LEGAL FRAMEWORK PROMOTING SUSTAINABLE DEVELOPMENT IN VIETNAM'S COMMERCIAL BANKS

The 13th International Conference on Emerging Challenges: Business Dynamics in Disruptive Economy

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ABSTRACT

Research purpose:

This paper critically reviews Vietnam's evolving legal framework for sustainable development in commercial banking, examining how primary statutes and SBV instruments translate sustainability objectives into governance, risk, and disclosure practice, and how they align with international standards.

Research motivation:

As Vietnamese banks face simultaneous domestic mandates and global market expectations, a clear view of legal strengths, gaps, and convergence pathways is needed to support credible implementation and investor confidence.

Research design, approach, and method:

The study adopts a qualitative, theory-informed approach grounded in stakeholder, legitimacy, and institutional theories. Guided by these perspectives, it synthesizes core legal and policy instruments and benchmarks Vietnam's direction of travel against widely recognized international reference points. A structured set of comparative dimensions is applied to organize evidence on scope, governance, process discipline, risk integration, disclosure architecture, and implementation.

Main findings:

Vietnam shows substantial progress toward a coherent, enforceable framework that aligns sustainability objectives with banking practice. The analysis indicates broad convergence with international expectations alongside features tailored to domestic priorities. At the same time, the framework would benefit from clearer common definitions, more consistent market-facing disclosures, stronger links between engagement evidence and risk decisions, and continued capacity development to support practical implementation.

Practical implications:

In light of the identified gaps, actions should be sequenced and audience-specific. Policymakers should first strengthen the legal foundations and the shared data environment, so that definitions are clear and information flows are reliable. Regulators should then convert those foundations into consistent supervisory tools, including standardized templates, reporting formats, and proportionate guidance, all of which support implementation without creating duplicative burdens. Practitioners should in turn embed the resulting requirements into governance, credit processes, and internal controls, ensuring that disclosures reflect real risk decisions rather than after-the-fact narratives.

Keywords: *ESG, Vietnamese banks, sustainable development, sustainable banking, legal framework*.

1. INTRODUCTION

In recent decades, sustainability has emerged as a defining paradigm for business and policy worldwide, deeply

influencing the financial sector's practices, strategies, and regulatory frameworks. As environmental degradation, climate change, and social concerns have intensified, banks are increasingly recognized not only as financial intermediaries but also as pivotal agents driving the transition toward a more resilient and equitable economy. Within this global context, Vietnam's banking sector finds itself at a critical juncture. The country's rapid economic development, coupled with its growing integration into international markets, has therefore heightened the need for responsible growth and an efficient allocation of resources that align with the principles of sustainable development.

At the legislative level, there are some core laws that anchor sustainable development in banking and give it legal traction rather than leaving it as a voluntary agenda. First, the Law on Environmental Protection (2020) makes environmental and social risk management a compliance matter for investment and lending, thereby linking credit allocation with environmental performance; it also defines green credit and assigns the Government and the SBV to develop a roadmap and guidance for green credit (Article 149). Second, the Law on Investment (2020) channels capital toward priority and "green" sectors through tax, land, and import-duty incentives (Article 15–16), which, in turn, shape the pipeline of bankable projects and influence banks' portfolio composition. Third, the revised Law on Credit Institutions (2024) strengthens governance by requiring each credit institution to establish and maintain an internal control system and internal audit as part of risk management (Article 57-59), thereby providing the statutory backbone for embedding environmental- and social-risk procedures in credit processes and disclosures

Building on this legislative foundation, Vietnam's government and the State Bank of Vietnam (SBV) have developed a robust and evolving legal framework for sustainable banking (Loi, 2024). At the strategy level, the National Green Growth Strategy 2021–2030, vision 2050 sets economy-wide goals for green and low-carbon development and signals alignment with financial-sector mobilization. In the banking domain, the SBV has: (i) issued Directive 03/CT-NHNN (2015) to promote green credit growth and environmental- and social-risk management in credit activities, (ii) approved the Green Bank Development Scheme via Decision 1604/QĐ-NHNN (2018), and (iii) adopted a sector-wide Action Plan under Decision 1408/QĐ-NHNN (2023) to implement the National Green Growth Strategy and Vietnam's COP26 commitments. To operationalize risk management inside banks, the SBV also promulgated Circular 17/2022/TT-NHNN guiding environmental-risk management in credit extension.

