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# Implementing Green Finance in Southeast Asia

International practice, local legal framework  
and institutions

MAY 2022

VDB | *Loi*

As noted in the IPCC Report “Climate Change 2022. Impacts, Adaptation and Vulnerability”<sup>1</sup>, “overall adverse economic impacts attributable to climate change, including slow-onset and extreme weather events, have been increasingly identified.” The report further notes that there are multiple opportunities for targeted investments and finance to protect against exposure to climate hazards, particularly for those at highest risk.

In this context it is of course crucial that funding of economic growth and project implementation are made in environmentally sustainable manner.

## What is “green finance”

Green finance<sup>2</sup> is a broad term that can refer to financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage the development of a more sustainable economy.

## What is the specifics of green finance transaction documents?

The number of green finance transactions executed in different parts of the world is growing rapidly. The important feature of such structures is that typically documentation would provide for the specific “green use of proceeds”, i.e. that the loan proceeds will be utilized for green projects, which should be appropriately described in the finance documents. All designated green projects should provide clear environmental benefits, which will be assessed, and where feasible, quantified, measured and reported by the borrower.<sup>3</sup>

1 <https://www.ipcc.ch/report/ar6/wg2/>

2 The definition has been suggested in the IDFC Green Finance Mapping Report 2021, <https://www.idfc.org/green-finance-mapping>.

3 Green Loan Principles 2021, <https://www.lsta.org/content/green-loan-principles/>. (“Green Loan Principles”).

## In what forms green financing can be provided?

There is a great variety of forms of instruments in which green financing can be provided. Some of them are described below.

**Green Loans.** As suggested in the Green Loan Principles, green loans are any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible green projects.

The indicative categories of green projects include renewable energy, energy efficiency, pollution prevention, sustainable water and wastewater management and other.

It is expected that the borrowers shall preserve information on the use of proceeds, including lists of the green projects to which the green loan proceeds have been allocated and a brief description of the projects, amounts allocated and expected impact.

**Sustainability Linked Loans.**<sup>4</sup> These are the loans which incentivize the borrower’s achievement of ambitious, predetermined sustainability performance objectives. Borrower’s sustainability performance is measured using predefined sustainability performance targets (SPTs), as measured by predefined key performance indicators (KPIs). These may comprise or include external ratings and/or equivalent metrics.

Compared to green loans, sustainability linked loans would not necessarily set particular use of proceeds. However, the goal set by their documentation is to improve the borrower’s sustainability profile by aligning loan terms to the borrower’s performance against the relevant predetermined SPTs.

Sustainability Linked Loan Principles give some examples

4 Sustainability Linked Loan Principles 2022, <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>



of possible KPIs. These may be in the areas of greenhouse gas emissions (reduction in greenhouse gas emissions in relation to products manufactured or sold by the borrower), sustainable sourcing (increase in the use of verified sustainable raw materials), business ethics (improvement in borrower's approach to managing risks and opportunities surrounding ethical conduct of business) and other.

**Green Bonds.**<sup>5</sup> This is one of the very frequently used forms of sustainable capital raising. Proceeds from these bonds are to be utilized for the eligible green projects as described in the issuance documentation.

Variations of green bonds exist, depending on various structural approaches, including, among others, recourse to the debtor and availability of collateral.

**Sustainability Bonds.**<sup>6</sup> When sustainability bonds are issued, proceeds or an equivalent amount will be applied to finance or re-finance a combination of green and social projects.

## Advantages and incentives for implementing the green finance projects

Many jurisdictions implement in their legislation various incentives for borrowers, investors and lenders for broader use of various green finance instruments.

<sup>5</sup> *Green Bonds Principles, 2021*, <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>.

<sup>6</sup> *Sustainability Bond Guidelines 2021*, <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-bond-guidelines-sbg/>.

This type of finance is becoming priority area for broader range of asset managers, banks and other financial institutions. Accordingly, borrowers have an opportunity to attract financing for longer terms from a broader range of investors. Lenders benefit from a significant degree of transparency and information sharing about the use of funds. Some forms of green financing may directly result in improvement of financial standing of a company.

## COUNTRY POLICIES and INSTITUTIONS

Legal and policy framework plays very important role in the growth of the funding flow using various green finance instruments. Below we look at the available legal framework in some of the countries in Southeast Asia, and the local regulations and institutions involved.



