

VIETNAM SUSTAINABILITY FORUM

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The Role of Green Finance for an Inclusive Growth

1. Green Finance : a problem of definition.

Dear Minister of Planning and Investment, distinguished Guests, colleagues and participants, it's a great pleasure for me to attend this forum. I would like to thank all the organizers for kindly inviting me to this important event.

There is a general consensus at different level in the important role played by the financial sector in promoting the green transformation of our economy.

Since the 2015 adoption of the UN's Sustainable Development Goals and the success of the Paris Agreement under the UN Framework Convention on Climate Change (UNFCCC), it has become clear that "business as usual" is no longer an option for neither industrialized countries nor the developing world. Both the Agenda 2030 and the Paris Agreement entail substantial consequences for the world financial system.

However, the key challenge still remains how to fund efforts to reach these goals. Obviously, the effectiveness of any green finance definition will depend on what is generally considered “green”.

First, there’s a problem of interpretation. At this early stage markets are suffering from ambiguity, high costs, reputational risks and low liquidity.

A real consensus needs specific principles, standards, criteria that define what is “green finance” and build the pillars of an universal trust, culture and awareness of the global transition and challenges we are facing.

Second, we have to translate this principles and standards in the international harmonization, re-interpretate regulation, fiscal policies, institutional reform thorough the collaboration of public and private sectors.

The concept of green finance goes beyond the development at all costs and short-term approach, that caused the global financial crises, ecosystem degradation, social conflicts and resource depletion. It refers to a paradigm shift concerning production, life-style and thinking, that better people lives.

Green Finance incorporates social and environmental performance into the financial decision-making process itself and policies that encourage financial flows into industries that save resources and protect the ecological environment, to promote green and low-carbon production, consumption and sustainable development.

Talking about sustainable finance and green investments mean fostering a ”people first” policy framework.

2. From China to Vietnam – The road map for cooperation on sustainable finance.

Following this approach, I'd like to enlighten the role and the efforts of China and Vietnam at the international level in mobilizing massive investment for low-carbon infrastructure and development, and in creating green finance regulatory framework, that support the transition towards a green global economy through the financial system.

The Chinese Presidency of G20, held in Hangzhou in 2016, that installed green finance as a key issue for the first time, with the aim to encourage greener financial institutions worldwide.

China has recently announced its intent to transform into an “ecological civilization” in its 13th Five-Year Plan, an economic blueprint for the period of 2016-2020, incorporating in its strategies quality growth and ecological protection, like air pollution control, energy consumption control targets and green finance for the first time.

Just before G20 Hangzhou Summit in 2016, the People's Bank of China and six other ministries jointly released “*Guidelines for Establishing the Green Financial System*”, that promote the green transition of China's financial system, as an essential step for implementing the overall strategy of promoting ecological civilization.

Moreover, with the G20 Presidency, China worked with all member states to better address the challenges posed by environmental degradation and climate change, and made the ratification of the Paris Agreement, the implementation of the SDGs and green finance top priorities of their agenda.

Last but not least, the establishment of the “Green Finance Study Group” with the aim to *“to “identify institutional and market barriers to green finance, and based on country experiences, develop options on how to enhance the ability of the financial system to mobilize private capital for green investment”*”.

According to the synthesis report, despite the substantial potential for scaling up green finance, the development of green finance still faces many challenges in terms of internalizing environmental externalities, information asymmetry, inadequate analytical capacity and lack of clarity in green definitions.

Therefore, the Study Group proposed following key options to enhance the ability of the financial system to mobilize private capital for green investment:

1. provide strategic policy signals and frameworks;
2. promote voluntary principles for green finance;
3. expand learning networks for capacity building;
4. support the development of local green bond markets;
5. promote international collaboration to facilitate cross-border investment in green bonds;
6. encourage and facilitate knowledge sharing on environmental and financial risk;
7. improve the measurement of green finance activities and their impacts.

3. The Vietnam Goal of National Sustainable Development.

The APEC 2017 held in Vietnam, and concluded with Da Nang Declaration “*Creating New Dynamism, Fostering a Shared Future*”, reaffirms Leaders’ commitment of supporting sustainable economic growth and prosperity in the Asia-Pacific.

