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Does the Regulatory Framework for Financial Innovation Effectively Support Sustainable Development Goals in Vietnam?

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ABSTRACT: This research explores the regulatory framework for financial innovation in Vietnam, focusing on its role in supporting the achievement of Sustainable Development Goals (SDGs). With the growing importance of green finance and sustainable economic practices, the study examines how Vietnam's legal and regulatory structures facilitate or hinder financial innovation aimed at achieving the SDGs, particularly in the banking sector. The methodology includes a comprehensive review of relevant literature, document analysis of legal and regulatory instruments, and expert interviews with key stakeholders in the financial sector. The study identifies key gaps in the existing regulatory framework, such as the lack of clear legal standards for green finance incentives and challenges in fostering digital banking innovations. The findings suggest that while Vietnam has made progress, substantial regulatory reforms are necessary to strengthen financial innovation and align it more closely with sustainable development objectives. The research provides policy recommendations aimed at enhancing the regulatory environment for green finance and digital banking to support the SDGs

KEYWORDS: financial innovation, green credit, credit institutions, Sustainable Development Goals, ESGs.

I. INTRODUCTION

The global market for green products and services is currently valued at over 5 trillion USD, with a growth rate significantly surpassing traditional markets, according to the European Commission. Vietnam has set ambitious goals to combat climate change, including a target to achieve net-zero carbon emissions by 2050 and to expand its green economy from 6.7 billion USD in 2020 to 300 billion USD as part of the national GDP by 2050[1]. Achieving these goals requires transformative steps, as sustainable development involves a comprehensive shift in both policy and mindset, necessitating a clear roadmap and the mobilization of sufficient resources. The World Bank estimates that Vietnam will need approximately 370 billion USD in investment by 2040 to meet its green growth targets[2]. To support this transition, financial innovation plays a critical role, especially in aligning financial markets with the objectives of sustainable development. A robust regulatory framework is essential for fostering green finance and guiding financial institutions in integrating sustainability into their operations. This research explores the regulatory framework for financial innovation in Vietnam, focusing on its role in supporting the Sustainable Development Goals. It aims to analyze the existing legal and regulatory landscape and identify key opportunities for policy enhancements to enable the financial sector to contribute effectively to Vietnam's green transition.

II. METHOD OF RESEARCH

This study employs a qualitative research methodology, integrating a comprehensive literature review, and document analysis. The research process involves the following key steps:

i) Literature review: A thorough examination of existing academic literature, legal frameworks, and policy documents related to financial innovation, and green finance at both global and national levels; ii) Document analysis: A detailed

[1] Anh Nhi (2023), Vietnam targets a green economy worth $300bln by 2050, https://vneconomy.vn/vietnam-targets-a-green-economy-worth-300blnby-2050.htm

[2] EPMA (2024), Mobilizing resources to achieve green growth goals, https://epma.vn/thu-hut-nguon-luc-de-thuc-hien-muc-tieu-tang-truongxanh/

analysis of Vietnamese legal and regulatory instruments pertinent to green finance and financial innovation, including the Law on Credit Institutions and relevant governmental decrees. By evaluating the practices, policies, and regulatory approaches, insights can be gained into best practices and potential improvements for Vietnam's legal framework. This comparison helps identify successful strategies and mechanisms that could be adapted to enhance Vietnam's regulatory environment.

III. RESULT

A. Identifying Financial Innovation and Their Contributions To Sustainable Development

1) Identifying financial innovation: The most critical characteristic of financial innovation is innovation. According to the OECD[3], innovation encompasses activities such as introducing new products to the market, offering new services (or enhancing existing service and business models), implementing new processes, and developing new business models or markets. These innovation activities include, but are not limited to, research and development trials, technical and design work, creative endeavors, marketing and branding, intellectual property management, workforce training, software and database development, acquisition or leasing of tangible assets, and innovation management. Therefore, any enterprise engaging in at least one of these activities is considered to be engaged in innovation. In Vietnam, Law No. 29/2013/QH13 on Science and Technology defines: "innovation refers to the creation, application of achievements, technical, technological and management solutions to enhance the efficiency of socioeconomic development, increase productivity, quality and added value of products and goods". Innovation increases enterprise productivity, allowing for greater output from the same level of input, thereby facilitating the expanded production of goods and services and promoting economic growth. Additionally, the adoption of emerging technologies enhances energy efficiency across various sectors, leading to more effective resource conservation, reduced energy consumption, and greater reliance on renewable energy sources. These developments not only mitigate adverse environmental impacts but also align with and advance the goals of sustainable development.

