offer significant strategic advantages for both green debt instruments, including bonds, deposits, and loans, and the overarching objective of establishing green banks. The benefits are as follows:

For green-debt issuance, having a clear and credible set of criteria is important for investor placement. Issuers who use a Green Bond Framework that aligns with international standards such as the GBP provide greater transparency, making it easier for investors to assess and compare bonds in the market. This transparency may lead to reduced funding costs, as green bonds with established and recognized criteria can appeal to ESG-focused funds and sometimes achieve lower yields, a phenomenon sometimes referred to as the “greenium” effect. In contrast, unclear criteria may result in investors requesting higher yields due to the uncertainty regarding impact.

Second, a well-defined criteria system enhances the efficiency of the green-debt issuance process. By relying on established guidelines, issuers can promptly identify eligible projects, ensuring a faster time to market. Standardized criteria further streamline due diligence by offering a consistent framework, thereby reducing project-specific evaluation costs. In addition, clear criteria function as an effective risk management tool, filtering out projects that do not meet environmental standards or pose reputational and legal risks. As a result, this helps maintain the integrity and quality of assets backing up green debt instruments.

Third, A comprehensive criteria system is essential for advancing green banking, which embeds environmental considerations into strategic planning and portfolio management. Green banks aim to expand green credit and reduce exposure to high-impact sectors. Applying clear criteria allows banks to identify eligible green loans, which may receive preferential rates or access to dedicated funding. Non-qualifying projects face rejection or stricter conditions, such as mitigation measures. This framework systematically channels capital toward sustainable sectors, builds high-quality green portfolios, and mitigates policy and transition risks in the shift toward a low-carbon economy.

Additionally, establishing green criteria helps create a consistent understanding of “green” initiatives throughout an organisation, reinforcing both its culture and environmental awareness. When credit officers are trained on these standards, they are better prepared to evaluate environmental risks and spot new opportunities, such as financing renewable energy projects. Senior management can use reporting frameworks based on these green criteria to set and track goals for their green portfolios, calculated as a share of total outstanding exposure. These internal processes help embed green banking practices across the entire institution. Moreover, regulatory authorities are increasingly requiring or encouraging financial institutions to adopt green-credit taxonomies and related reporting standards.

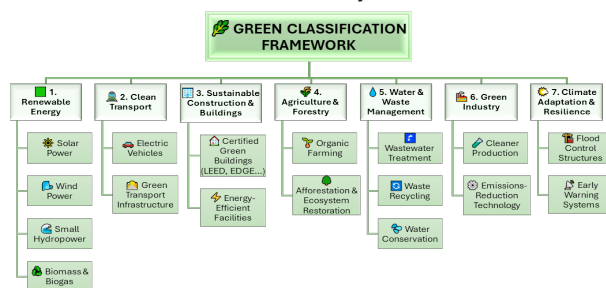
On July 4, 2025, the Prime Minister of Vietnam issued Decision No. 21/2025/QĐ-TTg, establishing environmental criteria and certification procedures for projects in the national green classification catalogue. The decision addresses urgent issues of climate change, pollution, and ecosystem degradation, while fulfilling Vietnam’s international commitments on emission reduction, climate adaptation, and green growth.

It provides the legal foundation for attracting investment in green sectors and sets a consistent framework for classifying, assessing, and supporting projects that meet transparent standards. Collectively, these measures promote the integration of green finance

and advance Vietnam's transition toward a sustainable, climate-resilient economy aligned with the national development strategy.

Decision No. 21/2025/QĐ-TTg stipulates 45 fields and types of projects across seven sector groups described in Figure 4, which are considered "green" and serve as the legal basis for credit institutions to determine projects eligible for green credit or for issuing green bonds. According to this, the State Bank of Vietnam (SBV) is tasked with guiding credit institutions on adopting this Catalogue and requires reporting on green credit outstanding balances according to the classified sectors.

Figure 4: Seven green sectors in Vietnam's green taxonomy



Source: Compiled by the authors based on Vietnam's Decision No. 21/2025/QĐ-TTg.

Pursuant to Decision No. 21/2025/QĐ-TTg, Circular No. 17/2022/TT-NHNN (December 23, 2022) requires credit institutions to identify, assess, and manage environmental risks in lending activities. Banks must establish internal policies for comprehensive environmental assessments before approving credit, prioritize projects meeting green criteria, and monitor high-risk sectors.

The circular encourages diversification of green lending products such as green bonds and concessional loans and improvement of green credit portfolios. Mandatory reporting and public disclosure of environmental risk management strengthen governance, transparency, and social responsibility, attract international green funding, and raise awareness of sustainable finance within the corporate sector and community.

On a macroeconomic scale, adopting a unified set of green standards across the banking industry can steer the financial sector toward fostering a sustainable economy. When banks jointly apply uniform exclusion criteria, like limiting funding for coal-based projects and favouring investments in clean energy, lending decisions become more environmentally focused. This collective approach creates a ripple effect, motivating businesses to adopt sustainable practices to qualify for funding. As such, banks play a vital role as intermediaries, helping to balance economic growth with environmental responsibility.

A green-project criteria system is a strategic tool that supports efficient green capital use, improves issuer credibility and risk management, and advances sustainable lending. It forms the basis of a transparent, impactful green finance market by preventing greenwashing and supporting long-term climate goals.

5. Conclusion

Establishing a comprehensive and rigorous criteria framework for identifying projects eligible for green financing is both critical and intricate. This process necessitates the alignment of international standards, such as the Green Bond Principles, Green Loan Principles, ASEAN standards, and the EU Taxonomy, with domestic legislation and prevailing market conditions, striking a balance between scientific rigor and operational feasibility. Key design stages include clearly defining objectives and scope, selecting appropriate national or international standards, specifying eligible sectors and exclusions, setting quantitative thresholds and qualitative safeguards, documenting appraisal and approval protocols, and implementing robust systems for monitoring, reporting, and periodic review.

A well-structured criteria framework is essential to prevent greenwashing by ensuring only qualified projects are approved and maintaining transparency throughout the financing process. Such a system supports the successful issuance of green debt instruments, enhances global investor confidence, and accelerates the banking sector's transition toward sustainable business models. In advancing sustainable development finance, green criteria provide both directions for channeling capital into authentic environmental initiatives and protection for maintaining the integrity of the green finance market. Continuous improvement reflecting scientific progress and evolving regulations will be pivotal in mobilizing substantial resources to meet climate and development goals in the years ahead.

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