

A CLIMATE BANK FOR VIET NAM TO CATALYSE GREEN AND JUST TRANSITIONS

2024 Policy Brief Series

Prepared by **Thomas Marois**, McMaster University
and **Ulrich Volz**, SOAS University of London



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The viewpoints expressed in this paper are those of the authors and do not necessarily represent those of the *United Nations Development Programme*.



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Executive Summary

A new public climate bank with a focused policy mandate on climate action supported by international development finance institutions could help Viet Nam achieve a just transition to a low-carbon and climate-resilient economy. Given the enormous and front-loaded capital needs of economic transformation, its long maturities, and the specialist technical knowledge and skills required, there is an evolving argument in the development community for creating new, specialist institutions focused directly on this task or for strengthening existing ones. This paper contributes to that debate by exploring the potential for a new climate bank in Viet Nam that works alongside existing financial institutions. It concludes that the government of Viet Nam may wish to explore the interest of international development finance institutions to support the establishment of a Climate Bank for Viet Nam by providing capital or guarantees to help it become a catalyst to mobilise public and private capital at cheap rates and become a driving force for financing a clean and just transition in Viet Nam. The legacy of the new climate bank will rest on it becoming a public policy-maximising institution.

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The findings, interpretations and conclusions expressed are those of the authors and do not necessarily reflect the views of the United Nations or its official Member States.

Foreword

At the UN Climate Change Conference in Glasgow (COP26) in 2021, Prime Minister Pham Minh Chinh announced Viet Nam's commitment to achieve net-zero carbon emissions by 2050 and transition away from unabated coal power generation in the 2040s. These are ambitious targets, especially for a rapidly industrializing country like Viet Nam. Net-zero emissions by 2050 will require massive investment in solar and off-shore wind power, energy storage, modernization of energy transmission and distribution, adoption of efficiency measures in businesses and households, a new national rail network, electric vehicle charging infrastructure, low-tillage, precision agriculture, retooling of energy-intensive industries like steel and cement, and many other changes.

Taken together, these changes represent a profound economic transformation—one that will have a powerful impact on every economic activity, region and community. It will require capital mobilization on an unprecedented scale. The experience of Viet Nam matters both for its specific context and more broadly, because all countries, developing and developed, are grappling with the same challenge; namely, how to align climate and development finance and direct it towards the massive systems change that low-carbon or net-zero emissions entails. In all countries, as in Viet Nam, there is renewed interest in the potential role of public investment and in particular of public and development banks, because it is clear that sustainable and just transformation will not happen without them.

Over the past decade, Viet Nam has allocated thirty percent of gross output to investment, close to the average for middle-income countries. Viet Nam's economic growth rate over the same period was six percent—a strong performance, especially in light of the impact of Covid-19 in 2020 and 2021. However, to reach net-zero targets, Viet Nam will have to

increase the net investment rate significantly—perhaps by five percentage points or more—to achieve equivalent growth rates. Renewable energy technologies cost less to operate in the long-run but many are capital intensive, requiring high up-front costs. A rapid transition also implies accelerated depreciation of fossil-fuel related assets, undermining the capacity of firms to finance new investments in renewable energy; if not organized in a coherent way, potential economic and financial shocks could stymie progress towards net-zero emissions.

In December 2022, Viet Nam announced the launch of a Just Energy Transition Partnership (JETP) with the International Partners Group (IPG), comprised of the European Union, the United States, the United Kingdom, Japan, Germany, France, Italy, Canada, Denmark and Norway. The JETP is expected to raise \$15.5 billion over three to five years to support Viet Nam's energy transition, consisting of \$7.5 billion in public finance in the form of concessional loans and \$7.75 billion in private finance at market interest rates from GFANZ (Glasgow Financial Alliance for Net Zero)

While foreign investment can play an important ancillary role, most of the capital needed for the energy transition will come from domestic sources. International borrowing and direct investment create foreign exchange liabilities in the form of interest and principal payments and profit remittances; these costs can exceed the returns that would be earned if investment was domestic. Despite its export success, Viet Nam faces a hard foreign-exchange constraint because of the import-intensive nature of exports, profit remittances and interest payments. Moreover, foreign liabilities in the energy sector are not self-liquidating, as revenue is booked for the most part in the domestic currency. As foreign exchange liabilities increase, risks associated with exchange rate instability and shifts in

international capital flows also rise. Moreover, even when bonds are issued domestically, if they are bought by international investors these exchange rate risks can remain, as they can exit suddenly and en masse, often for reasons that are unrelated to the local context. For these reasons, scholars have found that on average ninety percent of sustainable investment capital in developing countries is derived from domestic sources.

Viet Nam's financial markets are larger and more diversified than in the early years of the reform period. Yet banks, still the core of the system, are mainly funded by short-term deposits, restricting their ability to make long-term loans. As secondary markets are either absent or illiquid, financial assets are typically held to maturity, reducing the supply of long-term capital. Viet Nam's financial institutions also lack the technical capacity to step up lending for renewable energy, energy efficiency and related ventures on the scale and at the pace required.

Developing secure, liquid and transparent financial markets takes time. UNDP works closely with developing country partners, including the Government of Viet Nam, to explore ways to increase the supply of long-term financing for the energy transition and for adaptation to and mitigation of climate change. While international financial support and foreign investment are important, the supply of long-term financing from these sources has fallen far short of requirements. Future hopes, moreover, continue to rest on the expectation that private investors will have the appetite to fill this gap – even as the evidence suggests otherwise. In the years since signing the Paris Agreement and the Sustainable Development Goals, private finance and co-finance into these much-needed activities has been notably lacklustre. More attention needs to be paid to the potential of domestic sources, and especially including national development banks, to catalyzing public and private investment in the energy transition and other green technologies. Public banks continue to be the most significant source of long-term finance, at the concessional rates

and favourable terms that are needed for the catalytic and heavy-lifting that lies ahead.

This paper explores the potential role of a public sector climate bank in Viet Nam in increasing the supply of long-term domestic financing for energy, efficiency and conservations projects and for climate change adaptation. We are grateful to Professors Thomas Marois and Ulrich Volz for sharing their global expertise in development banking and climate finance and applying it to the Vietnamese case, and to Diana Barrowclough of UNCTAD for her guidance and steadfast support. The paper makes a strong case for public action and draws on detailed examples from other countries and regions to show what has worked—and what has not—in other settings.

We would also like to thank the Department of Science, Education and Natural Resources of the Ministry of Planning and Investment for co-sponsoring a workshop on “Financing for Development—The Role of Domestic Financial Institutions,” held in December 2022, at which an early version of this paper was presented.

We hope that the paper will stimulate fresh thinking on financing a just, equitable and sustainable energy transition as Viet Nam moves decisively towards a coal-free future and net-zero by the year 2050.



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Contents

Foreword	03
1. Introduction	06
2. The Case for a Climate Bank for Viet Nam	09
3. Four Pillars of a Green and Just Climate Bank for Viet Nam	13
3.1. First Pillar: Good Governance	13
3.1.1. A Public Purpose Green and Just Mandate	13
3.1.2. Governance	16
3.1.3. Ownership	19
3.1.4. How a Climate Bank of Viet Nam can promote Green and Just Policies	20
3.1.5. Metrics that Matter	22
3.2. Second Pillar: Securing Affordable Sources of Capital and Ensuring Targeted Ways of Lending	24
3.2.1. Securing Affordable Sources of Capital	24
3.2.2. Ensuring Targeted Ways of Lending	26
3.3. Third Pillar: A Whole of Government Approach	28
3.4. Fourth Pillar: Knowledge Hub	30
4. Next Steps for Establishing a Climate Bank for Viet Nam	31
References	32

At the Conference of the Parties (COP) 26 – the United Nations Climate Conference in Glasgow in November 2021 – Prime Minister Phạm Minh Chính announced Viet Nam’s commitment to achieve net zero by 2050, transition to a green energy future, and phase out coal power in the 2040s¹. At COP28 on 1 December 2023 in Dubai, Prime Minister Phạm Minh Chính presented the **Resource Mobilisation Plan** as a next step building on Viet Nam’s December 2022 Just Energy Transition Partnership (JETP) (SRV 2023).

To make this green transition happen, Viet Nam needs to invest heavily in renewable energy, with estimates of required annual spending of around \$11 billion to \$14 billion (Lambert 2022). The World Bank (2022) estimates that pursuing a climate-resilient and net zero emissions development pathway requires additional investments of about 6.8 percent of GDP per year in Viet Nam, or a cumulative \$368 billion through to 2040. These are enormous investment needs, but the cost of inaction is even higher. The World Bank (2022) estimates that climate change will cost Viet Nam between 12 and 14.5 percent of GDP a year by 2050, and that without adaptation measures as many as one million people will fall into extreme poverty by 2030. The World Bank therefore proposes that Viet Nam shift its development paradigm by incorporating two critical pathways – a resilient pathway and a decarbonising pathway – that will help the country balance its development goals with increasing climate risks. This paper launches from these two

objectives by exploring one important way that these two pathways can potentially be financed – a new public climate bank.