In the finance and banking sector, financial innovation is understood as the process of creating new products, services, or processes, demonstrated through advancements in financial instruments, technology, and payment systems. According to Avgouleas (2015)[4], financial innovation consist of human knowledge breakthroughs and other creative inventions, which leads to the development of: i) new financial products that enhance capital allocation; ii) new organizations and processes that facilitate access to capital; iii) new risk-management techniques utilized to handle risk originating in financialtransactions and commercial deals; iv) technological innovation utilized to improve product and processes innovationand to advance the frontiers of risk management.

Among the various aspects of financial innovation, technology is regarded as the most significant focus, often referred to as fintech (financial technology). It comprises the use of new technology in product design and trading, improved capital allocations, including information dissemination, and in the pricing and distribution of risk[5]. Fintech such as mobile payment apps, digital wallets, peer-to-peer platforms, and cross-border remittance services enhance financial inclusion by streamlining transactions and lowering costs[6]; Peer-to-peer lending, crowdfunding, and alternative credit scoring democratize access to capital, bypassing traditional intermediaries and benefiting underserved populations[7]; Blockchain underpins secure, decentralized networks for cryptocurrencies, smart contracts, and decentralized finance, challenging conventional banking systems[8]; Roboadvisors and insurtech utilize artificial intelligence to provide automated investment advice and innovative insurance products, improving accessibility and efficiency. Fintech disrupts traditional financial models, fostering competition and efficiency while increasing financial access for marginalized groups by overcoming barriers and tailoring solutions. However, its rapid growth introduces risks

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[3] OECD (2018), Science, Technology and Innovation Outlook 2018: Adapting to Technological and Societal Disruption, https://vi.singlelogin.re/book/5269553/a22483/oecd-science-technologyand-innovation-outlook-2018-adapting-to-technological-and-societaldisrup.html

[4] Emilios Avgouleas (2015), Regulating Financial Innovation - The Oxford Handbook of Financial Regulation, p.660-661

[5] Panagiotis Delimatsis (2013), Transparent Financial Innovation in a PostCrisis Environment, Journal of International Economic Law, Volume 16, Issue 1, March 2013, p.161

[6] Ahmad I. A. I., Akagha O. V., Dawodu S. O., Obi O. C., Anyanwu A. C. and Onwusinkwue S. (2024), Innovation management in tech start-ups: A review of strategies for growth and sustainability. International Journal of Science and Research Archive, 11(1), 807- 816.

[7] Akindote O. J., Adegbite A. O., Dawodu S. O., Omotosho A., and Anyanwu A. (2023), Innovation in data storage technologies: from cloud computing to edge computing. Computer Science & IT Research Journal, 4(3), 273-299 [8] Abdulhakeem S. A. and Hu Q. (2021), Powered by Blockchain technology, DeFi (Decentralized Finance) strives to increase financial inclusion of the unbanked by reshaping the world financial system. Modern Economy, 12(01)

like cyber threats, data privacy breaches, and operational failures, undermining consumer trust[8]. It necessitates robust regulatory frameworks and proactive risk management to protect consumer interests and ensure market stability. Policy serves as the primary and effective instrument to ensure that innovation activities in the banking sector capitalize on the achievements of the Fourth Industrial Revolution in their products, services, operations, and governance. It fosters the adoption of transformative changes in management models, business models, and product and service structures to align with customer trends, seize market opportunities, create new value, enhance competitiveness, and advance the sustainable development of banks.

2) The role of financial innovation in sustainable development:

Climate change remains a critical global concern due to its profound and far-reaching impacts on the global economy and individual nations. Amid the current challenges to global economic growth, the World Bank has warned that average potential global economic growth could decline to a three-decade low of 2.2% annually by 2030[9]. In this context, the commitments made at COP26, COP27, COP28, and particularly COP29, which focus on agreements regarding climate finance[10], underscore the pivotal role of financial innovation in driving sustainable development.

