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A FRAMEWORK FOR THE FUTURE

Observers and stakeholders share their thoughts with VET on the increased focus on Environmental, Social, and Governance (ESG) criteria.

It seems that the majority of Vietnamese enterprises are still focusing on business growth and financial success rather than taking a more appropriate look at Environmental, Social, and Governance (ESG) criteria. However, there are increasing numbers of enterprises that are now aware of the needs and values of applying ESG to their business for sustainability. Certain enterprises are integrating ESG criteria into their business activities, but most are still in the early stages, and enterprises with higher ESG integration will have better financial performance, talent retention, customer loyalty, and long-term value creation.

According to the survey results in Grant Thornton's International Business Report (IBR), the leading reasons why enterprises in Vietnam in the mid-market are prioritizing sustainability also expresses the roles

and benefits of integrating ESG criteria in general, including a desire for business to see a sustainable recovery from Covid-19; improved access to capital and investment in response to the ESG requirements of creditors and investors; political prioritization of sustainability and corporate responsibility; better operational efficiency and lower costs; response to customer or client pressure; and concerns about attracting, motivating, and retaining employees.

There is a strong trend for high-quality FDI to look for developing economies that have sufficient ESG requirements and adoption. Consumers are increasingly asking for products made in countries that take ESG seriously. Therefore, Vietnam will be more competitive in attracting such investment if it can fully prepare and meet these expectations. However, our survey results reveal that Vietnamese enterprises are facing barriers when promoting ESG criteria, such as concerns about the cost of taking action; a lack of clarity around new regulations or requirements; a lack of management time and attention; too much time still being spent on dealing with issues linked to the pandemic; confusion around



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best measurement frameworks; and a lack of internal knowledge and capability. And the leading barrier making enterprises delay ESG adoption is the cost of taking action.

In order to effectively integrate ESG criteria into the business, the first task enterprises should focus on is determining ESG priorities with associated objectives, time-bound targets, and key performance indicators to evaluate ESG performance. Afterward, ESG priorities need to be embedded into an enterprise's corporate strategy

to stay on track. The second is educating the workforce on the need to embed ESG across all operations. The third is proper tracking of progress and reporting of ESG performance. The fourth is regularly reviewing and updating the ESG strategy to ensure the enterprise remains aligned with business and stakeholder expectations. Incentive policies on tax and related investment to be introduced by the government would also be a good tool to encourage enterprises to apply ESG criteria. ■

Vietnam will have a better chance of attracting FDI if the country quickly introduces policies to promote a strong shift to investment under Environmental, Social, and Governance (ESG) criteria. According to Morningstar, many ESG funds attracted record cash flows in 2020, double that of a year earlier, and net money from investors pouring into sustainability funds reached \$51 billion. Banks, financial institutions, and private investment funds are shifting their investment strategies through ESG. Specifically, commitments to ESG factors are changing the way businesses are valued and their attractiveness in the eyes of investors. Pursuing ESG criteria is not only a solution for businesses to manage image risks but also an opportunity to optimize the business model and develop the brand and receive investment

capital from sustainable investment funds.

A large number of Vietnamese enterprises have announced their commitment to pursuing sustainable development goals and shared their ESG strategy and the responsibility of the Board of Directors for sustainable business operations. Many also have plans on training for their Boards on ESG matters. In order to successfully integrate ESG criteria into business activities, enterprises need to take some basic steps to include ESG thinking into risk assessment, decision making, and identifying the resulting opportunities. The process of integrating ESG sustainability begins with thinking, planning, and understanding what is important for the enterprise.

New and existing laws on climate change in Vietnam, such as the Law on Environmental Protection 2020, which took effect

in 2022, will be a challenge for businesses in developing and setting out environmental indicators, objectives, and tools in their ESG report. The novelty of ESG also makes it difficult to find support from social mechanisms and counseling services. Therefore, businesses still face difficulties in formulating, implementing, and reporting on strategies under the ESG framework. Another aspect is that the Law on Anti-Corruption in Vietnam is currently only applied to the public sector, making policy development on business transparency and the independence of the Board of Directors unavailable. Requirements on diversity, inclusivity, gender equality, and anti-discrimination, etc., in the ESG framework are also new factors that have not been approached too much by businesses. Security in database construction and customer privacy assurances are also big challenges.