Despite accumulating statutes, strategies, and supervisory initiatives, existing studies typically describe these elements in isolation. In other words, there is a lack of a consolidated, comparative legal-analytical assessment that connects primary laws, subordinate regulations, supervisory instruments, and bank-level implications under a common set of dimensions. This fragmentation makes it difficult to point out where Vietnam's framework is already robust versus where targeted refinements are needed to ensure consistency, comparability, and enforceability in line with emerging international baselines. Therefore, this paper addresses this gap by synthesizing Vietnam's sustainable-banking architecture across laws, strategies, and supervisory tools to clarify how these layers interact to shape bank conduct, introducing an explicit five-dimension comparative lens (taxonomy/scope, governance & internal controls, disclosure/reporting architecture, supervisory methodology & risk integration, and enforcement & incentives to structure the assessment. It can be seen as a timely, critical consideration of the legal framework shaping sustainable development in Vietnam's banking sector. By doing so, the paper seeks to inform ongoing dialogue among policymakers, supervisors, and banking professionals about aligning credit allocation and risk practices with national sustainable-development objectives while remaining responsive to the evolving standards of global capital markets.

2. LITERATURE REVIEW

2.1 Sustainable Development in Banking

Sustainable banking marks a decisive shift from traditional banking by embedding environmental, social, and governance (ESG) considerations into everyday operations, risk management, and strategic planning. Rather than focusing only on profit maximization, sustainable banking recognizes banks' responsibility to actively promote long-term environmental stewardship and social well-being while maintaining economic viability (Aracil et al., 2021).

Although the term sustainable development in banking and sustainable banking is often used interchangeably in academic literature, they are not entirely the same. Sustainable development in commercial banks refers to the broader process in which banks pursue long-term growth while ensuring environmental protection, social responsibility, and governance effectiveness in alignment with national priorities (Tanaka, 2025), whereas sustainable banking emphasizes the integration of ESG principles into strategies, risk management, and financial products as the operational pathway to achieve that goal (Aracil et al., 2021; Riegler, 2023). From this perspective, commercial banks need to implement a range of activities such as expanding green credit, financing renewable energy, applying environmental and social risk management in lending, and improving ESG disclosures (Tu & Dung, 2017). However, their ability to pursue sustainable development depends on critical enabling conditions, including supportive

regulatory frameworks, national development strategies, macroeconomic stability, climate change concerns, and technological transformation in financial services (Tu & Dung, 2017). This paper therefore adopts the broader lens of sustainable development in the banking sector rather than the narrower construct of "sustainable banking." In particular, it presents the system-level conditions that enable banks to achieve durable economic, environmental, and social objectives - namely the regulatory architecture and supervisory practice, disclosure standards and taxonomies, market incentives, organizational capabilities, data and technology, and alignment with national strategies. In this framing, "sustainable banking" (ESG integration in products, lending, and risk processes) is treated as an operational pathway toward sustainable development outcomes, not the outcome itself.

Nowadays, banks often embed sustainable development criteria into credit assessments, investment policies, and internal governance, not only to mitigate risks and enhance resilience, but also to capitalize on emerging opportunities and boost long-term profitability (Tanaka, 2025). In particular, sustainable development strategies have become central to risk management frameworks, shaping how banks assess creditworthiness and allocate capital. Moreover, the trajectory of sustainable development integration is best understood within the broader context of global regulatory evolution. Empirical research consistently demonstrates that such integration yields positive effects on bank performance. Higher disclosure scores on sustainable development (commonly operationalized via ESG metrics) are associated with lower default risk and increased operational stability, particularly under economic volatility (Almulla et al., 2025). Enhanced commitments to sustainable development have been shown to lower non-performing loans, improve leverage ratios, and strengthen liquidity, collectively contributing to lasting operational sustainability and higher stakeholder trust (Gupta & Kashiramka, 2024). In their analysis of Vietnamese banks, Dung and Khanh (2024) observe that institutions oriented toward sustainable development are increasingly achieving competitive advantages in both domestic and international markets. Consequently, financial performance and reputational value often go hand in hand for banks that advance their sustainable development agendas.

2.2 Stakeholder, Ligitimacy and Institutional Theory

To understand why and how banks adopt practices heading toward sustainable development, scholars have highlighted several theoretical frameworks, among which **stakeholder theory, legitimacy theory, and institutional theory** are among the most common. Stakeholder theory posits that banks must consider the interests of a broad set of constituents, not just shareholders, but also customers, employees, regulators, communities, and even the natural environment (Sharma, 2024). This perspective provides the normative justification for ESG integration: by aligning banking operations with stakeholder expectations, such as mitigating environmental harm or promoting financial inclusion, banks can secure credibility, maintain trust, and ensure long-term performance (Aracil et al., 2021.