Financial innovation offers immense potential to support Sustainable Development Goals (SDGs), which were adopted by all United Nations Member States in 2015 as part of the 2030 Agenda for Sustainable Development[12].

Financial innovation will contribute to:

i) Promoting inclusive economic growth: by fostering access to capital and supporting entrepreneurship, financial innovations contribute to sustained, inclusive economic growth (SDG 8);

ii) Iradicating poverty and hunger: financial innovations such as mobile banking and digital financial services have proven instrumental in increasing financial inclusion, particularly for the unbanked and underbanked populations, these innovations facilitate access to credit, savings, and insurance products that can lift people out of poverty and ensure food security (SDG 1, 2);

iii) Enhancing climate action and environmental protection: sustainable finance tools such as carbon credits, renewable energy investments, and blockchainbased supply chain transparency systems align closely with SDG 13; these innovations help mitigate climate change by encouraging investments in renewable energy, promoting sustainable consumption patterns, and reducing greenhouse gas emissions;

iv) Addressing inequalities and supporting marginalized groups: financial innovation enables equitable access to financial services for marginalized groups, including women, youth, and rural populations. For example, fintech platforms designed with user-friendly interfaces and low-cost models ensure that underserved demographics benefit from modern financial tools, advancing goals such as gender equality (SDG 5) and reduced inequalities (SDG 10);

v) Facilitating urban sustainability and infrastructure development: innovative financial products like municipal green bonds are critical in funding urban development projects, such as sustainable transportation and energy-efficient buildings, advancing SDG 11[11].

In the banking sector, the banking system plays a vital role in facilitating the economic transition towards green growth and sustainable development. With its primary function as a financial intermediary, the banking system's most significant impact on green growth is reflected in the provision of green credit. This contributes to restructuring economic sectors and promoting the greening of production activities. Ling's (2020) study highlighted that green credit has a discernible influence on the structure and developmental trends of various industries[14]. Credit institutions,

https://www.weforum.org/stories/2023/04/world-bank-warns-of-lostdecade-in-global-growth-without-bold-policy-shifts/

including commercial banks, have exerted these influences through two primary mechanisms[15]: i) restricting loans or imposing higher interest rates on industries characterized by high pollution levels and energy consumption; ii) enhancing lending or adopting lower interest rate policies to support and incentivize these industries in expanding their scale and accelerating development. Moreover, the advancement of environmental and social risk management mechanisms within credit operations is also regarded

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[8] Jameaba M. S. (2020), Digitization revolution, FinTech disruption, and financial stability: Using the case of Indonesian banking ecosystem to highlight wide-ranging digitization opportunities and major challenges, July 16 2, 2020

[9] World Economic Forum (2023), World Bank warns of 'lost decade' in global growth without bold policy shifts,

[10] UNCC (2024), COP29 UN Climate Conference Agrees to Triple Finance to Developing Countries, Protecting Lives and Livelihoods, https://unfccc.int/news/cop29-un-climate-conference-agrees-to-triplefinance-to-developing-countries-protecting-lives-and [12] United Nations, THE 17 GOALS, https://sdgs.un.org/goals

[11] United Nations (2017), Open Working Group proposal for Sustainable Development Goals, https://sustainabledevelopment.un.org/focussdgs.html [14] Ling S., Han G., An D., Hunter W. C., and Li H. (2020), The impact of green credit policy on technological innovation of firms in pollution-intensive industries: Evidence from China, Sustainability 12 (11), 4493, https://www.mdpi.com/2071-1050/12/11/4493

as instrumental in guiding producers and investors. This, in turn, contributes to promoting investment decisions in green taxonomy.

Another impactful approach by the banking system towards fostering green growth is the trend of banks greening their own operations. This is primarily achieved through the provision of electronic banking services, such as ATM networks, Internet Banking, Mobile Banking, and encouraging customers to shift from traditional branch-based banking services to engaging with digital banking channels[16]. These efforts significantly conserve resources by reducing physical movement, lowering the operational costs of branches and traditional service points, and minimizing environmental footprints. The internal greening of banks is also recognized as a component of green banking, encompassing practical measures such as digitizing internal processes and adopting principles aimed at conserving materials and energy in daily operations. By greening their activities, banks not only align with sustainability objectives but also contribute to the broader greening of the economy.