# BANGLADESH

## Evolution of Green Finance framework in Bangladesh

Bangladesh's focus shifted towards sustainable financing in 2009, when a refinancing scheme for "Renewable Energy and Environment Friendly Financeable Sectors" was introduced<sup>7</sup>. This focus was further crystallized and formalized by framing of the Policy Guidelines on Green Banking in 2011.

The priority given to this area was further confirmed by setting up in 2015 of a separate department of Bangladesh Bank, the country's central bank, called the Sustainable Finance Department ("SDF").

Further, Bangladesh Bank ("BB") issued a circular dated 31 December 2020 based on which, Bangladesh ranked its banks and non-banking financial institutions on the basis of their contribution towards sustainable financing.<sup>8</sup>

According to SDF, BB Circular No-01 dated 11 January 2021, all scheduled banks of Bangladesh are required to allocate a minimum of 2% of their financing towards green finance and 15% towards sustainable finance (including green finance).<sup>9</sup> In addition, all scheduled banks and financial institutions are required to set-up dedicated Sustainable Finance Help Desks in their branches.

## Climate Change Trust Act & Bangladesh Climate Change Trust Fund

The Climate Change Trust Act was enacted on 11 October 2010<sup>10</sup>. The core objective of this Act was to address the challenges created by climate change by working on institutional and social capacity building of citizens. It also aims to create public awareness on possible environmental disasters arising out of climate change as well as carry out emergency rescue operations due to a natural disaster arising out of climate change.

One of the important features of this Act was also the setting up of the Climate Change Trust Fund ("CCTF").

The Bangladesh Climate Change Trust<sup>11</sup> is a statutory body under the Ministry of Environment, Forest and Climate Change established in 2009 under section 3 of the Climate Change Trust Act, which is in charge of maintaining the CCTF. The main aims of the CCTF are to take initiatives to mitigate problems caused by climate change, to work on capacity building of citizens to combat the adverse effect of climate change and to work on climate tolerant technological innovation<sup>12</sup>.

## Bangladesh Climate Change Resilience Fund

The Bangladesh Climate Change Resilience Fund ("BCCRF")<sup>13</sup> aims to collect and disburse climate adaptation funding for Bangladesh. BCCRF, being a multi-donor trust fund, was established in May 2010 with the signing of a Memorandum of Understanding (MOU) between the Government of Bangladesh, development partners and the World Bank. This innovative mechanism is enabling the Government to channel grant funds to millions of Bangladeshis in order to build their resilience to the effects of climate change.

7 [https://www.bb.org.bd/en/index.php/about/financial\\_inclusion](https://www.bb.org.bd/en/index.php/about/financial_inclusion)

8 [https://www.bb.org.bd/fnansys/sustainability\\_rating\\_2020.pdf](https://www.bb.org.bd/fnansys/sustainability_rating_2020.pdf)

9 <https://www.bb.org.bd/mediaroom/circulars/gbcrd/jan112021sfd01.pdf>

10 [http://www.bcct.gov.bd/sites/default/files/files/bcct.portal.gov.bd/files/9f965916\\_24d8\\_4465\\_9fd2\\_b1e4bb7582f1/Climate%20Change%20Trust%20Act\\_2010%20Eanlish.pdf](http://www.bcct.gov.bd/sites/default/files/files/bcct.portal.gov.bd/files/9f965916_24d8_4465_9fd2_b1e4bb7582f1/Climate%20Change%20Trust%20Act_2010%20Eanlish.pdf)

11 <http://www.bcct.gov.bd>

12 <http://www.bcct.gov.bd/site/page/e6fb75e8-f5e5-4bed-8adc-e6183e69353a/->

13 <https://www.worldbank.org/en/news/feature/2012/05/22/bangladesh-climate-change-resilience-fund-bccrf>

## Refinancing scheme for “Renewable Energy and Environment Friendly Financeable Sectors”

Bangladesh Bank formulated a Refinancing Scheme for Renewable Energy and Green Financing in 2009<sup>14</sup>, whereby it offers a revolving refinancing facility for over 50 green product lines. The aim of the scheme is to promote renewable energy and environmentally friendly financial activity for different products in 11 categories: renewable energy, energy efficiency, solid waste management, liquid waste management, alternative energy, fire burnt brick, non-fire block brick, recycling and recyclable product, green industry, ensuring safety and work environment of factories, and miscellaneous.