The financing of low-carbon and climate-resilient infrastructure entails large upfront investments and long payback periods. Indeed, many infrastructure investments, especially in climate adaptation and resilience, will not generate sufficiently high revenue streams that would attract commercial financing. High capital costs and long maturities pose serious challenges to the financing of low-carbon and climate-resilient infrastructure, especially for developing economies like Viet Nam with shallow capital markets. A new public climate bank with a focused policy mandate on climate action supported by international development finance institutions (DFIs) could support Viet Nam to achieve a just transition to a low-carbon, climate-resilient economy. A new public climate bank could be the institutional innovation capable of using ‘public sector finance catalytically’, as called for the 2023 **Resource Mobilisation Plan** (SRV 2023, 58-76).

Viet Nam can build and benefit from a new public climate bank that is mandated to advance a green and just transition. The Climate Bank for Viet Nam (CBV) proposed in this paper would be a publicly owned and publicly governed development bank that acquires specialist expertise and financial capacity to finance an energy transition based on socio-economic justice. To build a CBV is to create a new public purpose legacy institution meant to provide for the future of Vietnamese society. The CBV should

¹ See Wengel et al. (2023) for an analysis of the political economy underlying Vietnam’s energy transition and coal phase down.

aim to be a public policy-maximising entity, not profit-maximising. There are good, evidence-based reasons to build a new CBV. This paper makes the case for establishing such a new institution and discusses key considerations.

Creating a new CBV with a focused mandate on accelerating the just energy transition could help to leverage public and private finance equitably². The track record of strict project-based ‘mobilisation’ or ‘de-risking’ to leverage small amounts of public money to achieve trillion-dollar transformations is poor (Kenny 2022; Marois 2022c). Strict de-risking of private finance has proven inefficient to realise green or just transitions. Blending and de-risking are risky as private financial interests often take precedence over the public and environmental good (Eurodad 2022). Profitability continues to override climate policy objectives. A CBV could use a tried-and-tested method of leveraging private sector finance for development: it can issue green/sustainable bonds and borrow from markets and then finance such projects directly to advance public policy goals (Marois 2021; Griffith-Jones et al. 2022; Volz 2022). The CBV could overcome investment barriers by using targeted approaches and tailored financial structuring to address the lack of suitable low-carbon climate resilient investments with attributes sought by private investors, for instance through aggregation of small-scale investments. The CBV could also address a shortage of objective information, market data and skills to assess transactions and underlying risks. A CBV could work with state and market participants to increase the supply of and demand for profitable low-carbon investments by decreasing risks, increasing market transparency and improving investors’ (including lenders’) understanding of low-carbon investments. The CBV could bend private money to public purpose green transitions.

Different forms of governance are possible for a CBV. The bank could be independent or adopt a quasi-independent form of governance, and it could build in meaningful societal representation. What is critical is that the CBV has a focused climate mandate, with a clear public purpose mission for financing low-carbon and just transitions. Importantly, a new CBV should be accountable, with its performance being transparently measured against clearly specified key performance indicators. As highlighted by the OECD (2016), the public reporting on the performance of green investment banks should include transparent calculation methodologies to build credibility.

Because a CBV would be guided by policy objectives rather than commercial profit, its public shareholders can mandate the bank to align itself with the Paris Agreement and the UN 2030 Sustainable Development Goals (SDGs). To date, progress on SDG alignment is uneven and incomplete globally for both public and private banks (Marodon 2022; UN 2023). Nonetheless, a few multilateral and national development banks have adopted formal SDG reporting and alignment requirements, with others have committed to doing so in the near future (Marois et al. 2023). Yet more needs to be done to translate the high-level SDGs into metrics that matter in specific local contexts so that measures of success are policy-based, credible, reflect community priorities, and support workers. To do so, a CBV could be designed and allocate sufficient resources to co-created metrics with affected communities that apply to the life of climate projects. This means building internal capacity and appropriate institutional expertise to carry out effective due diligence and monitoring (Kattel and Mazzucato 2018; Marois 2022b).

² Transforming Viet Nam’s existing state-owned policy banks to address climate issues is an option. The OECD (2016) has argued that the “greening” of existing institutions may be preferable to creating new green investment banks from scratch, provided that there is sufficient institutional and political support for this transition. However, it is not clear if the Viet Nam Development Bank or the Viet Nam Bank for Social Policy are intended for such a transformation. Ideally, these two existing public banks would undergo a parallel process of ‘greening’ their operations.

Transparent, accountable, and well governed development projects can positively impact the effectiveness of large-scale infrastructure projects in the short and long-term (Ray et al. 2020). Public development banks have proven models of good governance around the world that bolster the credibility of these banks in their societies (Marois 2021). In public climate banks, the highest decision-making forums might best be inclusive of the society that is pursuing energy transitions. This is likely to bolster effectiveness. Good governance might include provisions to uphold the right to free, prior and informed consent of Indigenous peoples (see UN OHCHR 2013). Poor governance will put climate transformation at risk of capture by actors unconcerned with ensuring that Viet Nam's green transitions are socio-economically just (Dafermos et al. 2021). Viet Nam has recognised the important place of civil society in green transitions in the Political Declaration of the JETP, stating that "for the transition to be just and equitable, regular consultation is required, including with media, NGOs and other stakeholders so as to ensure a broad social consensus" (SRV 2023, 197). A new CBV could serve as a forum for inclusion and consultation.

Building from the JETP Resource Mobilisation Plan (SRV 2023), the government of Viet Nam may wish to explore the interest of international DFIs and multilateral banks to support the establishment of a CBV. International DFIs may provide capital or guarantees to help a CBV become a vehicle to mobilise public and private capital at cheap rates and become a driving force for financing a clean and just transition in Viet Nam.

Specifically, a CBV could be a key vehicle to mobilise capital as envisaged through the JETP, which aims at providing \$15.5 billion. Viet Nam has agreed on the JETP with the International Partners Group, including the European Union, the United Kingdom of Great Britain and Northern Ireland, the United States of America, Japan, the Federal Republic of Germany, the Republic of France, the Italian Republic, Canada, the Kingdom of Denmark and the Kingdom of Norway.

As part of that exploration with the International Partners Group and international DFIs, Viet Nam would benefit from a clear vision for the institutional structure and mandate for the creation of a new CBV. Ensuring commitments to advancing green and just transitions domestically are likely to increase international support for a new CBV as a legacy climate institution in the country.

The remainder of this study is structured as follows:

- **Section 2** sets out the case for establishing a new CBV.
- **Section 3** then describes the four pillars on which a green and just CBV can be built. These are (i) good governance, (ii) securing affordable sources of capital and ensuring targeted ways of lending, (iii) a whole of government approach, and (iv) turning the CBV into a knowledge hub.
- **Section 4** concludes by sketching the next steps for establishing a CBV.

The United Nations 2030 SDGs reflect global agreement on the need to decarbonise economies and societies. This needs to be done rapidly at the local, regional, national, and international levels (Boehm et al. 2022; G20 SFWG 2022; IPCC 2022; UNCTAD 2021; UNDP 2021). In Resolution No.1/NQ-CP on socioeconomic development, state budget estimates, and improvement of the business climate of 6 January 2023, Viet Nam's Prime Minister Pham Minh Chinh ordered the government to implement a radical shift in the nation's energy structure with a focus on reducing carbon emissions to achieve carbon neutrality by 2050. Resolution No.1 states:

"It is a must to carry out radically [sic] strategies on response to climate change. Efforts are to be made to complete mechanisms and policies to attract investment sources and welcome assistance capital from international partners within the Just Energy Transition Partnerships (JETP) with G7 and other international partners in the sectors of clean and renewable energy and green transformation."

To enter on a net-zero pathway and reach climate neutrality by 2050, Viet Nam will need to make significant investments in its main emitting sectors, namely energy, transport, agriculture, and industry/trade. The World Bank (2022) estimates that Viet Nam will need to spend \$31.8 billion in net present value terms over the period 2022-2030 and \$49.5 billion over the period 2031-2040. The World Bank considers the energy transition as the "backbone" of the Viet Nam's net-zero transition.

As with all major societal and infrastructural transformations, the costs of the net-zero transition need to be paid for over time through long-term financing. To build a green, low-carbon economy, large upfront investment is needed. This constitutes a significant problem for developing economies given that they face much higher costs of capital, a problem that is further aggravated by their climate vulnerability (Buhr et al. 2018, Kling et al. 2018, Beirne et al. 2022).