Closely related, legitimacy theory further explains banks' motivation to conform to societal norms and regulatory expectations to maintain their "license to operate" (Lee & Raschke, 2023). While stakeholder theory focuses on managing relationships with diverse actors, legitimacy theory emphasizes the need for continuous alignment with broader social values, policy frameworks, and public opinion. Through this lens, sustainable banking practices, including transparent ESG disclosures, ethical lending policies, and proactive community engagement, all of which are essential for maintaining the trust of both stakeholders and society at large, especially in an era where reputational risk can rapidly damage investor confidence (Itan et al., 2025).

Building on these perspectives, it is important to explore the structural forces that push banks toward such alignment, which is where institutional theory extends and deepens the explanation. This theory sheds light on how external institutional pressures, both formal and informal, shape the adoption of sustainable banking (Sharma, 2024). Formal pressures include national laws, international regulatory regimes, and industry codes such as the EU Taxonomy or Basel standards; informal pressures stem from media scrutiny, NGO advocacy, or climate-conscious investors. According to this theory, banks are embedded in an institutional field where adopting sustainable practices can be a strategic response to coercive, normative, and mimetic pressures (Scott, 2008).

These three theoretical lenses, together, they suggest that banks internalize sustainability principles both to meet stakeholder expectations and to maintain legitimacy, while aligning with evolving institutional rules. This convergence of motivations provides a coherent explanation for why ESG has moved from a peripheral concern to a strategic priority in global banking (El Khoury et al., 2023). It can be said that stakeholder theory explains who banks must respond to, legitimacy theory clarifies why societal acceptance matters, and institutional theory reveals how regulatory and normative forces drive banks toward ESG integration, together building a comprehensive conceptual foundation.

Empirical studies reinforce these conceptual linkages. In particular, research shows that sustainable banking can foster financial stability, improve risk management, and enhance stakeholder trust, thereby generating both economic and reputational benefits (Aracil et al., 2021; Riegler, 2023). Furthermore, the literature indicates that multi-stakeholder engagement, such as partnerships between banks, regulators, and community groups, can accelerate ESG

adoption by pooling resources, sharing expertise, and building consensus on performance metrics (Sharma, 2024; Bukhari, 2019). Consequently, the theories discussed earlier find concrete expression in real-world practices, where banks respond to both market incentives and institutional mandates.

However, despite the growing prominence of sustainable banking, several structural and operational barriers remain. Scholars have identified challenges such as the absence of standardized ESG metrics, regulatory inconsistencies across jurisdictions, risks of greenwashing, and a general shortage of ESG expertise within financial institutions (Aracil et al., 2021; Sharma, 2024). These barriers are particularly acute in emerging markets, where regulatory systems may be less mature and institutional capacities more limited. Such persistent challenges underscore the importance of strong legal frameworks, targeted capacity-building, and continued stakeholder collaboration to convert theoretical aspirations into practical, measurable outcomes.

Building on this conceptual foundation, it is important to recognize that the sustainable development of commercial banks cannot be achieved without a coherent legal framework. International experience shows that regulations are no longer limited to prudential requirements but increasingly guide banks to incorporate ESG principles into their business models as a condition for long-term viability (Riegler, 2023; Aracil et al., 2021). In Vietnam, this trend is also evident: national strategies and SBV directives have gradually evolved from setting strategic orientations for green credit toward more specific requirements for environmental and social risk management and ESG disclosure. In this way, the legal framework functions both as a foundation for sustainable development in commercial banks and as a driver of ESG integration in practice. Therefore, the next section will examine how ESG has been integrated into banking operations worldwide and in Vietnam, emphasizing that legal and policy frameworks are a central enabler of this transformation.

2.3 From Theory to Practice: Stakeholder Roles in Sustainable Development in Banking

Building on the theoretical and practical discussion above, it is essential to critically examine how different stakeholders contribute to the adoption, implementation, and effectiveness of sustainable banking regulations. Because the success of sustainable finance is rarely dictated by regulation alone, rather, it is the outcome of dynamic interactions among governments, banking institutions, shareholders, investors, customers, employees, and civil society organizations.

To begin with, government agencies and regulatory authorities remain the chief architects in advancing sustainable banking. In Vietnam, the SBV has been central in issuing sustainable development guidelines, as well as requiring risk assessment manuals and reporting frameworks, and coordinating national-level green banking strategies with the Ministry of Natural Resources and Environment. Empirical evidence highlight that clear regulatory signals and policy enforcement are essential for building sector-wide legitimacy and momentum (Jillani et al., 2024).

Building on this regulatory foundation, banking institutions serve as both targets and drivers of sustainable transformation, and their internal stakeholders, leaders, boards, employees, and internal audit, all of which play a decisive role. Management's vision and willingness to prioritize sustainability creates the path for organization-wide adoption of ESG practices. Strong internal audit and risk management functions help steer banks through the evolving sustainable developme).