Regardless of the approach, financial innovation plays a significant role in enhancing the contribution of the banking system to green growth, thus advancing sustainable development.

B. Specific Policies On Financial Innovation In Vietnam Towards Sustainable Development

1) Policy orientation: According to the World Bank, Vietnam is one of the countries most severely affected by climate change, with damages amounting to approximately 10 billion USD in 2020, equivalent to 3.2% of GDP, and it is forecasted to reach up to 523 billion USD by 2050[12]. In this context, the government has set out key strategies to realize the sustainable development pathway in Vietnam. This is specifically addressed in:

[15]Allen F., Gu X. and Julapa A. (2021), A Survey of Fintech Research and Policy Discussion, Review of Corporate Finance 1 (2021), 259-339, https://ssrn.com/abstract=3622468 [16] Niklas A. (2018), The Future of Cash, https://library.oapen.org/bitstream/handle/20.500.12657/76018/1/9781 351183611.pdf#page=44

+ Decision No. 1658/QD-TTg dated October 01, 2021 by the Prime Minister approval for National Green Growth Strategy for 2021 - 2030 with a vision by 2050: Policymakers define external shock means a considerable and random impact of an external event, which is either short-term or long-term, often unpredictable, and caused by a system such as a country, economy, residential community or organization, etc[13]. They assert that green growth plays a pivotal role in driving the economic restructuring process, which is closely linked to the transformation of growth models, enhancing competitiveness, and bolstering resilience against external shocks;

+ Decision No. 882/QD-TTg dated July 22, 2022 by the Prime Minister approval for the national action plan for green growth in 2021 - 2030 period, establishes the following requirements for the State Bank of Vietnam: i) Completing the legal framework for green credit and green banking; ii) Studying and proposing solutions for prioritizing resource allocation for green credit; iii) strengthen the integration of environmental and social risk assessments in the credit granting process of credit institutions;

+ Decision No. 569/QD-TTg dated May 11, 2022 by the Prime Minister promulgating the strategy for development of science, technology and innovation by 2030, requires to create a legal framework for implementation of pilot, experimental and specific mechanisms for new economic types/models according to science, technology and innovation.

2) Financial innovation policy in green credit provision: he State Bank of Vietnam (SBV) has proactively conducted research, developed, and issued policies and mechanisms to guide and promote the development of green banking and green credit activities. Additionally, SBV has collaborated closely with relevant ministries and authorities in formulating and refining policies related to green growth in general, and green credit in particular. Specifically:

+ Directive No. 03/CT-NHNN dated March 24, 2015 on promoting green credit growth and environmental – social risks management in credit granting activities;

+ Decision No. 1408/QD-NHNN dated July 26, 2023 on promulgating action program of banking sector for implementing National Strategy for Green Growth of 2021 - 2030 period and scheme for tasks and solutions for implementing results of the United Nations Climate Change Conference of the Parties - COP26;

[12] World Bank (2022), Vietnam Country Climate and Development Report, https://openknowledge.worldbank.org/entities/publication/29e72556d255-5c50-a086-245c1ccc4704

[13] The "external shock" definition is provided by reference to definitions given by the United Nations Economic and Social Commission for Western Asia UNESCWA and the U.S. INVESTOPIA Journal

+ Decision No. 1604/QD-NHNN dated August 07, 2018
approving the scheme for green banking growth in Vietnam;
+ Circular No. 17/2022/TT-NHNN dated December 23, 2022 on providing guidelines on environmental risk management in credit extension by credit institutions and foreign bank branches.

In the specific sector, the SBV has implemented measures to promote and allocate banking credit resources to projects, business plans, and investments in industries aimed at mitigating and adapting to climate change, including agriculture[14], forestry[15] and programs supporting low-income households with climateresilient housing[21].

In the realm of international cooperation, SBV has partnered with the International Finance Corporation (IFC) to develop a comprehensive Handbook for environmental and social risk assessment, targeting 15 economic sectors identified as having the highest environmental and social risk exposure[16]. Additionally, the SBV has actively engaged with international development partners, including the Japan International Cooperation Agency (JICA), the German Development Bank (KfW), and the German Agency for International Cooperation (GIZ). These collaborations aim to design and propose programs and projects that leverage international financial resources to support green credit initiatives and advance sustainable development objectives.