As a participant, Vietnam has affirmed its role in the international arena, attracted investment and promoted bilateral and multilateral cooperation.

This is in line with the goal of national sustainable development targets and implementation of social and economic strategies for a Vietnam of peace, stability and sustainable development, bringing benefits to people and business.

Recognizing the significant challenges the region’s economies face, their Leaders pledge to work together and take the following actions:

- Promote Innovative Growth, Inclusion and Sustainable Employment
- Create New Drivers for Regional Economic Integration
- Strengthen the Capacity and Innovation of Micro, Small and Medium Enterprises
- Enhance Food Security and Sustainable Agriculture in Response to Climate Change
- Foster a Shared Future

This efforts should be linked with the 4.0 Industrial Revolution, promoting innovation and start up, equipping the labour force with new skills, particularly among the micro, small and medium enterprises. In this context, the fintech for green investments could play an important role.

Green finance has lately received more attention in Vietnam.

An important milestone was the promulgation of guidelines to enhance green credit growth and environmental-social risk management by the State Bank of Vietnam in March 2015. However, incentives for Vietnamese financial institutions to broaden their green investment portfolios need to be increased. Until now, bilateral and international cooperation has proven to be an important factor in designing and enhancing the outreach of green lending programmes in the country.

To conclude on Chinese and Vietnamese efforts in the context of global transition to the green finance, I think that an important challenge will be *“The Belt and Road”* Initiative, aiming at promoting the interconnection of and extensive cooperation in trade, infrastructure, finance, culture and other aspects among countries, especially developing countries along the historic Silk Road to help them achieve an independent, balanced and sustainable development.

4. Green Bond and Market Regulation

As evidenced by a study prepared by the European Commission in November 2016 and in a report by the OECD in April 2017, the green bond is a recent, important and booming phenomenon.

Born between 2007 and 2008 with the first issues from international institutions such as European Investment Bank, the World Bank and the International Monetary Fund, green bond issuance has risen rapidly as a result of healthy market demand and industry-developed guiding principles, with development banks playing a critical market-making role, and regulators shaping national standards.

Since 2013, companies and banks have been supported by the launch of the Green Bond Principles. These guidelines have been developed by the ICMA (International Capital market Association) that is a private international association with the participation of various subjects involved in the issue, commercialization and exchange of bonds.

Green Bond Principles ("GBP") recommend transparency and disclosure by issuers and promote the development and integrity of this market. The green bond market is therefore governed by private rules with regard the process of defining the issue and the transparency of the investment and the environmental project financed.

What can we do to foster and implement the green bond market ?

- development of standards and common metrics, by encouraging finance institutions and global investors to harmonize their definition of what constitutes green finance;
- to standardize investment standards by ensuring that the “Principles for Responsible Investing” and “Green Bond Principles” fit together to avoid investor and issuer confusion, and promote capital markets financing of green products.
- ensuring market integrity by requiring voluntary disclosure of environmental risk, including use of scenarios analysis and listing requirements across many of the world’s major stock exchanges.
- Introduce incentives to decrease the cost of capital for green projects, improve investor certainty, and mobilize investment capital into green investments.
- Clearer standards that harmonize products and lower costs across international markets.

In conclusion, to achieve the SDGs and enforce the Paris Agreement, nations need to set up a robust legal framework to drive a fast economic decarbonisation and promote a paradigm shift.

Namely, countries need to set legal requirements for information disclosure, including requiring financial institutes and enterprises to improve information disclosure and transparency of their environmental, social and climate impacts, and to ensure stakeholders, including communities and civil society organizations, are properly consulted and guaranteed their rights for monitoring;

An effective policy framework and solid project implementation should ensure the multi-stakeholder engagement of multilateral development institutions in the consulting and advance-review process.

The inadequate communication with stakeholders of many development projects involving public interests may cause serious environmental and social problems. Nations need to ensure the development of third party verification and international standards for issuing green bonds.

The pathway in scaling green finance can be optimised only by the collaboration of the public and private sector to balance and to align the financial market development and policy action, ensuring flexible implementation through transparency and best practices.

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