Moreover, Viet Nam faces enormous investment needs in climate adaptation and resilience. Viet Nam is one of the most climate vulnerable countries in the world, with over 3,200 km of coastline and many low-lying cities and river delta regions (World Bank 2022). Estimates suggest that Viet Nam lost \$10 billion (3.2 percent of GDP) in 2020 alone to rising sea levels, higher and more variable temperatures and precipitation and more frequent and extreme storms. The World Bank estimates that climate catastrophes and the gradual destruction of physical, productive, and human assets could cost Viet Nam between 12.0 and 14.5 percent of GDP annually – costs that would add up to \$400 to \$523 billion by 2050. The World Bank estimates that Viet Nam needs to spend an additional \$342 to \$411 billion over the period 2022–2050 in net present value – about 4.5 to 5.4 percent of GDP annually – to upgrade its assets, retrofit and upgrade existing public infrastructure, and finance social assistance³.

These are enormous financing needs for both adaptation and mitigation. Banking institutions are uniquely equipped to make available the financial resources needed now and to enable societies to repay those resources over the

³ According to the 2022 Climate Public Expenditure and Investment Review of Viet Nam, climate-related capital spending towards resilience constitutes about 25 percent of the government investment budget or 1.5 percent of GDP, while the current level of public funding for disaster programmes is around 0.3 percent of GDP (MPI and UNDP 2022).

long-term. But not all banking institutions can equally or effectively serve this purpose. Public development banks and commercial banks function differently. Private commercial banks are not public policy-driven institutions. They have a fiduciary duty to their shareholders, which usually means operating to maximise returns, protect shareholder capital, and prioritise the needs of the banking institution. This involves complying with government regulations. However, there are few climate policies that compel commercial banks to act. Climate finance is dominated by voluntary codes and corporate social responsibility pledges. A European Commission report recognises that because private investment is primarily responsive to expected returns on investment it seeks high return, short-term opportunities that do not necessarily privilege low carbon investments or contribute to long-term sustainability (EPSC 2017, 12). Private commercial banks are not well equipped to respond at the pace, scale, or terms appropriate for green and just transitions. Profitability concerns often precede effective climate actions. There is remarkably little scope to advance just energy transitions.

Viet Nam's banking system is dominated by state-owned commercial banks (SOCBs) and joint-stock commercial banks (JSCBs), some of which have public ownership (often through state-owned enterprises)⁴. As commercial banks, SOCBs and JSCBs do not currently have specific mandates to finance climate action, and their lending to climate-related areas has been limited. Viet Nam also has two state-owned policy banks, the Viet Nam Development Bank (VDB), which has functioned primarily as an on-lending vehicle for overseas development assistance (ODA) funds, and the Viet Nam Bank for Social Policy (VBSP), which provides microcredit to poor households and finances employment generation schemes. Given their institutional mandates and target areas, the VDB and the VBSP have not acquired the capacity

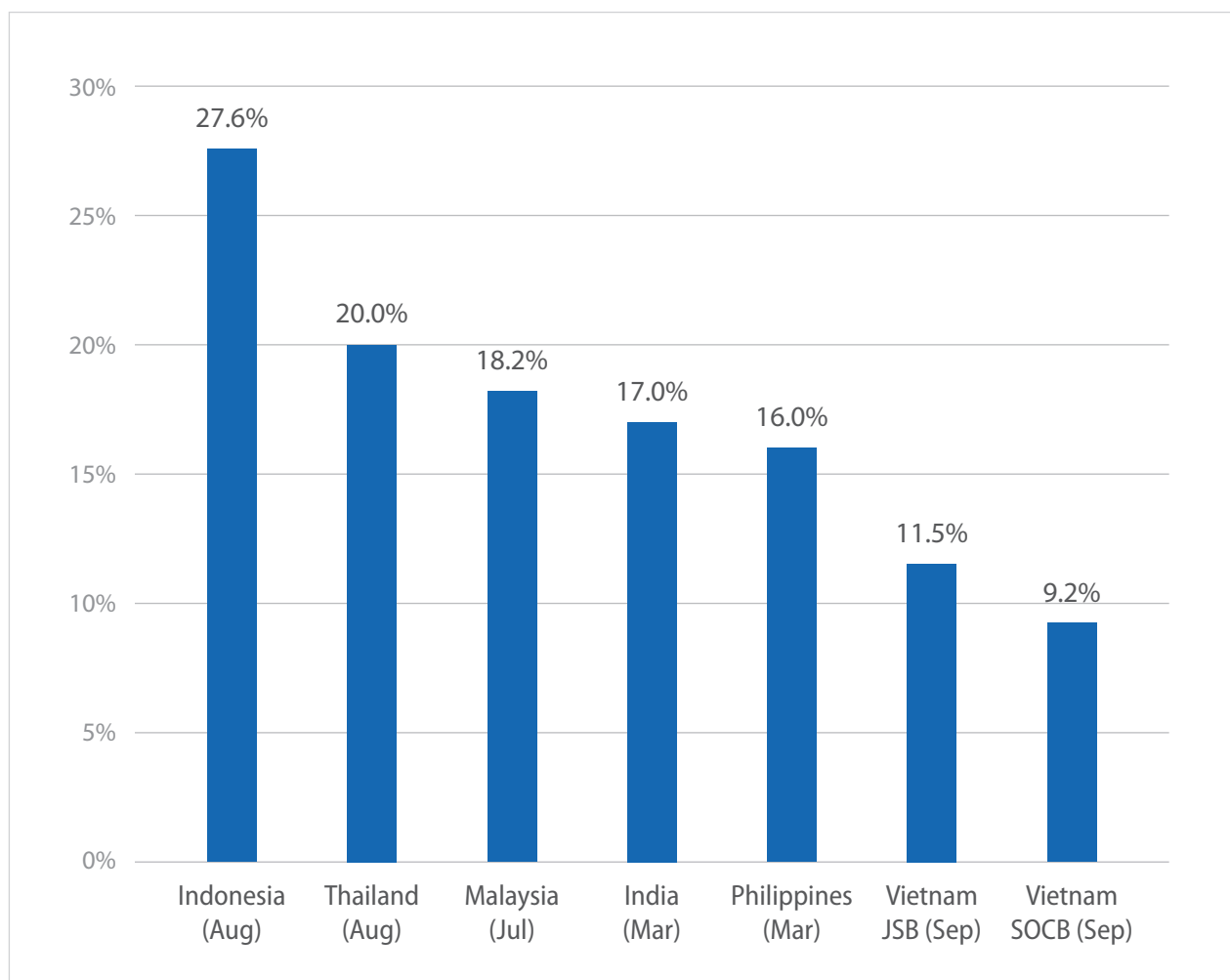
to finance projects related to a just transition.

Since the approval of the Green Growth Strategy 2011-2020, the Government of Viet Nam has introduced policies to mobilise financing for renewable energy and other environmentally sustainable investments. The Road Map for Bond Market Development 2017-2020 included mechanisms to facilitate the issuance of green bonds. The Ministry of Finance sponsored a pilot project 2016-2017 for green bond issuance by the governments of Ho Chi Minh City and Ba Ria Vung Tau. In the banking sector, State Bank of Viet Nam (SBV) Decision No. 1604/QD-NHNN in 2018 requires banks to conduct environmental and social risk assessments by 2025 and to increase lending earmarked for green projects (OECD 2022). This year, the SBV approved the Banking Sector Action Plan for the implementation of the National Green Growth Strategy for 2021-2030, calling for the development of the legal framework for green credit.

The discussion around green finance in Viet Nam has been heavily dominated by commercial bank credit and bonds, the mainstays of the financial system. However, neither the commercial banks nor the corporate bond markets are able to mobilise resources on the scale required to achieve the energy transition and other sustainability goals. As in most other countries, commercial banks, which are almost entirely funded by short-term deposits, have difficulty financing slow-gestating, capital-intensive projects in the energy sector in the absence of government guarantees such as fixed feed-in tariffs. Moreover, Vietnamese banks are undercapitalised relative to regional peers (Figure 1), with too high levels of nonperforming loans, which restricts their capacity to sustain credit growth. Furthermore, the development of the corporate bond market suffered a setback in 2022 when over-leveraged property developers defaulted on obligations, events which had a negative impact on the commercial banks holding these securities.

⁴ In September 2021, the assets of SOCBs accounted for 41 percent of total assets in Viet Nam's banking sector, with 44 percent of assets held by JSCBs; foreign banks' assets accounted for 10 percent of the sector (Dao et al. 2023).

Figure 1. Capital Adequacy Ratios, 2023



Sources: Compiled by authors with data from State Bank of Viet Nam, Bank of Thailand, Bank Negara Malaysia, Bangko Sentral ng Pilipinas, Bank Indonesia.

Public development banks are not necessarily superior to commercial banks. However, public development banks, equipped with a clear mandate and strong governance, have the potential to be highly effective and catalytic financiers of decarbonisation (UNCTAD 2019: 143-173, Marois 2021, Griffith-Jones 2022, Volz 2024). Moreover, public development banks can meaningfully advance just energy transitions. This is because public development banks can be policy-oriented rather than profit-oriented. Being policy-oriented enables public development banks to adjust the pace, scale, and terms appropriate for confronting grand challenges like global green and just

transitions. As public or non-profit financial institutions with a dedicated mandate to finance a green and just transition, public climate banks can assume a key role in helping to finance the Agenda 2030 and climate action. They can be powerful and cost-effective policy-oriented vehicles to overcome investment barriers and leverage the impact of available public and private resources.