Continuing along this path, competitive dynamics are an often-underestimated driver of sustainability adoption. The study of Cicchiello et al. (2023) suggest that early adopters of sustainable development standards gain reputational and market advantages - spurring broader sectoral change. Therefore, in developing Asia, banks use their leadership as a differentiator, attracting investors and customers who value responsible finance, and positioning themselves at the forefront of the sustainable finance movement (Tanaka, 2025). Empirical studies confirm that banks investing in green innovation, standardized frameworks, as well as transparent communication are better at managing controversy and outperforming rivals under the perspective of both the public and the market (Chen et al., 2022).

Empirical studies of Vietnamese banks consistently illustrate the multifaceted benefits of multi-stakeholder engagement for sustainable banking regulation. By drawing together banks, government regulators, local communities, shareholders, and international development organizations, Vietnamese banks have been able to accelerate the adoption and effectiveness of practices commonly captured by ESG metrics. For example, Linh and Anh (2017) point out that stakeholder participation is fundamental for the success of green banking initiatives at major financial institutions such as BIDV, Vietinbank, Vietcombank, Agribank, and ACB. The study shows that when diverse groups, including customers, regulators, environmental NGOs, and banks' own management, actively collaborate, there is a marked improvement in product innovation, risk management, and overall sustainability outcomes. Such engagement enables banks to create green financial products and services that are not only compliant with regulations, but also tailored to the needs and expectations of end users and investors. In particular, the alignment

between government directives, market incentives, and community interests has made it possible for Vietnamese banks to pioneer solutions like green credit, renewable-energy finance, and integrated sustainability reporting frameworks.

Moreover, the strength of this multi-stakeholder model is reinforced by ongoing oversight and facilitation from the SBV. Recent SBV reporting indicates that 80–90% of commercial banks now incorporate elements of sustainable development into their daily operations (The Banking Times, 2024). This impressive uptake is driven by regular policy review, performance benchmarking, and mandatory environmental and social risk assessments tied to credit issuance. At the same time, sector-wide dialogue through industry working groups, joint committees, and sustainability-focused forums, fosters a collective learning environment.

While the intention for cross-sectoral cooperation is high, actual stakeholder buy-in can vary considerably depending on organizational priorities, awareness levels, and perceived business value (Hai & Hung, 2024). Some banks and stakeholders remain hesitant to fully embrace ESG integration, either due to lack of understanding, limited technical expertise, or concern over implementation costs. Data gaps and inconsistent reporting practices further complicate efforts to monitor progress and ensure accountability. In some cases, the risk of greenwashing, where banks make superficial sustainability claims without substantive action, highlights public and investor trust. In addition, uneven implementation of social and environmental standards across institutions and regions highlights the need for more tailored engagement strategies and regulatory harmonization. The diversity of Vietnam's banking sector, ranging from large state-owned banks to smaller commercial entities, which means that a one-size-fits-all approach seldom yields optimal results. As a result, these disparities require transparent communication, adaptive capacity building, and the setting of clear, realistic milestones for sustainable development performance.

3. METHODOLOGY

3.1 Research Approach

This study adopts a qualitative document analysis to critically review the legal and regulatory framework promoting sustainable development in Vietnam's banking sector. The methodology is structured as a doctrinal legal review, enhanced by thematic analysis and contextual policy comparison, grounded in established theoretical frameworks for sustainable banking analysis. The research is theoretically informed by stakeholder theory, legitimacy theory, and institutional theory, which collectively explain why and how banks adopt sustainable practices and respond to regulatory requirements (Sharma, 2024; Lee & Raschke, 2023).

Stakeholder theory provides the analytical lens for examining how Vietnamese regulations address the interests of diverse constituents, including shareholders, customers, employees, regulators, communities, and the environment, and how legal frameworks mandate banks to align operations with stakeholder expectations (Aracil et al., 2021). Legitimacy theory guides the analysis of how regulatory requirements help banks maintain their "license to operate" through conformance to societal norms and regulatory expectations, particularly in ESG disclosures and community engagement mandates. Institutional theory informs the examination of how Vietnamese regulations respond to both formal pressures (international standards, Basel guidelines, EU Taxonomy) and informal pressures (NGO advocacy, investor expectations), shaping the adoption of sustainable banking practices through coercive, normative, and mimetic mechanisms (Scott, 2008).