Under this scheme, the Participating Financial Institution (“PFI”) submits an application to Bangladesh Bank within 90 days of completion of a project, upon which the parties may enter into an agreement (“Participation Agreement”)<sup>15</sup> and PFI may get up-to 100% refinance facility against the disbursed loan amount in terms of participation agreement.<sup>16</sup>

### Bangladesh Bank devised green banking guidelines for banks and financial institutions: reporting; credit quota, etc.

Bangladesh Bank launched an initiative to support and promote environmentally responsible financing by introducing Policy Guidelines on Green Banking in 2011.<sup>17</sup>

In order to develop the practice of green banking, an indicative three-phase Green Banking Policy and Strategy Framework was prepared under the Policy Guidelines.

In Phase I, banks were required to adopt green banking policies to show general commitment towards the environment through internal performance. Phase II addressed Sector Specific Environmental Policies, Green Strategic Planning, setting up Green Branches and Improved In-house Environment Management. Development by banks of a system of Environmental Management was a precondition to Phase III, whereby banks were instructed to adopt the whole eco-system by environmentally friendly measures and introducing innovative products. Standard environmental reporting system was part of this phase with external verification.

## Sustainable and Renewable Energy Development Authority

The Sustainable and Renewable Energy Development Authority (“SREDA”) is an agency of the Government of Bangladesh under Power Division of the Ministry of Power, Energy and Mineral Resources. Its stated aim is to promote, facilitate and disseminate sustainable energy covering both the areas of renewable energy and energy efficiency to ensure the energy security of the country. It has been

formed by S.R.O. No. 69 Law/2014 in exercise of the powers conferred by section 29 of the Sustainable and Renewable Energy Development Authority Act, 2012.<sup>18</sup>

The institution is an authoritative organization for the development of the renewable energy in the country, as a coordination body between different ministries and departments, including the Bangladesh Power Development Board (“BPDB”), the Rural Electrification Board (“REB”), the Local Government Engineering Department (“LGED”), autonomous bodies like the Infrastructure Development Company Limited (“IDCOL”), and also the private sector.

In order to achieve the Government’s sustainable environmental goals, SREDA introduced numerous legal frameworks including the Renewable Energy policy, Energy Efficiency and Conservation Masterplan up to 2030 in 2016, Country Action Plan for Clean Cookstoves, Net Metering Guidelines and others.

### Green Transformation Fund

Bangladesh Bank introduced a Green Transformation Fund (“GTF”) in 2016 to provide finance for environment-friendly infrastructure in export-oriented industries, especially garments and leather. Machinery imported for export-oriented industries under GTF needs to go through eligible certified energy and resource efficiency audits. The borrowers are benefiting from favorable rates of interest.

### Infrastructure Development Company Limited

The Infrastructure Development Company Limited (“IDCOL”)<sup>19</sup> is a government owned non-banking financial institution which has successfully undertaken several initiatives to promote and implement green finance in Bangladesh.

IDCOL’s Solar Home System (“SHS”) program was an example of a public–private partnership in green energy technologies. IDCOL involves mainly non-governmental organizations for marketing the SHSs in their respective operational areas, which are called partner organizations (“POs”).

POs receive several incentives, such as capital buy-down grants, institutional development grants, and refinancing facilities from IDCOL for the credit given to households for selling the SHSs in installments. POs also make a contribution of their own by providing credit, while they receive an institutional development grant.

### Sustainable Finance Policy 2020

Bangladesh Bank published Sustainable Finance Policy for Banks and Financial Institutions in 2020<sup>20</sup>. It incorporates a reporting template in order to streamline the reporting system and make it more efficient. It covers a comprehensive list of green products, projects and initiatives. The policy includes identical areas of Sustainable linked finance and addresses the essential clarity and guidance to identify green and sustainability linked finance.<sup>21</sup>

14 [https://www.bb.org.bd/en/index.php/about/financial\\_inclusion](https://www.bb.org.bd/en/index.php/about/financial_inclusion)

15 [https://www.bb.org.bd/aboutus/dept/gbcsrd/agreement\\_bb\\_fi2017.pdf](https://www.bb.org.bd/aboutus/dept/gbcsrd/agreement_bb_fi2017.pdf)

16 <https://www.bb.org.bd/mediaroom/circulars/gbcsrd/apr302020sfd02.pdf>

17 <https://www.bb.org.bd/mediaroom/circulars/brpd/feb272011brpd02e.pdf>

18 [https://elibrary.sreda.gov.bd/book/list/books\\_20210428870840188.pdf](https://elibrary.sreda.gov.bd/book/list/books_20210428870840188.pdf)

19 <https://idcol.org/home/solar>

20 <https://www.bb.org.bd/mediaroom/circulars/gbcsrd/dec312020sfd05.pdf>

21 <https://www.bb.org.bd/mediaroom/circulars/gbcsrd/dec312020sfd05.pdf>



# CAMBODIA

In April 2022 it was reported that the Ministry of Environment of Cambodia shared a five-point recommendation for the successful implementation of the Long-term Strategy for Carbon Neutrality,<sup>22</sup> including integrating climate change into sectorial plans and fundraising.