What businesses need now is for laws and regulations on environmental factors to be updated and renewed with specific and approved targets, so that they have a basis to develop new indicators corresponding to environmental objectives in their strategy. In addition, a wider Law on Anti-Corruption or a transparent business law, and regulations and requirements on reporting and Board independence, are also needed. We can see that an important factor in ESG integration and implementation is planning and reporting, so laws creating a reporting basis for businesses are needed to support them. ■



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We are committed to a broad range of criteria commitments that elevate our business, create value for our shareholders and investors, support our employees and customers, and show respect to the local communities in which we work. We believe that sustainability is an essential part of our long-term success as global corporate citizens. To be a responsible developer, we are committed to continuously improving our Environmental, Social and Governance (ESG) policy to meet or exceed evolving standards and the expectations of our shareholders, investors, customers, employees, and communities.

In recent years, ESG has become one of the major factors for foreign investors when considering new investments. We believe that Vietnam, as a growing and attractive destination in Southeast Asia, should encourage ESG policies for future sustainable development. SLP aims to be the best developer with ESG initiatives and practices in Vietnam's logistics market. We believe a commitment to ESG policies is a long-term journey and requires a holistic approach from the company. ESG

policy commitments will be integrated into our investment approach across fundraising, screening, and due diligence on investments, managing assets, and exits.

The integration process is guided and monitored by our ESG policy, which makes reference to internationally-recognized frameworks. In addition, we have established a specialized ESG Task Force, with support from senior management and the participation of all functions of the company. The ESG Task Force is led by our Head of Sustainability. We aim to build environmentally-friendly logistics facilities within our portfolio, typically featuring green-building certification, solar-ready rooftops, energy-saving lighting, and thermal insulation materials that optimize efficiency for customers. Such features are considered on a project-by-project basis and subject to location and conditions.

While other countries, especially in Europe and North America, have developed and implemented ESG criteria to an advanced stage, ESG policy is relatively new in Vietnam. Hence, further guidelines and incentives from the government are



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expected. In addition, awareness about ESG should be encouraged and adopted in the business community. We expect the government to implement policies for businesses with good ESG practices, such as tax incentives, the promotion of environmentally-friendly materials, research and recommendations on climate change impact, and the promotion of greater well-being for the workforce in Vietnam. ■

Vietnam and its government have embarked on an ambitious transition journey, which was announced by Prime Minister Pham Minh Chinh at COP26. The financial sector has an important role to play by sourcing and distributing capital to facilitate projects and investments that enable global decarbonization. According to a recent HSBC report on ASEAN Sustainable Finance, Vietnam's issuance of green, social, and sustainability debt reached \$1.5 billion in 2021; five times higher than in 2020, recording exponential growth and underlining how financial markets and corporates are shifting. Vietnam was also the second-largest source of green debt in ASEAN in 2021.

Consumer trends are also changing, making companies increasingly aware of emissions in their supply chain. In Europe and the US - major export markets for Vietnam - sales growth of eco-friendly brands was 15 per cent higher than average market growth, demonstrating that consumers are asking companies to offer more sustainable products. This is in turn impacting the supply chain. According to our research, 86 per cent of our corporate customers globally feel pressure to manage their supply chain in a more sustainable way, with customers being the main driver. This will help companies build the business case for transformation. Helping build transparency and finance this investment is where global banks come in, but once again consistent standards are critical.



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In this transformation, there are some critical resources and frameworks that are needed to build on the early success to bring momentum to the transition, including awareness in the community, human resources with appropriate knowledge about environmental and social standards, technology and innovation solutions to bring tangible measures to the transition, and the development of a legal framework and regulations to support and accelerate the transition that includes emission targets and taxonomy for corporates.