Public development banks can be critical in transforming markets. They can demonstrate the profitability of low-carbon investments to accelerate market development and improve the risk-return profile of such investment and attract public and private capital to fulfil policy

objectives. By dispersing information, sharing expertise and demonstrating that certain investments are profitable, public development banks can help to accelerate reductions in financing costs (Griffith-Jones et al. 2023). At the same time, public development banks can support necessary public sector services that should not be exposed to profitability metrics or private investment (for example, water and sanitation) (Marois and McDonald 2023). Public development banks can also support project developers, investors and other financial institutions, public and private, to adopt impact metrics to track progress toward national climate and sustainability targets. By being policy-maximisers, public development banks can make green and just development happen in the public interest.

03

Four Pillars of a Green and Just Climate Bank for Viet Nam

A new public development bank could help Viet Nam achieve its climate goals, both relating to adaptation and mitigation. This section sets out four pillars on which a green and just CBV should be built to ensure maximum impact and reduce the risk of failure. These are (i) good governance, (ii) securing affordable sources of capital and ensuring targeted ways of lending, (iii) a whole of government approach, and (iv) turning the CBV into a knowledge hub.



First Pillar

Good Governance

3.1.1. A Public Purpose Green and Just Mandate

The mandate sets the direction of the institution and frames the parameters within which it functions and can be held to account. Based on the mandate, institutions establish more concrete missions or goals to be achieved in its operations. Effective missions draw together and give clear direction to the different actors across sectors needed to achieve impactful change (Mazzucato 2021). A climate- and just transition-focused mandate can enable the CBV to align with international agreements, like the Paris Agreement, and national strategies (Yang et al. 2021, 57). Based on a clear mandate, the objectives and missions of the CBV can prioritise and enable green and just transitions in ways that position the CBV at the forefront of innovative change and transitions. The mandate and missions should allow for the adoption of international standards for green lending, sustainability and risk management including the Equator Principles and comprehensive disclosure following the recommendations of the Task Force on Climate Related Financial Disclosures (Yang et al. 2021, 57).

The CBV should seek to adopt an ambitious and bold green and just mandate, which would be different from that of the existing banks. This will position the CBV to lead on the financing of national green and just transitions by shaping its functions towards creating socio-economic

and environmental change in new green and just directions (Kattel and Mazzucato 2018, 788). The mandate is vital to enabling innovative public climate financing and the build-up of in-house dynamic capabilities specifically oriented towards solving the green and just transition challenge (see Knowledge Hub, Section 3.1.4) (cf. Kattel and Mazzucato 2018).

The mandate might best be guided by a public purpose anchored to green and just transitions. Public purpose is defined as an action, measure, direction, or service undertaken by public authorities with the stated aim of providing a collective, common good benefit to an affected community as a whole or in some substantive measure. However, public purposes are not neutral, but subject to contestation within and across communities (Galbraith 1973; Marois 2022a). Credible public purposes need to be co-developed by and accountable to public authorities and affected communities. Mazzucato (2021, 6) calls on “restoring public purpose in policies so that they are aimed at creating tangible benefits for citizens and setting goals that matter to people – driven by public-interest considerations rather than profit.” Public purposes are different from private purposes, which refer to the interests of particular individuals or corporate entities and whose outcomes may only incidentally contribute to realising public interest outcomes (cf. Bozeman and Johnson 2015).

The CBV mandate could be crafted in a way that ties Viet Nam's priority of advancing green and just transitions to the CBV's public purpose. The combination of mandate and public purpose will institutionalise a clear operational ethos within the CBV. In doing so, Viet Nam can take on a leading role in innovation among public climate banks globally. Against this backdrop, we propose a draft CBV mandate for discussion along these lines: *The Climate Bank for Viet Nam is to be governed by public purpose to catalyse environmentally sustainable, biodiverse, and just transitions to a low-carbon and climate resilient society. The priority is to maximise the green and just impact of our activities.*

There are numerous international examples of public banks with public purpose mandates and, increasingly, with climate mandates. There are fewer examples of aligned public purpose mandates that are green and just. The mandate of Germany's Kreditanstalt für Wiederaufbau (KfW) enables the bank to direct finance in response to public purposes, which include explicit reference to green and just transitions vis-à-vis UN 2030 SDG alignment (Box 1). In consultation with stakeholders, Invest-NL designed policies to align climate action and to give clear directionality to investment decisions (Box 2). The North American Development Bank functions according to a clear green infrastructure mandate, particularly around essential services like water, energy, municipal infrastructure, and waste (Box 3).

Box 1: KfW and the SDGs as a Public Mission

KfW was founded in 1948 as a 'public purpose' bank, established in and governed by public law – the 'Law Concerning Kreditanstalt für Wiederaufbau' (KfW 2020b). According to Kerstin Kiehl (2015), First Vice President, Head of Product Management, KfW offers 'financing with a public mission'. The KfW Law tasks the bank with four broad mandates or directions: (1) supporting promotional tasks, like financing SMEs, housing, infrastructure, development, innovation; (2) financing sub-national public authorities and special-purpose associations; (3) financing social goals and educational promotion; and (4) granting finance in the interest of the German and European economy.

KfW further directs its activities based on nationally determined 'megatrends', which are now linked to the UN 2030 SDGs. These megatrends include digitalisation and innovation (SDG 9 and others); social change (SDG 4, 10 and others); globalisation (SDG 7, 8, 9 and others); and climate and environmental protection (SDG 6, 7, 12, 13, 14, 15 and others) (KfW 2021, 30). KfW's mandate enables the bank to direct finance in response to public purposes, which include explicit reference to green and just transitions vis-à-vis UN 2030 SDG alignment.

KfW was not created in 1948 as a 'green' bank but over the last two decades it has evolved as one of the greenest banks in the world, public or private (Marois 2021, 203-205).

Getting the mandate wrong risks diverting institutional energies away from achieving productive outcomes, wasting resources, time, and eroding societal goodwill. The Canada Infrastructure Bank (CIB) is an example of getting the mandate wrong (Marois 2022c). Rather than specifying a public purpose mandate for tackling infrastructure gaps and energy transitions in the country, the CIB mandate directs the bank towards raising private investment capital as its primary function. The infrastructure gap is subordinated to raising private capital and ensuring profitability. At the same time, the CIB has not achieved its own goals for achieving high rates of private capital mobilisation (Marois 2022c). The CIB has been more successful in its public-public collaborations, however. Yet to be successful, the CIB has had to work around its private purpose-oriented mandate to fund community and municipal infrastructure directly. By contrast, the Dutch Municipalities Bank (Bank voor Nederlandsche Gemeenten, BNG) is clearly oriented towards transforming the public sector and society: the “BNG Bank is of and for the Dutch public sector. Instead of maximizing profits, our priority is to maximise the social impact of our activities” (BNG Bank n.d.).

Box 2: The Invest-NL Fund and Aligned Transitions Directionality

Invest-NL began operations in 2020. Its broad legal mandate is “to contribute to the financing and realization of societal transition tasks by businesses and the provision of access to corporate finance, if this is not sufficiently provided by the market” (Article 3 of the Invest-NL Foundation Act).

Based on this, Invest-NL targets financing for scale-ups, the energy transition, and a circular economy. Invest-NL has fortified its green mandate by committing to funding only those activities that benefit both energy transitions and a circular economy at the same time (Invest-NL 2021, 33). This commitment was the outcome of stakeholder dialogue, and it was intended to align climate action and to give clear directionality to investment decisions (Invest-NL 2021, 62).

The conventional strategy for climate finance is to prioritise the mobilisation of private investment through public de-risking and guarantee mechanisms (see IMF/World Bank 2015; CPI 2021, 21). More is said on this in Section 3.2.2 on the ways of lending. As Kenny (2022) highlights, the World Bank’s Billions to Trillions agenda “encapsulates the fiction that a little bit of public finance could bring forth a multitude of transformative private sector development projects in low- and middle-income countries”. The claim that small amounts of public money can mobilise private investment at a ratio of 9:1 or higher is unrealistic: a ratio of 0.7:1 is more in line with past experience, including the Canada Infrastructure Bank (Kenny 2023; Marois 2022c). Public sector guarantees have a role to play in specific situations – for example, proof of concept for new technologies, or increasing the supply of credit to underserved groups – but they are not a panacea.

Moreover, the objective of the CBV is not primarily the delivery of risk-free returns to private investors, but rather to achieve a just energy transition and to protect vulnerable communities from the negative effects of climate change. It is one thing to support private investments when they are in alignment with national green and just strategies. It is quite another to mandate a public bank to be institutionally subordinate to investors' priorities and profit-maximisation. The first may support green and just transitions if carefully curated and validated. The latter may constrain the public bank's ability to advance green and just transitions in all but the most profitable sectors and regions. Biodiversity, gender equity, just transitions, and so on will be difficult to achieve.