In December 2021, Cambodia submitted its Long-Term Strategy for Carbon Neutrality to the Secretariat of the United Nations Framework Convention on Climate Change.<sup>23</sup> The Strategy notes that Cambodia could achieve carbon neutrality in 2050.

### **National Rectangular Strategy- Phase III**

The Royal Government of Cambodia (“RGC”)<sup>24</sup> will continue to take a comprehensive development approach towards environmental management in Cambodia through, among others, intensifying efforts to reduce the impacts of climate change by strengthening adaptation capacity and resiliency to climate change, particularly by implementing the “National Policy on Green Development” and the “National Strategic Plan on Green Development 2013-2030”. This strategy paper reaffirmed the RGC’s mission and its strong commitment to sustainable development.

### **National Council on Green Growth**

The RGC further established the National Council on Green Growth (“NCGG”)<sup>25</sup>. NCGG is a fundamental mechanism to implement the Global Green Economy Principles approved by the United Nation focusing on 3 challenges:

1. Environment protection,
2. Economic development, and
3. Poverty reduction.

To well implement the principles, the RGC has prepared the National Strategy Plan on Green Development 2013-2030 to boost the Cambodian economy towards a green economy focusing on environmental sustainability and economic reform with the consideration into green incentives such as green finance.<sup>26</sup>

### **Cambodian Sustainable Finance Initiative**

In September 2016, the Cambodian Sustainable Finance Initiative (“CSFI”) was launched under the leadership of the Association of Banks in Cambodia (“ABC”) and with the support of the National Bank of Cambodia (“NBC”) and the Ministry of Environment (“MoE”).<sup>27</sup> The goal of CSFI is to develop and strengthen finance sector safeguards and risk management standards related to social and environmental impacts.

### **Cambodian Sustainable Finance Principles Implementation Guidelines**

The ABC has issued the “Cambodian Sustainable Finance Principles Implementation Guidelines”<sup>28</sup> to its member banks. The purpose of these implementation guidelines is to serve as a basis for the Cambodian

<sup>22</sup> <https://www.phnompenhpost.com/national/environment-ministry-shares-five-point-plan-carbon-neutrality>

<sup>23</sup> [https://unfccc.int/sites/default/files/resource/KHM\\_LTS\\_Dec2021.pdf](https://unfccc.int/sites/default/files/resource/KHM_LTS_Dec2021.pdf)

<sup>24</sup> See Part 2, Section 27, [http://cnv.org.kh/wp-content/uploads/2013/10/26sep13\\_rectangular-strategy\\_phaselll.pdf](http://cnv.org.kh/wp-content/uploads/2013/10/26sep13_rectangular-strategy_phaselll.pdf)

<sup>25</sup> <https://ncsd.moe.gov.kh/>

<sup>26</sup> National Strategic Plan on Green Growth 2013-2030, Page 1 (Introduction part) [https://ncsd.moe.gov.kh/sites/default/files/2019-10/National%20Strategic%20Plan%20on%20Green%20Growth%202013-2030\\_En.pdf](https://ncsd.moe.gov.kh/sites/default/files/2019-10/National%20Strategic%20Plan%20on%20Green%20Growth%202013-2030_En.pdf)

<sup>27</sup> <https://www.abc.org.kh/CSFI/about-csfi>

<sup>28</sup> <https://www.ifc.org/wps/wcm/connect/8ce9ddc0-2422-4e69-aa8b-e4f3c8cc3eec/Cambodia+SF+Principles++Implementation+Guidelines.pdf?MOD=AJPERES&CVID=mGdMKuz>

banks and microfinance institutions in developing their own sustainable finance approaches in line with the Cambodian Sustainable Finance Principles.