HSBC also has a deep-rooted commitment to supporting sustainable financing by prioritizing financing and investment that supports our customers in all sectors to transition to lower carbon emissions. Our ambition is to arrange up to \$12 billion of financing and investment to Vietnam and its corporate sector to support

the country in its transition to net zero. We have cooperated with an array of leading organizations and governments to shape industry standards and principles. For instance, in the infrastructure space, we are working with the Climate Policy Initiative, the International Finance Corporation (IFC), the Organization for Economic Cooperation and Development (OECD), and the Global Infrastructure Facility to establish a consistent, globally-applicable labeling system for investments in sustainable infrastructure assets. While the impact of climate change is affecting all of us, it may not yet be in the bottom line of every company but will be soon enough. Corporates that take this head-on, building awareness in their companies, setting operational objectives, and building the business case for it will be winners in the long run. ■

We recognize that Environmental, Social, and Governance (ESG) is a journey for many companies in Vietnam, with some at more advanced stages than others. We consider ourselves patient investors and have seen and indeed played a part in the positive developments in our portfolio companies on several ESG levels. Vietnamese companies have been paying more attention to ESG in recent years, with many major companies on the VN-Index making great progress in information disclosure and ESG reporting.

In the beginning, many companies saw ESG as a tool for marketing, but when they get to know more about it they realize it is a useful framework to manage non-financial risks such as environmental accidents, climate change, and health and safety issues, and to then build a company culture and improve governance practices. Especially after Covid-19, companies realize how painfully natural disasters and catastrophes can impact business, and they take ESG more seriously.

The same with investors - they integrate ESG into the whole investment process, right from the due diligence and screening

stage to analysis, proposal, investment, and monitoring, because they see the increasing importance of non-financial factors in the valuation and business performance of companies in the long term. Any company performing better in ESG aspects, especially in information disclosure, will have more opportunities to raise funds and attract investors. When we engage with companies to improve their ESG performance, we see that the mindset of the top leader plays a critical role in setting out the company's ESG strategy and roadmap. Moreover, ESG is a broad term and each industry has its typical ESG concerns. Companies need to identify what ESG factors they should prioritize and focus on.

We think there is still a lack of guidance from authorities and a lack of capability and also budget. Also, after the pandemic, many companies are still struggling with their profit and loss, and ESG may not be their priority in the short term. However, we anticipate that in the next few years, when there is greater enforcement from the government, ESG will become a must at any company. There should be more regulations and additional guidance from



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the government in terms of information disclosure. We believe that when companies are forced to measure and disclose their ESG information, they will be more aware of the issues that they need to prioritize. ■

At the strategic level, the Gamuda Berhad Group has established the Gamuda Green Plan (GGP). This is a comprehensive framework that charts tangible targets driven on Environmental, Social and Governance (ESG) dimensions set forth over the next five years, with an extended view to 2030 and beyond. The strategy is anchored in four key pillars: sustainable planning and design and circular construction; community and business; environmental and biodiversity conservation; and enhancing sustainability via digitalization. This is the orientation and master guideline governing every aspect of our business operations.

We also invest in digitalization to optimize our administrative operations. Administration is also an aspect that can be green

and can contribute to green growth if we make it right. Promoting ESG criteria in business activities helps make our operational system become more agile, smart, and beyond where we were previously. Thanks to this, Gamuda Land Vietnam has sustained itself through tough times and overcome the challenges caused by the pandemic. Pursuing a sustainable ESG framework helps us become a more responsible town-maker and contribute more to the environment and society. For instance, thanks to digital administrative solutions, we can reduce a lot of paper and printing ink, which are things that affect the environment. We also save a lot on fuel because of online working platforms. By the sustainability-oriented master-planning concept and eco-caring construction method,

we are able to create green and energy-efficient buildings and fresh ecological townships. Overall, I think that the proudest achievement of Gamuda Land regarding ESG matters is being recognized as a truly green project developer.

The greatest challenge in promoting the ESG framework is capital. Investment in sustainable alternative solutions is certainly not small. And the second matter is competitive workforce, as an organization must have a team of capable people with an innovative mindset to carry out the transformation process. However, these are worth pursuing. It's not a one or two-day job, but we can gradually change a little day-by-day, and then one day achieve our goals.

Regarding authorities, I would suggest that the Vietnamese Government prioritize and put more investment into developing inter-provincial traffic infrastructure and public transport. Once the urban infrastructure issue is resolved, new sustainable and green townships will gradually spring up. Developers can't carry out projects successfully if the general infrastructure does not facilitate them. In terms of policy making, the government could consider measures to encourage businesses to pursue a sustainable ESG framework, such as tax reductions, licensing advantages, and additional credit points, etc. Such practical motivations would be very useful in prompting businesses to transform. ■



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