Box 3: The North American Development Bank and Green Infrastructure

The North American Development Bank (NADB) was established in 1994 as a public bank owned by both the US and Mexican Governments to fund infrastructure projects and to provide technical assistance. According to Hinojosa-Ojeda (1994: 301-2), the NADB was a "new type of institution designed for democratically based regional planning" designed as a bottom-up response to the problematic "lack of democratic and participatory forums in local communities" along communities of the Mexico/US border.

Currently, the NADB functions according to a clear green infrastructure mandate, particularly around water, energy, municipal infrastructure, and waste (Yang et al. 2021; McDonald et al. 2021). The NADB sees this mandate as connected to the advancement of well-being for Mexican and American border communities (cf. NADB Overview).

3.1.2. Governance

Governance is closely tied to questions of ownership structure and mandate. Robust governance mechanisms hold the bank to account to realise its mandate and the objectives of its owners. Governance forms a bridge between the bank and its affected communities in ways that enable it to function according to public purpose as it tackles concrete societal challenges related to green and just transitions (cf. Kattel and Mazzucato 2018; Marois 2021). At the same time, governance guarantees transparency of operations, which is essential to the efficient functioning of financial markets. Transparency reduces risks for counterparties and lowers funding costs for the CBV. Strong governance institutions widens the CBV's access to financial markets, especially ESG-oriented and SDG-oriented investments at favourable rates.

Research points towards the importance of transparent, accountable, inclusive, and well governed development projects as foundational for the effectiveness of large-scale infrastructure projects in the short and long-term (Ray et al. 2020). Without effective governance, the CBV risks falling off course, creating social conflict, wasting institutional energies, undermining ecological priorities, and reproducing structural inequalities (see Kvam 2019). Public financial institutions are well-positioned to take the lead in reinforcing transparent, accountable, inclusive, and well-governed processes. Strong governance institutions will increase the capacity of the CBV to realise its mandate to catalyse green and just transitions, and avoid capture by actors prioritising other objectives (cf. Dafermos et al. 2021).

A variety of governance structures are feasible for a CBV that reflect national priorities and green transition ambitions. There is no one-size-fits-all model of governance for public financial institutions (Marodon 2022, 275). Nor should there be. Institutions must design transparent and accountable governance structures appropriate to the economies and societies in which they operate. However, important lessons can be drawn from existing institutions. Table 1 presents

six public bank governance approaches: inclusive governance; representative governance; mixed centralised/decentralised authority governance; specialist governance; and generalist nominee governance.

The Canada Infrastructure Bank (CIB) nominee-based approach is the one model that we do not recommend. It lacks clear statutory guidance in terms of the role of the nominees (no specialisation and no clear purpose) and of the community to be represented (no designation of sector, community, and so on). The CIB governance approach is made worse by the fact that municipal, provincial and federal government representatives are barred from serving as board members, even though the bank is meant to help deliver infrastructure at these levels of government (Marois 2022c).

There are advantages and disadvantages to each of the five other approaches to governance that will need to be assessed and considered in detail. What is critical is that governance structures are aligned with a focused mandate, guided by clear public purpose, and accountable to the community. Robust and appropriate key performance indicators need to be crafted (see Section 3.1.5 on 'Metrics that Matter') to support effective and credible governance. As highlighted by the OECD (2016), public reporting on the performance of green investment banks should include transparent calculation methodologies to build credibility. At the same time, governance needs to find ways of incorporating key multilateral agreements such as the 2030 SDGs and the Paris Agreement, while allowing provisions to uphold UN commitments such as the right to free, prior and informed consent of Indigenous peoples (see UN OHCHR 2013).

In short, effective governance is an important element of financial sustainability (Marodon 2022, 284). Credible, accountable governance is essential to infrastructure planning and execution to ensure that projects are aligned to the bank's mandate and serve the interests of the community. Watkins et al. (2017, 4) emphasize the role of public financial institutions in the development of government capacity:

“Lenders and investors should help national governments enhance their institutional capacity, and establish requirements for proactive risk and conflict management through funding mechanisms. Such actions will provide the foundation for continuous efforts to collaborate, disseminate good practices, and align incentives that will lead to effective conflict resolution in infrastructure.”

Strong governance institutions build trust and create an environment conducive to cooperation. The governing board can facilitate such commitments as SDG alignment and help to ensure ongoing dialogue with beneficiaries, inclusive of governments, local authorities, communities, other public and private banks, and so on (cf. Riaño et al. 2022).

Table 1: Five Approaches to Governance and Practicing PFIs

Approach to Governance	Public Bank
<p>Broad Inclusive Governance</p> <ul style="list-style-type: none"> • A 290-member Assembly is the highest governing body, with members drawn from ten different socio-economic sectors • A seven-member National Board of Directors sits below the Assembly, composed of four Assembly members and three government members 	<p>Banco Popular y de Desarrollo Comunal (Popular Bank and of Community Development, BPDC), Costa Rica</p>
<p>Broad Representative Governance</p> <ul style="list-style-type: none"> • A 37-member Board of Supervisory Directors that is co-chaired by two government ministers and with 35 member positions defined in law that are representative of specific socio-economic groups 	<p>KfW (Kreditanstalt für Wiederaufbau; Credit Institute for Reconstruction), Germany</p>
<p>Mixed Centralised and Nominee-based Local Authority</p> <ul style="list-style-type: none"> • A 16-member Board of Governors composed of eight specified members representing government and eight members representing local authorities (appointed by government from a list prepared by municipality unions). The Board is Chaired by the Minister of the Interior. 	<p>Fonds d'Equipment Communal (Municipal Equipment Fund, FEC), Morocco</p>
<p>Expertise-based Governance</p> <ul style="list-style-type: none"> • Seven members selected according to expertise and backgrounds relevant to assessing national and international social, economic, political and other developments. 	<p>Nederlandse Waterschapsbank (NWB, Dutch Water Bank), Netherlands</p>
<p>Nominee-based and Representative (with Consultation) Governance</p> <ul style="list-style-type: none"> • A 14-member Board of Governors appointed by the Government in consultation with the Reserve Bank of India (RBI, the central bank). In addition to a Chair and Director, there are twelve specified members including three members from rural development, small-scale industries, rural banking, and so on; two members from the RBI; three Government officials; and four state government officials 	<p>National Bank for Agriculture and Rural Development (NABARD), India</p>
<p>Nominee-based Governance</p> <ul style="list-style-type: none"> • A Board of Directors composed of the Chairperson and eight to eleven members that are appointed based on government Cabinet nominations 	<p>Canada Infrastructure Bank (CIB), Canada</p>

Sources: FEC (2022), NWB (2021), Marois (2021, 2022c, 2023).

3.1.3. Ownership

The ownership structure and how ownership locates the CBV within Viet Nam’s legal frameworks needs strategic consideration. Like governance, there is no single model of public bank ownership that is applicable in every country. Similarly, publicly owned banks face different regulatory requirements, domestically and internationally, depending on whether they are founded according to public or private law within national jurisdictions. According to Yang et al. (2021, 33), a public development bank established as a limited liability company may need to follow the rules and regulations that apply to private commercial financial entities, which in turn can undermine its ability to “deliver on their development mandate”. By contrast, a public bank firmly positioned within the public sphere by statutory law and ownership structure (along with a public purpose mandate) should be able to maximise explicit state backing to deliver on national policy priorities rather than be artificially constrained by commercially-oriented profit indicators (Marois 2021, 72-76). As Yang et al. (2021) underscore, an inappropriate legal structure can undermine a public bank’s ability to deliver on the sometimes high-risk and long-term investments needed to transform economy and society. Differences in ownership structures will affect each of the four pillars in ways that need careful analysis, including but not limited to governance frameworks, sources of capital, ways of lending, risk management, mandate, potential for public collaboration, and so on. Table 2 highlights a range of public development bank ownership structures as a basis of consideration for the CBV.

Other possible ownership structures can be considered to the extent they enable the meaningful advancement of financing green and just transitions. For example, partial ownership stakes by foreign bilateral and multilateral public development banks may be beneficial for access to capital markets and for supporting the CBV achieving the gold standard of green and just lending, as will be discussed in Section 3.2. This may also support the CBV taking the lead in mobilising new and innovative sources of domestic capital through securing transparent and accountable sources of recurrent capital. The key consideration is to ensure that those who own and control the CBV can be guided by a clear and transparent legally binding public purpose mandate that is aligned with national commitments.