Through comprehensive state policies and specific regulations promulgated by SBV, credit institutions have increasingly emphasized the development of green credit initiatives. These institutions have implemented environmental risk management frameworks as a critical safeguard to ensure that credit flows are directed away from sectors with significant environmental risks. Additionally, environmental risk considerations have been systematically integrated into the overall risk governance structures of banks. Notably, approximately 50% of commercial banks have established internal policies governing environmental and social risk management, while over 80% actively conduct environmental risk assessments in their credit approval processes[23]. These evaluations are performed at two distinct stages: i) Pre-approval assessment: Analyzing environmental and social risks during the review and appraisal of credit applications to ensure alignment with sustainable financing objectives; ii) Post-approval monitoring and reporting: Conducting ongoing supervision and reporting of environmental and social risks throughout the credit lifecycle until the customer fully satisfies their obligations to the bank. This systematic approach underscores the commitment of credit institutions to align their operations with sustainability objectives while mitigating potential environmental risks.

As a result, the outstanding credit for green sectors and industries has steadily improved over the years. By the end of September 2024, 50 credit institutions reported green credit balances totaling over 665 trillion VND, reflecting a 7.11% increase compared to the end of 2023 and accounting for more than 4.5% of the total outstanding credit across the entire economy. The green credit primarily focused on renewable and clean energy sectors (constituting over 43%) and green agriculture (exceeding 30%). Additionally, credit institutions have intensified their management of environmental and social risks in lending activities. The outstanding credit subject to environmental and social risk assessments amounted to 3.28 quadrillion VND, representing over 22.33% of the total outstanding loans in the economy, a 15.62% increase compared to the end of 2023[17].

3) Financial innovation policies in banking operations

and environmental pollution, such as the clean water and rural sanitation program.

Banking operations have been progressively aligned with green practices to minimize emissions generated during customer service activities. This shift is primarily driven by the advancement of cashless payment systems and the digital transformation of banking services. Specifically:

+ Decision No. 957/QD-NHNN dated May 24, 2023, issued by the Governor of the State Bank of Vietnam, promulgating the Action Plan of the Banking Sector for the implementation of the Science, Technology, and Innovation Development Strategy until 2030,

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[14] Develop and submit to the competent authorities for the issuance of credit policies that encourage the development of agricultural production models based on linkage and high-tech application, as stipulated in Decree No. 55/2015/ND-CP dated June 9, 2015 and Decree No. 116/2018/ND-CP on the credit policy for agricultural and rural development; implement the credit program to encourage the development of high-tech agriculture and clean agriculture as per Resolution No. 30/NQ-CP dated March 07, 2017 of the Government; establish loan policies to support the reduction of agricultural losses under Decision No. 68/2013/QD-TTg dated November 14, 2013, on supportive policies on reduction of losses in agriculture

[15] Implementation of the loan program for production forest plantation and livestock development pursuant to Decree No. 75/2015/ND-CP dated September 09, 2015, of the Government; and the Forestry Sector Development Project executed through the Vietnam Bank for Social Policies. [21] The housing loan program for the construction of storm and flood-resistant houses in Central Vietnam, and for housing in flood-prone areas of the Mekong Delta; credit programs aimed at reducing greenhouse gas emissions

[16] SBV (2024), ESG – important milestone in sustainable development roadmap in Vietnam, https://www.sbv.gov.vn/webcenter/portal/en/home/sbv/news/Latestnew s/Latestnews_chitiet?leftWidth=20%25&showFooter=false&showHeader=false&dDocName=SBV598415&rightWidth=0%25&centerWidth=80%25&_a frLoop=10227139090265755#%40%3F_afrLoop%3D10227139090265755%26centerWidth%3D80%2525%26dDocName%3DSBV598415%26leftW idth%3D20%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3Dz8z4c3z9r_9 [23] Vietnam banking industry outlook, Vneconomy Magazine https://vneconomy.vn/nganh-ngan-hang-viet-nam-trien-vong-thu-hut-vonngoai.htm