The Implementation Guidelines provide for the following principles:

<b>Part 1: Protecting the Environment, people and cultural heritage</b>	<u>Principle 1:</u> Assess and manage environmental risks related to climate change, pollution and waste management and the protection of critical natural resources.
	<u>Principle 2:</u> Assess and manage risks that could potentially negatively impact people, in particular local communities, workers, and indigenous/minority populations.
	<u>Principle 3:</u> Assess and manage risks that could potentially negatively impact aspects of cultural heritage, including language, culture, traditions and monuments.
<b>Part 2: Financing the future of Cambodia</b>	<u>Principle 4:</u> Increase the financial awareness and literacy of the Cambodian people and improve approach to customer/client protection.
	<u>Principle 5:</u> Expand reach to those who previously had no or limited access to the formal banking sector, as well as providing more innovative solutions to improve banking access and service levels.
	<u>Principle 6:</u> Finance innovations that create efficiencies and improvements of existing, traditional sectors and business activities as well as for developing new green economy activities.
<b>Part 3: Leading the way</b>	<u>Principle 7:</u> Seek to build capacity across the banks to deliver on commitments as well as raise awareness of our customers and communities about sustainable, inclusive finance.
	<u>Principle 8:</u> Manage the environmental and social footprints and request similar standards to the suppliers.
	<u>Principle 9:</u> Report annually an individual and sector progress against these commitments to hold accountable and to share the story and outcomes of journey and the value we believe can be created for Cambodia.

Adoption of the Guidelines appears to be an important step towards sustainable banking practices in Cambodia.

As it was reported,<sup>29</sup> NBC and the MoE, as the key regulators of the banking and financial and environment industry, endorsed the Cambodian banking sector's strong commitment to the sustainable finance.

### **Memoranda of Understanding on "Cooperation of Sustainable Finance"**

To further strengthen and develop sustainable financial cooperation in the banking sector and support environmental protection, natural resource management and climate change in Cambodia, the ABC signed memoranda of understanding (MOU) on "Cooperation of Sustainable Finance" with the NBC and the MoE, and another one with USAID Cambodia.<sup>30</sup> These MoUs are an example of cooperation between the government and the private sector to implement the rectangular strategy of the RGC related to environmental protection.

The NBC, as a key regulator of the banking and financial industry, has recognized that the financial sectors must give more serious consideration to environmental, social and governance issues to combat climate change on economic, social and environmental conditions. The NBC continues to call on financial institutions to put policies in place to promote green finance and friendly investments in Cambodia.<sup>31</sup>

### **NBC's important role in Green Finance**

On 9 December 2021, the International Monetary Fund (IMF) has released its annual assessment. In an annex of the release, IMF has highlighted the NBC's leading regional role in Green Finance. IMF further noted that NBC was the first one to invest in Green Bond(s) among ASEAN member states, set policy on guidelines related to environmental, social and government investment, and also urging banks and financial institutions in Cambodia to adopt policies to promote green finance and environment-friendly investments.<sup>32</sup>

29 Press release of the Association of Banks in Cambodia, <https://www.ifc.org/wps/wcm/connect/409af30e-ce39-47a0-beb5-210d126cce0e/Press+Release+Cambodia+banks+adopt+Sustainable+Finance+Principles++March+%E2%80%8B29+March+2019.pdf?MOD=AJPERES&CVID=mDJN9HB>

30 <https://www.khmertimeskh.com/629642/bank-association-bets-on-sustainable-financing/>

31 <https://www.phnompenhpost.com/business/national-bank-cambodia-calls-green-finance-policies>

32 <https://www.khmertimeskh.com/50986553/imf-highlights-national-bank-of-cambodias-leading-role-in-green-finance/?p=986553>

# LAOS

## Renewable Energy Development Strategy

One of the Government of the Lao PDR's top priorities is to promote and develop renewable energy sources in order to stabilize energy supply and contribute to the country's social and economic growth. This strategy is stated in the Renewable Energy Development 2011<sup>33</sup> and in the National Green Growth Strategy of the Lao PDR till 2030.<sup>34</sup>

## Steering Committee for Renewal Energy Development

The Government of the Lao PDR established a Steering Committee for Renewable Energy Development ("SCRED").<sup>35</sup> The SCRED acts as a secretariat and advises the Government on matters relating to the development of renewable energy and the development of biofuels and as a coordinator to identify and plan to use the land for crops as raw materials, production, processing, distribution, management, monitoring, inspection, measures to promote investment and correct the problem underlying the process of developing so that to ensure the implementation of the Social-Economic Development Plan of the Government.

## National Steering Committee for Green Growth

The Government of the Lao PDR also established the National Steering Committee for Green Growth.<sup>36</sup> The main roles and responsibilities of the National Steering Committee for Green Growth are to lead and supervise the implementation of green growth activities across the country to ensure high efficiency, effectiveness, and conformity with the actual requirements of the Lao PDR's socio-economic development in each period; and to study, consider, and approve the strategies and policies related to green growth of the sectors and local administration.