Table 2: Public Development Bank Ownership Structures

Public Development Bank	Type of Ownership Structure
NABARD (National Bank for Agriculture and Rural Development, India)	Full National State Authority Ownership: <ul style="list-style-type: none"> National Government (100%) (originally, the Reserve Bank of India owned 50%)
China Development Bank	Mixed State Ministry, State Authority, and Public Financial Institution Ownership: <ul style="list-style-type: none"> Ministry of Finance (36.54%) Central Huijin Investment (34.68%) Buttonwood Investment Holding Co. (27.19%) National Council for Social Security Fund (1.59%)
KfW Group (Kreditanstalt für Wiederaufbau, Credit Institute for Reconstruction, Germany)	Mixed National and Sub-national Authority Ownership: <ul style="list-style-type: none"> Federal Republic of Germany (80%) German Federal States (20%)
Findeter (Financiera de Desarrollo Territorial; the Territorial Development Bank, Colombia)	Mixed National and Sub-national Authority Ownership: <ul style="list-style-type: none"> Government of Colombia (92.55%) Territorial Departments (7.20%) IFINORTE (a public financial institution; 0.25%)
IlBank (Provinces Bank, Turkey)	Full Sub-national Authority Ownership: <ul style="list-style-type: none"> Municipal and Provincial Administrations (100%)

Sources: Marois (2021); Findeter (2022); Güngen (2022).

3.1.4. How a Climate Bank of Viet Nam can promote Green and Just Policies

There is mounting evidence that for energy transitions to occur at the pace and scale required, transitions must be socially and economically just (Watkins et al. 2017; Ray et al. 2020; Siciliano et al. 2021). That is, effective and efficient energy transitions are just transitions. As the Paris Agreement signalled, transitions to environmentally sustainable economies need “to be managed, rather than left to market forces, to minimise economic and social disruption, and should contribute to the goals of decent work for all, social inclusion, and the eradication of poverty” (UNCTAD 2022, 1). According to the International Labour Organization (ILO) just transitions must involve “policies that

advance decent work and social justice while tackling environmental problems” (ILO 2022, 4). Just transitions require being attentive to principle, process, and practice in the “rapid deployment of low-carbon technologies” and “decarbonization” so that transitions are “inclusive and integrated with development priorities at all levels of governance” (Lee 2022, 3). As UNCTAD (2019, VI) underscores, a “just transition will also require big investments in communities that have become dependent on resource-intensive livelihoods”.

Viet Nam is committed to achieving a green and just transition (SRV 2023). A new CBV can mobilise the financial resources and expertise needed to achieve this transition. However, a new public climate bank will not do so by

relying exclusively on market signals, profit-maximisation, and competitive rationalities. The CBV's ability to catalyse change will hinge upon its formalised green and just policies. Policies, not profit, rooted in a clear public purpose mandate and accountable governance have the potential to make a new public climate bank a highly effective and catalytic financier of green and just transitions (Marois 2021; Griffith-Jones 2022; Volz 2024). An orientation to clearly-stated policy goals in place of profit maximisation enables public development banks to adjust the pace, scale, and terms appropriate for confronting grand challenges like global green and just transitions.

There are growing numbers of public banks that have strong climate policy frameworks guiding operations. There are relatively few public banks that also have strong social justice policy frameworks (the Council of Europe Development Bank is a notable exception, having a green and just orientation). The CBV would need to innovate and demonstrate global leadership in connecting green and just policies within a new legacy public financial institution.

There are increasing numbers of public banks in the Global North and South adopting explicit climate finance policies. Climate finance refers to financing that seeks to support mitigation, adaptation, and biodiversity actions in ways that reverse the harmful impacts of climate change (see UNFCC 2021; Lozada 2022).

In Morocco, for example, the Fonds d'Équipement Communal (FEC; Municipal Equipment Fund) set out a new Environmental and Social Policy in 2021 that specified how the bank will address climate change and reduce greenhouse gas emissions in relation to sustainable and inclusive development (FEC 2022, 41). A feature of this 2021 Policy is an exclusion list that features not only environmental elements, but also social, gendered, ethnic, and governance issues (Box 4).

Box 4: Projects that cannot be financed by Morocco's FEC (Exclusion List)

- Any project that may cause disruptions in a legally constituted protected area;
- Any project that could directly or indirectly affect animal or plant species considered to be classified as endangered by national regulations;
- Any project that would require a significant population displacement or that would lead to a significant reduction in the means of production and/or income generation of a population;
- Any project that would have irreversible negative consequences on disadvantaged and/or marginalised populations;
- Any project that would negatively impact or limit access to services or others on gender, ethnic disparity, vulnerable people;
- Any project that could permanently cause the destruction, modification or access to natural resources used by people, whether they are vulnerable or not;
- Any project that would deny access to resources or any other common good to a socio-economic category.

Sources: FEC (2022, 73)

In the Netherlands, the public BNG Bank announced a new 'Going Green' Climate Plan in early 2023 (BNG 2023). The Plan seeks to bring the BNG into alignment with the Paris Agreement based on a commitment to contributing to the future health and sustainability of society. The BNG Climate Plan reflects its public purpose mandate. The BNG is of and for the public sector, and hence sees 'working towards a future-proof society' as integral to how it functions. This has a meaningful connection to the public good and

just transitions. The BNG is the fourth largest bank in the Netherlands (public or private) and operates exclusively with semi- and fully-publicly owned entities, particularly in social housing, municipal and local authority regeneration, public utilities, healthcare, and education. It is also a stable entity, having been in existence for over 100 years (established in 1914).

There are examples of more recently established institutions. In Colombia, the Government created Findeter in 1989 as a public development bank geared towards supporting local and municipal development (Findeter 2022, 12). This public bank focuses on providing long-term, low-cost, and appropriate financing for public goods directly related to the climate and the environment, including transportation, water and sanitation, urban regeneration, energy, housing, and infrastructure (Ocampo and Arias 2018, 181; Marois 2023). Presently, Findeter collaborates with the multilateral development bank, the IDB, in the Sustainable and Competitive Cities Platform, which promotes municipal transformation to improve the quality of life (Yang et al. 2021, 43).

There is growing recognition that public banks can do more to drive public policy around green and just transitions, for example, through the Finance in Common Summit (UN 2023). The Nordic Investment Bank (NIB) and the Finnish Climate Fund have implemented binding sustainable finance policies and exclusion lists as matters of public policy. The Head of Sustainability and Mandate at the NIB, Luca De Lorenzo, puts the challenge succinctly:

“NIB’s updated Sustainability Policy reflects that we are running out of time, and that we really need to step up efforts to decarbonise the energy sector. So, we are taking a very clear stance, we will not finance any fossil fuel-based energy generation.” (NIB 2021)

Eliminating public financing for carbonising energy as a matter of public policy reflects an emerging consensus on promising practices for ending support for fossil fuels among public banks, civil society, and researchers (BOCC 2022; IPCC 2023, 111). A policy-based approach

to green and just transitions, moreover, is required to meaningfully address the ‘great finance divide’, in the words of the UN IATF, of persistent structural inequalities and barriers to the advancement of under-privileged and marginalised communities, notably the working poor, women, and racialised communities (UN IATF 2022; see Williams 2016; Táíwò 2022).

3.1.5. Metrics that Matter

Because the CBV can be guided by policy and public purpose rather than the profit motive, its public shareholders can mandate the bank to align itself with the Paris Agreement and the UN 2030 SDGs. To date, progress on SDG alignment among banks (public and private, national and multilateral) is uneven and incomplete globally (Marodon 2022; Riaño et al. 2022; Marois et al. 2023). More needs to be done, and done better. This is especially so when national authorities seek to translate the high-level SDGs into metrics that matter in specific local contexts so that measures of success are credible, reflect community priorities, advance green transitions, and support workers, women, and the marginalised (Chouinard 2013).

The CBV can be designed to accommodate and allocate sufficient internal resources to metrics co-created with affected communities that apply to the entire lifecycle of climate projects. A 2019 joint report of multilateral financial institutions (Kvam 2019, 4) pointed out:

“Real or perceived poor quality of consultations and stakeholder engagement around project environmental and social impacts is one of the most common causes of conflict or tensions between local communities and the public agencies or private companies preparing and implementing projects, and a common source of complaints to independent accountability mechanisms.”

This suggests that the CBV should consider building internal capacity and institutional expertise to carry out effective due diligence and monitoring (cf. Kattel et al. 2018; Marois 2022b). Effective engagement and monitoring,

however, is more than just information sharing of metrics. To matter and to be impactful, metrics and monitoring must shape project design and implementation and do so recurrently in collaboration with the public financial institution and the governing authority (Ray et al. 2020, 23). Metrics need to be co-created and credible. Ray et al. (2020, 25; cf. Kvam 2019) affirm that “effective community engagement” is vital to ensuring environmental sustainability. In this sense, metrics need to be firm but also flexible enough to enable local interpretations of equitable, stable and sustainable development during processes of community engagement (McDonald 2016). Metrics done poorly can lead to more costly, unsustainable, and socially exclusive results.