[17] Nguyen Thi Thu Huong (2024), Green credit balance increased by 7.11% compared to the end of 2023, https://www.nguoiduatin.vn/du-no-tin-dungxanh-tang-711-so-voi-cuoi-nam-2023-204241119114006883.htm

outlines key tasks and solutions aimed at building an innovation system within the banking sector. These include: i) Continuously improving the legal framework in the banking sector to facilitate the development of new products and services in the context of Industry 4.0; developing and implementing a Decree on a controlled testing mechanism for financial technology (Fintech) activities in the banking sector; ii) Broadly and vigorously applying the technologies of Industry 4.0 in banking products and services, with a focus on expanding digital banking models; iii) Strengthening the connection between research and development centers for science, technology, and innovation, both domestically and internationally, in the banking sector.

In this regard, the legal framework promoting cashless payments and the digital transformation of the banking sector is continuously being refined to better accommodate the rapid changes in the digital era. SBV has concentrated on: i) Conducting research and reviewing proposals to amend and supplement legal provisions that require formalization to better align with practical operations, thereby laying the groundwork for the application of digital technologies in banking. For instance, Law No. 32/2024/QH15 on Credit Institutions introduces provisions for Regulatory sandbox in banking sector, the Decree on Cashless Payments, and the draft Decree on Regulatory sandbox in banking activities[18]; ii) Issuing and implementing projects, programs, and plans aimed at advancing cashless payments and driving digital transformation within the banking sector[26].

Driven by policy incentives, digital banking models and technology-driven financial products and services have experienced rapid growth in Vietnam in recent years. Advanced digital technologies, including cloud computing, big data analytics, robotic process automation, artificial intelligence, and machine learning, have been integrated into banking operations, enabling the delivery of secure, convenient services designed to enhance the customer experience. A number of banks have proactively partnered with major technology firms (BigTech) and Fintech companies to enhance operational efficiency by leveraging cutting-edge digital technologies and solutions, resulting in the development of next-generation digital banking services (Neobanking). Additionally, banks have formed collaborations with product and service providers to offer both banking and non-banking services in a secure, convenient manner, deeply embedded into customers' digital journeys.

As of now, the majority of banks have been developing digital transformation strategies and expanding their services through Internet and mobile applications. Vietnamese commercial banks have introduced digital banking apps and are working to distinguish their digital products from one another. A wide range of banking services, including account opening, money transfers, and deposits/savings, have been fully digitized, enabling customers to conduct transactions entirely through digital channels. Many Vietnamese banks have reported that over 95% of customer transactions are now carried out via digital platforms[27]. The digital banking and payment ecosystem has been established, integrating digital banking services with various other digital offerings in the economy, providing seamless experiences and substantial benefits to users in the digital space. Banks are continuously advancing solutions to encourage customers to adopt modern banking channels. These initiatives include: waiving or reducing fees for electronic payments, enhancing products to increase convenience, and conducting awareness campaigns to educate customers on the benefits of electronic transaction channels and new payment methods. Notably, some banks actively promote green products such as green deposits, green credit cards, and exclusive programs for customers engaged in environmentally sustainable sectors. Furthermore, commercial banks are working to transform operational practices and internal processes to reduce officerelated costs and minimize environmental impacts. The majority of commercial banks have implemented electronic office systems, which significantly cut down on printing and travel heights, expenses, thus reducing emissions and improving overall efficiency. Some banks have also invested in building green infrastructure by increasing the use of clean energy sources, such as solar power, and adopting recyclable materials.

https://www.sbv.gov.vn/webcenter/portal/vi/menu/trangchu/ttsk/ttsk_chitiet?leftWidth=20%25&showFooter=false&showHeader=false&dDocName=SBV597020&rightWidth=0%25&centerWidth=80%25&_afrLoop=10244848846833755#%40%3F_afrLoop%3D10244848846833755%26centerWidth%3D80%2525%26dDocName%3DSBV597020%26leftWidth%3D20%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3D6uxsfocnz_716