## Committee for Formulation of Green Growth Strategy and Establishment of Green Growth Promotion Centre of the Lao PDR

On April 19, 2017, the National Steering Committee for Green Growth appointed the Committee for Formulation of National Green Growth Strategy and established a National Green Growth Promotion Center of the Lao PDR<sup>37</sup>, to provide direction and basis for leading and guiding, and to develop the mechanism of coordinating and promoting green growth activities across the country in a systematic and more efficient manner.

## Investment incentives

In the Lao PDR, investment incentives are divided into: (i) incentives by business sector; (ii) incentives by zone; and (iii) tax, duty, land use-related, and other incentives.

33 <https://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/laws/8161.pdf>

34 [https://data.opendevelopmentmekong.net/dataset/e7db2aa8-c294-47dc-a2da-aa6e41493a12/resource/861b9f4c-cf6c-413b-aeff-e4f6b9346fd7/download/final\\_version\\_of\\_national\\_green\\_growth\\_strategy\\_english\\_feb\\_2019\\_.pdf](https://data.opendevelopmentmekong.net/dataset/e7db2aa8-c294-47dc-a2da-aa6e41493a12/resource/861b9f4c-cf6c-413b-aeff-e4f6b9346fd7/download/final_version_of_national_green_growth_strategy_english_feb_2019_.pdf)

35 According to the Decree on Organization and Implantation of the Steering Committee for Renewal Energy Development No. 395/PM dated 7 September 2021.

36 According to the Decision on Appointment of the National Steering Committee for Green Growth No. 95/PM dated 8 December 2016.

37 According to the Decision on Appointment of the Committee for Formulation of Green Growth Strategy and Establishment of Green Growth Promotion Centre No. 01/NSCGG dated 19 April 2017.

### **(i) Investment incentives by business sector**

Under Article 9 of the Investment Promotion Law 2016, business sector incentives are as follows:

- a. High and modern technology, scientific research, research and development, use of innovative, environmentally-friendly [technology] applications, and efficient use of natural resources and energy;
- b. Clean, toxic-free agriculture, planting seed production, animal breeding, industrial plantations, forestry development, protection of environment and biodiversity, activities promoting rural development and poverty reduction;
- c. Environmentally-friendly agricultural processing industry, national traditional and unique handicraft processing industry;
- d. Environmentally-friendly and sustainable natural, cultural, and historical tourism development industry;
- e. Education, sports, human resource development and labor skills development, vocational training institutions or centers, production of educational and sports equipment;
- f. Construction of modern hospitals, pharmaceutical and medical equipment factories, production of and treatment with traditional medicine;
- g. Investment in, service provision, and development of public infrastructure for urban traffic congestion reduction and residence facilities, infrastructure development for agricultural and industrial production, transportation services of goods, transit services, and international linkages;
- h. Poverty alleviation banks and microfinance institutions focusing on poverty reduction for people and communities who have less access to a bank;
- i. Modern commercial centers promoting domestic products and world-renowned brands, exhibition centers, fairs for domestic industrial, handicraft, and agricultural products.

Investments in the business sector eligible to be granted incentives under Article 9 of the Investment Promotion Law 2016 must have a value of at least LAK1.2 billion or employ at least 30 Lao skilled employees or use 50 or more Lao national employees with employment contracts of at least one year. Small- and medium-sized businesses with investment capital less than LAK1.2 billion and less employees than required will receive incentives according to the relevant laws and regulations and the GOL will determine the detailed list of activities according to the promoted sectors.

### **(ii) Investment incentives by zone**

There are three investment incentive zones:

- Zone 1: Zones with high poverty, and remote zones with socioeconomic infrastructure unfavorable to investment
- Zone 2: Zones with socioeconomic infrastructure favorable to investment
- Zone 3: Special economic zones

The GOL periodically realigns the zones.

### **(iii) Investment incentives in respect of profit tax by business sectors and zones**

Investors investing in the sectors and zones will receive profit tax exemption for the following periods:

Zone	Sectors	Profit Tax Exemption Period
Zone 1	(a), (d), (g), (h), (i)	10 years
	(b), (c), (e), (f)	15 years (10 years plus an additional 5 years)
Zone 2	(a), (d), (g), (h), (i)	4 years
	(b), (c), (e), (f)	7 years (4 years plus an additional 3 years)
Zone 3	To comply with the specific regulations.	

The exemption period is counted from the first year that the investing enterprise generates business revenue. Concession businesses must comply with the relevant laws or according to the agreement.