Public purpose-oriented metrics can avoid promoting financialised metrics that reinforce undemocratic and top-down standard setting or, worse, greenwashing. An effective public climate bank can consider making metrics that reinforce policy directions, account for local voice, and advance green and just transitions (cf. Chouinard 2013; Kvam 2019; Marois 2022b; CHRD 2022; Marois et al. 2023). These metrics and methodologies must be in place and agreed upon in advance of investment fund distribution. It follows that public climate banks need the institutional capacity to hold private commercial banks and other public financial institutions to account in the deployment of public finance for sustainable development (Riaño et al. 2022, 298). For example, the Nordic Investment Bank revisits financed projects three years after funding ends to verify sustainability commitments.



Securing Affordable Sources of Capital and Ensuring Targeted Ways of Lending

3.2.1. Securing Affordable Sources of Capital

Setting up a new climate bank requires capital. Various national financial sources can be used to capitalise a new public climate bank, including utility bill charges or carbon tax revenues, and capital injection by the central bank (OECD 2016, Marois and Gungen 2019, Volz 2024). However, there may be good reasons to also tap international sources such as international DFIs and global funds (Volz 2024). In principle, governments could also invite private investors to contribute capital so long as the public interest mandate is not compromised by profitability mandates. There are various sources of capital that the CBV could tap to refinance itself, including retail and commercial deposits and wholesale funding (Box 5).

For the CBV to assume a catalytic role in financing just transitions and to leverage its capital effectively, it needs to be able to obtain cheap refinancing. However, Viet Nam, like other developing economies faces a serious obstacle: the funding costs of financial institutions are constrained by a sovereign ceiling effect which has a direct impact on their cost of capital (Almeida et al. 2017). The refinancing conditions of the CBV would be effectively determined by the sovereign credit rating of the Viet Nam government, which is currently (January 2024) rated BB+ by S&P Global, Ba2 by Moody's Investors Service, and BB+ by Fitch⁵.

International DFIs could help to address this cost of capital problem in several ways (Volz 2024, Volz et al. 2024). First, a novel solution could involve international DFIs providing paid-in and callable (or guarantee) capital to capitalise the CBV. To be meaningful for the

CBV's credit rating and financing cost, however, the capital share would have to be significant – which means that the government of Viet Nam would not have full control of the CBV. This raises important questions of governance in terms of ownership and control. However, besides the actual capital contribution, the involvement of the DFI would reassure capital markets regarding high standards of governance of the CBV, which makes this an interesting option. An alternative that would allow the Vietnamese government to retain full ownership of the CBV would be that the DFI could offer callable capital in exchange for seat(s) on the Board of the CBV. This should lift the CBV's rating compared to the situation without DFI involvement. There have been only few cases where international DFIs have provided paid-in capital to a national development bank thus far. The Development Bank of Nigeria (DBN), which was established in 2018 upon the model of KfW, is one example. Besides the national government through its Ministry of Finance and Investment and the Nigeria Sovereign Investment Authority, which hold 60% and 15% stakes, respectively, the African Development Bank and the European Investment Bank provided \$50 million and \$20 million equity, acquiring 18% and 7 % equity stakes in the DBN (Volz et al. 2024). Further debt finance came from the World Bank, Agence Française de Développement and KfW. The international partnerships and DBN's performance have resulted in a AAA rating by GCR (an affiliate of Moody's Global Services) and Augusto and Co. (a pan-African rating agency). DBN's strong credentials have also helped it in issuing a first 20 billion Naira bond in July 2023, which was oversubscribed and attracted local investors (Volz et al. 2024).

⁵ BIDV, for example, has a rating of Ba2 from Moody's – the same as the sovereign. BIDV is not rated by Moody's and Fitch.

Box 5: Recurrent sources of finance capital

Direct government allocations: Various government funds for public banks including initial capital allocations; annual allocations from the government budget; special government funds for development priorities (e.g., SMEs; farmers; trades; 'green' transformation; Covid-19 relief funds) that are managed and administered by the bank; promotional and discounted facilities for targeted bank loans supported by the government; government guarantees for programme lending; quasi-equity capital: involves long term government loans that are highly-subsidised (e.g., at zero or low rates of interest) and whose repayment may involve grace periods.

Permanent public capitalisation: State, municipal, local authority contributions; 'green' contributions from essential services and infrastructure (water, electricity, energy, transportation); worker pension and payroll services; proceeds from combatting illicit finance and tax avoidance.

Household and business savings: Public universal and commercial banks can accept current savings as part of their regular retail financial services, savings that can then be redirected to development project or to public development banks.

Foreign and domestic public borrowing: Sources include the international financial agencies (World Bank Group, regional development banks); foreign governments; foreign development agencies; as well as between domestic development and commercial banks.

Private borrowing: From domestic and international capital markets; bond markets, including green, blue, and social impact bonds purchased by private & public institutional investors.

Sources: Marois (2021, 232).

Second, and politically easier to arrange, DFIs could guarantee bonds issued by the CBV or provide a form of first loss agreement. The credit rating of the CBV would remain unchanged. But its bond issuances would benefit from the guarantor's (i.e. the DFI) higher ratings, which is what really matters for the cost of funding. This form of public-public collaboration would enable the CBV to channel international finance into domestic projects based on policy objectives. An interesting example is the support provided by the World Bank to the Development Bank of Rwanda (BRD) for the first sustainability linked bond (SLB) issued by a national development bank (Volz et al. 2024). In October 2023, the BRD issued an SLB and raised 30 billion Rwandan Francs (\$25 million) from domestic investors. The World Bank Group provided an IDA credit facility to the Rwandan government in foreign currency. Ten billion Rwandan Francs from this was used by the Rwandan government to collateralise the SLB.

Third, it may be politically and operationally easier for DFIs to issue bonds themselves (benefitting from their own high rating) and then on-lend at AAA conditions plus a small margin to the CBV. The problem, however, is that this approach would not provide the leverage that would be created under the first two options. That is, the CBV would not be able to issue debt cheaply itself and act as multiplier. The first two options would be thus preferable.

3.2.2. Ensuring Targeted Ways of Lending

As an institution with a clear public purpose mission for financing low-carbon and just transitions, the CBV could focus on financing activities that generate positive externalities and that are not financed by commercial institutions, or only at high rates. The CBV's mandate and strategy focusing on adaptation and mitigation financing and supporting just transitions need to be translated into a targeted lending and investment strategy. This should comprise the definition and monitoring of key performance indicators (KPIs) to measure strategic objectives and provide insights into the efficiency and efficacy of the CBV's interventions. As discussed, these "metrics should matter" for the CBV's mandate (Section 3.1.5). Importantly, the CBV's financing activities and other interventions should be aligned with government policies, following a whole of government approach (Section 3.3).

Box 6 shows different types of interventions that the CBV could undertake, including direct financing of investments, provision of subsidies and other risk-mitigating credit enhancements, and various transaction enablers, using different instruments, including loans, equity, mezzanine finance, investment funds, bonds, and grants. For a new institution, it would be important that the CBV initially focuses strategically on a small range of interventions and instruments to build up expertise and scale its activities.

Box 6: Ways of Financing for Green & Just Transitions

- **Standard loans:** Must be repaid by the borrower, at concessional or non-concessional rates.
- **Development & infrastructure loans:** Can be concessional or non-concessional and repayable but may blend sources of government or donor funds as well as other public and private investor capital.
- **Official donors:** Provide directed funding that is channelled through the public bank as an intermediary.
- **Grants, transfers, and subsidies:** Do not need to be repaid, and may be tied to government or donor programming or official targets (for example, carbon reductions and job training).
- **Equity:** Involves taking a direct ownership stake via capital injection in a project or company.
- **Mezzanine capital:** Subordinated debt or preferred equity instrument that represents a claim on a corporation's assets which is senior only to that of the common shares.
- **Public-public collaboration:** Involves public sphere collaborations in undertaking projects where ownership, debt risks, and expertise are shared.
- **Technical assistance:** Involves agreements to provide expertise and assistance at little or no cost to the recipient (for example, project preparation and sectoral or technical expertise).
- **Bonds:** Facilitate the channelling of investor funds directly into certified green development and social impact projects.

Sources: Marois (2021, 232).

As a new institution, it would be reasonable for the CBV to work with existing financial institutions to scale up operations rapidly. A model could be KfW, the German development bank, which does not have its own network of branch offices. KfW's domestic promotional lending business with corporations and households is characterised by an on-lending strategy, where KfW extends loans to public and private commercial banks, which, in turn, lend the funds to the ultimate borrowers. The borrowers benefit from lower rates than the commercial bank would charge, while KfW can keep its operational cost low. Colombia's Findeter follows a similar model of on-lending, as do many development banks.



One effective way to accelerate Viet Nam's capacity to meet its climate ambitions is to do so as a matter of public policy. This means mobilising and aligning public actors and institutions to achieving substantive green and just transitions. Public banks worldwide are taking a lead role in financing green transitions and in the greening of existing public institutions and infrastructure (Griffith-Jones et al. 2023; Marois and McDonald 2023).