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[18] Law No. 32/2024/QH15 on Credit Institutions, Article 106: Regulatory sandbox in banking sector
Decree No. 52/2024/ND-CP dated May 15, 2024 on cashless payments [26] Guidelines for opening payment accounts through electronic eKYC methods; Guidelines for the electronic opening and issuance of bank cards; Guidelines for electronic lending and the use of bank guarantees, etc. [27] SBV (2024), The Prime Minister pointed out 3 goals and 6 key tasks for the banking industry to pioneer digital transformation and develop to new

C. Limitations In Financial Innovation Policies In Vietnam

Although financial innovation policies in Vietnam have achieved some successes, there remain significant challenges, particularly in promoting and developing green credit. These challenges primarily arise from gaps in the legal framework, the lack of a unified financial mechanism, and difficulties in developing digital banking infrastructure and managing environmental and social risks. Specifically:

First, there is a lack of clear regulations and specific standards for green taxonomy. At present, there is no comprehensive and standardized legal framework defining the green taxonomy, which leads to inconsistent definitions and classifications of these sectors without a solid legal foundation. This results in a lack of transparency in how credit institutions select, evaluate, and monitor green credit projects. Consequently, credit institutions face challenges in determining which projects meet the criteria for green credit support based on sustainable environmental standards.

Secondly, there is a lack of a clear legal framework for green credit incentives. While the Government and SBV have introduced certain policies to promote green credit, such as interest rate reductions or extended loan terms for green projects, there is no specific legal text that formalizes these incentives. This absence of clear legal guidelines creates uncertainty and hampers the consistent and effective implementation of green credit incentives by credit institutions. As a result, green loans often rely heavily on funding from international organizations, which come with their own environmental requirements.

Thirdly, challenges persist in mobilizing and allocating funds for green projects: Sectors focused on sustainability, particularly renewable energy and energy efficiency, typically require significant initial investments, long payback periods, and are subject to high market risks. In contrast, credit institutions primarily raise short-term funds at high costs through commercial channels. Consequently, credit institutions are unable to offer favorable repayment terms or lower interest rates for green projects, which diminishes their appeal to potential investors. This highlights a shortcoming in the financial mechanisms supporting projects that aim for long-term sustainability.

Fourthly, there is a deficiency of binding regulations addressing environmental, social, and governance (ESG) factors within the legal framework: While current legal documents have increasingly emphasized environmental considerations within credit policies, the social and governance components of environmental, social, and governance have not yet been specifically incorporated into binding regulatory frameworks. These factors, particularly the social component, are vital to ensuring the long-term sustainability and inclusivity of green projects. The absence of such legal obligations permits credit institutions and investors to overlook social and governance factors when evaluating and appraising green projects.

Fifthly, there are limitations in the development of green credit: Although the green credit outstanding balance has grown in recent years, its proportion relative to the total credit outstanding balance within the banking sector remains low and unevenly distributed across various economic sectors. The majority of green credit is concentrated in sectors such as agriculture, renewable energy, and clean energy. Commercial banks have not yet established a comprehensive and effective environmental and social risk management system, lacking a clear environmental and social impact assessment process, and specialized units for managing environmental and social risks. Furthermore, credit institutions in Vietnam continue to face challenges in accessing green funding, resulting in limited resources available for green credit. Most green credit products in banks are funded by international organizations, and projects seeking loans must comply with the environmental requirements of these funding entities.

Sixth, challenges in promoting digital banking and innovation within the banking sector. The legal framework supporting the advancement of digital banking and innovation remains fragmented and lacks clarity. For example, the draft Decree on Regulatory Sandbox for banking activities has encountered considerable debate and differing opinions. This lack of clear regulatory guidance hinders the effective implementation of emerging technologies in banking, especially in the development of green credit products, where technology could play a pivotal role in monitoring and evaluating the environmental and social impacts of projects.

These challenges underscore the urgent need for significant reforms in policies and legal frameworks to establish a more supportive environment for the growth of green credit, while ensuring that environmental, social, and governance factors are fully integrated into the credit issuance process.