Upon expiration of the above exemption periods, profit tax rates are as per the prevailing tax law, which under Article 15 of the Income Tax Law 2019, is 20% for enterprises engaging in business, except for the following businesses:

- Businesses involved in human resource development, the construction of modern hospitals and pharmaceutical and medical equipment factories, and traditional medicine production and treatment, which is five percent;
- Businesses using newly innovative technology, which are environmentally friendly, use natural resources frugally, and use clean energy for their production, which is seven percent.

### **(iv) Exemptions from rental and concession royalties on State land by zone and sector**

Investors investing in the sectors and zones will receive exemption from rental or concession royalties on state land for the following periods:

Zone	Sectors	Exemption Period
Zone 1	(a), (d), (g), (h), (i)	10 years
	(b), (c), (e), (f)	15 years (10 years plus an additional 5 years)
Zone 2	(a), (d), (g), (h), (i)	4 years
	(b), (c), (e), (f)	7 years (5 years plus an additional 3 years)
Zone 3	To comply with the specific regulations.	

# VIETNAM

Recognizing the importance of forming a legal framework for green financing, Vietnam has taken steps to concretize action plans and implement them. Vietnam has strived to promote the development of green banking, and mainly focus on forming the legal framework for green banking development; encourage green credit; apply a number of incentives to commercial banks and credit institutions performing banking greening operations.

In orienting towards a fast, sustainable economic development, and in restructuring economic institutions towards greening the economic sectors, the Prime Minister has issued:

- Decision No.1393/QĐ-TTg dated 25 September 2012 on approval of the Vietnam Green Growth Strategy;
- Decision No.403/QĐ-TTg dated March 20, 2014 on approval of the National Action Plan on green growth during the period 2014-2020;
- Decision no. 2053/QĐ-TTg dated 28/10/2016 on Action Plan to implement Paris Agreement on climate change.

In addition, the Central Committee also issued the Resolution No. 24-NQ/TW dated June 3, 2013 of the 7th Plenum of the 11th Central Committee on climate change combat, resource management, and protection, environment and green growth orientation.

The above legal framework is to gradually form the legal framework for green banking development in Vietnam and to encourage green financing.

## **The State Bank's legal framework for implementation**

The State Bank is assigned with the task to perfect the institutions and strengthen financial - credit operation capacity of commercial banks for green growth, including:

- i. Reviewing, adjusting and perfecting the financial institutions finance and credit in line with green growth goals;
- ii. Organize training to strengthen the capacity of commercial banks and financial institutions in financial activities - green credit; building and developing financial - banking services to support businesses to realize green growth.

On that basis, the State Bank has developed a number of legal documents to create a basis for credit institutions, especially banks in green credit activities, and gradually move towards green banking.

To implement the first target, in 2015, the Governor of the State Bank of Vietnam (SBV) issued Decision No. 1552/QĐ-NHNN promulgating the action plan of the banking sector to implement the National Strategy on Green Growth until 2020. In addition, The State Bank of Vietnam has integrated the green financing program into legal documents issued by the State Bank of Vietnam or drafted by the State Bank of Vietnam and submitted to the Government for promulgation.

Under Decision No. 1552/QĐ-NHNN dated 6/8/2015, it sets out two main objectives:

- Firstly, effectively implement the National Strategy on Green Growth, contribute to promoting the green growth process, towards a low-carbon economy, reduce the intensity of greenhouse gas emissions, effectively use energy efficiency and natural resources, development of green production, service and consumption sectors.
- Second, raise awareness, role and capacity of the banking sector in granting credit to green economic sectors, developing products and services to support businesses to realize green growth.

Further, in August 7, 2018, the State Bank of Vietnam issued Decision No. 1604/QĐ-NHNN approving the green banking development project

in Vietnam to increase awareness and social responsibility of the banking system with environmental protection, combating climate change, gradually greening banking operations, directing credit flows to finance environmentally friendly projects..

The development orientation of green banking has also been confirmed in the Strategy for the Development of the Banking Industry to 2025, with an orientation to 2030 (Decision No. 986/QĐ-TTg dated 8/8/2018). A number of other important documents have also been issued to increase awareness and social responsibility of the banking system for environmental protection, combat climate change, step by step greening banking operations, directing credit flows to finance environmentally friendly projects, promoting green production, service and consumption industries, clean energy and renewable energy; actively contribute to promoting green growth and sustainable development.