Public-public collaborations within the financial sector can form the foundation of the CBV. This does not rule out private investments, but avoids making the leveraging and de-risking of for-profit private investments the primary purpose of the CBV (cf. Dafermos et al. 2021; Gabor 2021; Griffith-Jones et al. 2022). Private finance can be leveraged only to the extent that it advances public purpose green and just transitions in ways that align with the policy framework and that can be reliably and transparently confirmed and reported on.

Adopting a strategy of public-public collaboration is distinct from the conventional climate finance strategies being advocated by consultancies and certain multilateral agencies, notably the World Bank and the 'Billions to Trillions' agenda. A public-public strategy recognises and values existing public sector capacity and expertise. It is a practical policy-based strategy aimed at making progress on green and just transitions at the pace, rate, and scale required. Where the public sector leads, the private and third sector actors will follow.

This public-public strategy takes into consideration the following evidence pertinent to the financing of green transitions. First, public sources of climate finance are largely outperforming private sources of finance in relative terms. According to Climate Policy Initiative data, the most comprehensive data on tracked climate financial flows, from 2011 to 2020 public sector climate finance had a

cumulative annual growth rate of 9.1 per cent compared to 4.3 per cent for the private sector (CPI 2022, 11). Among private sources, private commercial financial institutions outpaced corporate and household investors by growing at a rate of 15.6 per cent. As a whole, however, it is worth highlighting that public sources of climate finance more than doubled from \$145 billion in 2011 to \$332 billion in 2020 as private sources grew from \$219 billion to \$333 billion. In the last five years, from 2016 to 2020, public sources provided a total of \$1.50 trillion in climate finance and private sources provided \$1.40 trillion (CPI 2022, 11). The point being that public finance makes major contributions to climate finance, and there is scope to do more across the whole of government.

Public finance, moreover, is less pro-cyclical, less prone to path-dependency (investment trajectories are less constrained), and less dependent on conventional metrics of success (like profit maximisation) than private finance (Brei and Schclarek 2013; Mazzucato and Penna 2016; Panizza 2023). This enables public finance to respond to a broader array of climate investments, particularly in areas outside of urban energy and the electrification of transportation but that are vital to biodiversity and socially equitable green transitions (Boehm et al. 2022; CPI 2022). There are many areas of green transitions that are simply not 'bankable' according to the priorities of private finance but that public finance can support.

A whole of government approach can further maximise public finance for green and just transitions. A whole of government approach recognises that there are significant domestic public financial resources across government, inclusive of public financial institutions and government procurement budgets, that can be rapidly accessed, aligned, and deployed as a matter of policy so as not to increase foreign currency liabilities, thus increasing domestic financial stability and climate policy

capacity. According to Mazzucato (2022, 47), “public procurement is a fundamental tool for directing demand and supply [...] by mobilising public purchasing power to tilt economic activity in a desired direction”. Collaboration with and through the public sector can leverage and bend already existing public financial capacity towards green and just transitions. The CBV can play a coordinating role in advancing public-public collaboration.

Building on existing successes in public climate finance, public-public collaborations can accelerate and increase the effectiveness of structural green transformations as a matter of public policy. Ray et al. (2020, 4) affirm that “mutually supporting networks” incorporating development finance institutions, governments, and community stakeholders are needed to overcome environmental and social risks in the development of green infrastructure. This requires a whole of public financial ecosystem approach. There are further benefits to promoting a strong foundation of public-public collaboration. Marodon (2022, 283) argues that public development banks in countries with shallow domestic financial systems can benefit from “a special solidarity from the larger, older and more financially sound banks [...] whose mandate is to finance international development”. This can extend from fostering domestic collaborative relationships to multilateral relationships (Marois et al. 2023). Public-public collaborations can extend through the whole of government and build alliances with existing public banks, domestically and internationally, to raise and effectively deploy multiple sources of public climate finance at the pace, scale, and terms required for achieving green and just transitions.



Fourth Pillar Knowledge Hub

“To be innovative, development financial institutions must be able to attract and retain good leadership and talent. ... Well-designed talent strategies, and an environment that nurtures experimentation and adaptive learning with appropriate oversight and controls are key. These require bold and visionary leadership.”

(Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia, 2017)

The CBV can aspire to be the hub of specialist climate finance knowledge and expertise geared towards energy transitions based on socio-economic justice in Viet Nam, and even the region. Positioning the CBV as a knowledge and expertise hub is not an exceptional feature of public development banks. Public banks have historically led on financing new infrastructure, industries, and economic development for which the amassing of “new competences and organizational routines” was part of their operations (Mikheeva 2019, 594). So too with public banks today as they begin to finance energy transitions: in-house technical expertise in climate and infrastructure are indicators of public banks’ effectiveness (Geddes et al. 2018; Marodon 2022).

To this end, the CBV should be designed and allocated sufficient resources to be the premier national knowledge hub of climate finance (Mazzucato and Mikheeva 2020). This means having national policy commitments to building the internal capacity and appropriate institutional expertise needed in the CBV to carry out effective knowledge building, due diligence, monitoring, assessment, innovation, and so on (Marois 2022b). CBV capacity, expertise, and knowledge is best conceived as being a permanent and in-house feature of the institution – not as functions farmed out through contracts to private consultants. Viet Nam is unlikely to benefit from having to outsource policy advice on financing green and just

transitions. Viet Nam could be the source of that expertise. The CBV Knowledge Hub should be seen as housing permanent, inter-generational institutional knowledge and memory.

In turn, the CBV could take a leading role in climate capacity and expertise building across the financial sector. In a recent study on public development banks scaling up climate finance, one public bank manager argued that “including a capacity building component in all our projects make us more attractive than a private bank; it is not only about providing concessional financing, but also offering within the package technical assistance” (interview in Riaño et al. 2022, 298). As a major climate finance knowledge hub, moreover, the CBV could work towards providing a platform and forum for knowledge exchange, innovation, conflict resolution, and consensus-building. Ray et al. (2020, 38) point out that development finance institutions “are uniquely poised to host platforms where all stakeholders can formulate and voice their preferences and concerns, and broker projects that maximize the benefits and minimize the risks for all parties involved”. Collective and concerted actions need to be taken in order to translate the high-level SDGs into appropriate domestic public financing policies and procedures specific to local contexts in Viet Nam so that interventions are credible, reflect community priorities, address conflicts, and support workers.

To serve as the national public finance knowledge hub, the CBV should strategically aim at finding and retaining skilled staff committed to green and just transitions. These experts will come from diverse professional and scholarly disciplines: from the public and private sectors, economics and politics, engineering and business, and so on. Green and just transitions cut across society and involve complex socio-economic and political changes. To maintain and build lasting expertise and institutional memory, compensation for CBV staff must be competitive.

04

Next Steps for Establishing a Climate Bank for Viet Nam

This study has made the case for the establishment of a new CBV as a new legacy public financial institution that can help Viet Nam achieve its ambitious climate goals and just transition commitments as noted in the country's JETP and Resource Mobilisation Plan (SRV 2023). As a publicly owned and publicly governed development bank, the CBV could build specialist expertise and financial capacity to finance an energy transition based on socio-economic justice and climate-resilient public infrastructure. As an institution with a clear public purpose mission, the CBV can focus on financing activities that generate positive externalities.

In establishing the CBV, lessons – both positive and negative – can be learned from a large number of public development banks in both the Global North and South. This study has highlighted four pillars on which a green and just CBV should be built. These are (i) good governance, (ii) securing affordable sources of capital and ensuring targeted ways of lending, (iii) a whole of government approach, and (iv) turning the CBV into a knowledge hub. It is crucial that all four pillars are taken seriously to make the CBV a success. To keep operations lean and to avoid having to build its own network of branch offices, the CBV could adopt an initial on-lending strategy for its promotional lending business with corporations and households and work with existing financial institutions (so long as lending metrics are binding and verifiable). This will help it to scale up its lending portfolio rapidly. Direct lending to municipalities, public entities, and other public banks can accelerate the CBV's catalytic potential.

The CBV could become a key vehicle to mobilise capital as envisaged through the JETP. Viet Nam's government may benefit from discussing options for establishing a new CBV with the JETP International Partners

Group. In particular, the Government of Viet Nam might consider exploring the interest of international partners and DFIs in providing capital or guarantees to help the CBV leverage its capital and mobilise public and private capital at cheap rates and become a driving force for financing a clean and just transition in Viet Nam. International partners may also provide technical assistance to help establish the CBV as a knowledge hub with expert staff who can work in partnership with the government and other financial institutions in driving the just transition.

Time is of the essence. Viet Nam has committed to ramping up investment in climate action. Building on best international practices, Viet Nam may benefit significantly from the creation of a new public purpose legacy financial institution. The CBV could showcase how a well-governed public bank can be a driver of good for people and planet by ensuring social equity and prosperity in response to climate change.

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