D. Recommendations for Enhancing Financial Innovation Policies in Vietnam To Align with The Sustainable Development Agenda

In order to address the existing challenges and fully harness the potential of the banking sector in promoting green growth and sustainable development, the policy framework for financial innovation in Vietnam must focus on integrated, long-term solutions. These solutions should aim not only at improving the legal framework and financial mechanisms but also at creating an enabling environment for green credit development and facilitating the digital transformation of the banking sector. Such policies are essential for ensuring the sustainable development of the green economy. The following policy recommendations are put forward:

Firstly, facilitate access to long-term capital and interest rate subsidy mechanisms. In order for credit institutions to offer green loans with preferential interest rates and extended repayment terms, it is critical to establish mechanisms that enable these institutions to access long-term capital at favorable rates. The government should explore the creation of refinancing funds and green credit packages with preferential interest rates targeting green projects, particularly those in renewable energy, sustainable agriculture, and green industries. Furthermore, a mechanism to share interest rate subsidies between credit institutions and government agencies should be developed to mitigate financial risks for credit institutions when financing green projects. This would help reduce the financial burden on credit institutions and encourage the financing of highsustainability projects that require substantial capital investment and long payback periods.

Secondly, develop and update regulations and criteria for green credit and green taxonomy. To establish a solid legal foundation for green credit, the government must expeditiously develop and promulgate regulations that clearly define the green s taxonomy eligible for financing. These regulations should be consistent and uniformly applied across the country to ensure transparency and consistency in determining eligible green taxonomy. Additionally, the criteria for green credit should be regularly updated and enhanced, especially in terms of environmental, social, and governance impact assessments, with a view to establishing a “green credit institution” standard. This would provide credit institutions with a comprehensive legal framework to select, evaluate, and monitor green projects effectively. It is also essential for the government to issue detailed guidelines on the evaluation and monitoring processes for green loans, including specific ESG criteria, to ensure the sustainability of funded projects.

Thirdly, align policy measures to support green economic development. The development of green industries requires a comprehensive, multi-dimensional approach, involving policies on taxation, fees, capital, technology, market access, and sectoral development planning. The government must create a strategic framework that integrates these elements into a cohesive policy environment, thereby attracting investment into green taxonomy. This approach will provide the necessary foundation for credit institutions to offer green financing to priority sectors, contributing to the broader goal of transitioning to a green and sustainable economy.

Forthly, develop digital banking and environmentally friendly financial products. The banking sector must accelerate the development of digital banking solutions and modern financial products that are environmentally friendly and utilize advanced technologies. This will support green growth and the transition to a sustainable economy by enabling easier access to green financing for project developers and businesses. Digital banking services have the potential to enhance transparency, improve efficiency, and reduce the environmental footprint of traditional banking operations. The government should finalize the legal framework for digital banking and further integrate various ministries, agencies, and localities to ensure that banking services on digital platforms are compatible with the needs of green finance.

Fifthly, promote public awareness and information dissemination. The government and credit institutions should prioritize increasing public awareness about green finance and its benefits. A well-structured information campaign is essential to educate customers and the broader public about green loans, green banking products, and their role in fostering environmental sustainability. Public awareness initiatives will not only help customers understand green finance options but will also incentivize them to engage in sustainable behaviors through the adoption of green products and services. Additionally, ensuring the security of digital financial transactions is crucial to building trust among consumers. The government should strengthen regulatory frameworks to guarantee the privacy and security of users, thus ensuring that the digital transformation of the banking sector is both effective and trustworthy.

By implementing these recommendations, the Vietnamese banking sector will play an instrumental role in driving the transition to a green, low-carbon economy while contributing to the realization of the country’s sustainable development goals. Strengthening the regulatory framework and providing targeted support for green finance will enhance the ability of credit institutions to deliver effective financial solutions to green projects, ensuring their long-term environmental and social sustainability.

IV. CONCLUSION

The regulatory framework for financial innovation in Vietnam plays a crucial role in supporting the country’s commitment to achieving SDGs. While significant progress has been made in encouraging green credit and fostering the development of digital banking, the legal infrastructure still faces notable challenges. To address these limitations, it is essential for Vietnam to adopt comprehensive reforms that create a robust and cohesive legal framework. Such reforms should focus on harmonizing regulations across green industries, introducing clear incentives for green credit, and facilitating greater collaboration with international financial institutions. A more unified and forwardlooking regulatory environment will be vital in driving sustainable economic growth and achieving Vietnam's SDGs./.

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