To implement the Resolution 24-NQ/TW, the State Bank issued Directive No. 03/CT-NHNN dated April 23, 2015 on promoting green growth and managing environmental risks in credit extension activities, which requires Credit institutions focus on giving priority to granting green credit to a number of economic sectors such as: (i) Conservation, development and efficient use of natural resources; (ii) Using advanced scientific and technological achievements; (iii) Use energy economically and efficiently; (iv) Development of clean energy, renewable energy; (v) Use environmentally friendly equipment technology and produce environmentally friendly products.

The barriers to accessing credit capital in environmentally sensitive fields such as high-tech agriculture, solar energy, agricultural production and rural development have been removed.

### **Green bonds legal framework**

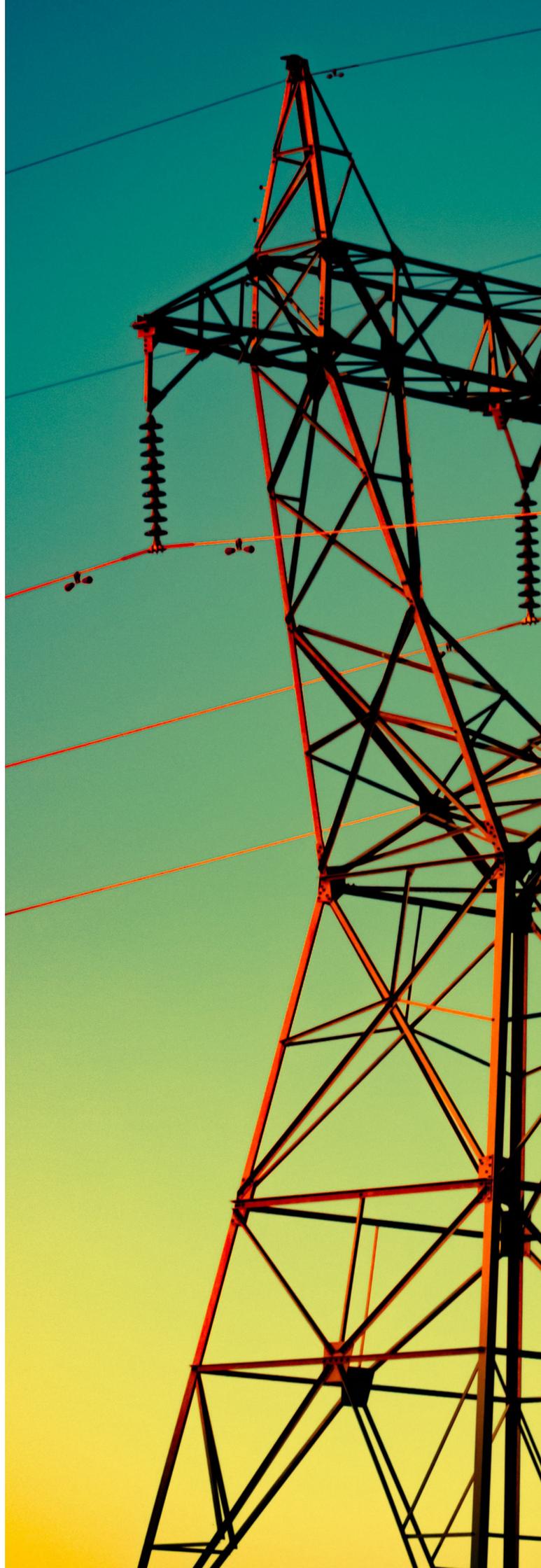
Together with the Decision no.1191/QĐ-TTg of the Prime Minister on approval of the bond market development roadmap for period 2017 - 2020 and vision up to 2030, the Ministry of Finance has issued Decision No.2183/QĐ-BTC dated 20/10/2015 approving the implementation of the National Strategy on Green Growth until 2020, including the following objectives and tasks:

- Issuance of government bonds and municipal bonds for green projects/programs/objectives.
- Issuance of corporate green bonds for green projects or green products.

In order to help enterprises to have more channels to raise new capital internally and from abroad, the State Securities Commission issued guidelines on April 12 2021 relating to the issuance of green bonds. All projects towards “greenz goals such as energy, waste management, pollution, and even businesses in the fields of finance, tourism can implement such green bond issuance.

### **Incentives under the Law on Investment 2020**

According to the Investment Law 2020 (effective from January 1, 2021), industries producing new materials, new energy, clean energy, renewable energy, or producing energy-saving products, are entitled to many incentives, including exemption and reduction of land use levy, land rent, and land use tax.



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