Qualitative document analysis systematically examines and interprets written materials, such as laws, policy directives, official reports, and sectoral publications, to elicit meaning, gain understanding, and develop empirical knowledge relevant to the research problem (Bowen, 2009). This approach is particularly suitable for legal and policy research, as it allows for examination of both the content and context of regulatory texts while facilitating comparative analysis with international frameworks.

3.2 Data Sources

The study draws primarily on Vietnam's constitutional and primary legislation, including Law on Environmental Protection (2020), Law on Investment (2020) and the Law on Credit Institutions (2024), all of which as the statutory foundation for sustainable development in banking. Building on these statutes, it examines national strategies and sub-law instruments including the National Green Growth Strategy 2021–2030, vision 2050 (Decision 1658/QĐ-TTg), Directive 03/CT-NHNN (2015), Decision 986/QĐ-TTg (2018), Decision 1604/QĐ-NHNN (2018), Decision 1408/QĐ-NHNN (2023), Decision 1731/QĐ-NHNN (2023), Decision 1663/QĐ-NHNN (2024), and Circular 17/2022/TT-NHNN. Collectively, these instruments guide banks in implementing sustainability integration

by setting disclosure standards, risk management procedures, and supervisory mechanisms aligned with international best practices (Nguyen et al., 2023).

However, a comprehensive legal framework for sustainable development in commercial banks extends beyond SBV directives and ministerial decisions. It encompasses multiple layers, starting with international commitments such as the United Nations' Agenda 2030 for Sustainable Development and the Paris Agreement on Climate Change, which establish global norms on balancing economic growth, social equity, and environmental protection (UNFCCC, 2016). These frameworks exert both normative and coercive pressures, guiding national governments to embed sustainability principles into banking and finance (Sachs et al., 2019). For international benchmarking, the research systematically references established frameworks including the Basel Committee's guidelines on climate-related financial risks, the EU Taxonomy for sustainable activities, and Global Reporting Initiative (GRI) standards for sustainability disclosure. The Basel guidelines emphasize prudential management of climate risks as part of financial stability mandates (BCBS, 2022), while the EU Taxonomy provides a detailed classification system that directly influences sustainable lending and investment strategies (EU Technical Expert Group, 2020). The GRI standards, widely adopted across emerging economies, operationalize transparency by requiring consistent and comparable ESG reporting (KPMG, 2022). Each international framework is examined for its core principles, implementation approaches, and regulatory mechanisms, which are then systematically compared against corresponding elements in Vietnam's regulatory context to identify areas of convergence, divergence, and potential gaps. These supplementary sources are utilized to understand the broader policy context, implementation challenges, and international best practices that inform the comparative analysis.

3.3 Theoretical Analysis Framework

The document analysis is structured around the three theoretical frameworks to ensure systematic evaluation of Vietnam's regulatory approach:

- Stakeholder theory: Examining how regulations define and address the interests of different stakeholder groups, mandate stakeholder engagement processes, and require banks to consider broader societal impacts in their operations.
- Legitimacy theory: Analyzing regulatory requirements for transparency, disclosure, and alignment with social values, particularly how legal frameworks help banks maintain social acceptance and trust.
- Institutional theory: Assessing how Vietnamese regulations respond to international institutional pressures, align with global standards, and create institutional mechanisms for sustainable banking adoption.

3.4 Data Analysis

Using qualitative document, this study systematically reviews regulatory content to identify key themes, requirements, and implementation mechanisms. The analysis follows a comparative framework that maps Vietnamese regulations against international benchmarks to assess alignment, gaps, and opportunities for harmonization. Following Bowen's (2009) approach, the document analysis involves three stages: skimming for superficial examination, thorough reading for detailed content review, and interpretation to extract meaning and significance. This iterative process combines content analysis to organize information into categories related to sustainable banking regulation, and pattern recognition to identify recurring themes across the regulatory texts. The comparative dimension involves systematically contrasting specific provisions, enforcement mechanisms, and policy objectives found in Vietnamese regulations with corresponding elements in international frameworks. This approach enables evaluation of both the comprehensiveness and effectiveness of Vietnam's current sustainable banking regulatory framework while highlighting areas where regulatory harmonization with global standards may be beneficial.

4. RESULTS AND DISCUSSION

4.1 Overview of Vietnam's Legal Framework for Sustainable Development

4.1.1 Evolution and Key Milestones of Legal Documents

Vietnam's modern framework rests on constitutional and statutory anchors that gradually converted sustainability from principle to supervisory practice. The 2013 Constitution articulated a right and duty to a clean environment (Article 43), creating a constitutional basis for integrating environmental considerations into economic governance. That foundation was operationalized by the Law on Environmental Protection (2020), which links credit allocation with environmental performance by defining green credit concepts and requiring environmental-risk

management in credit extension (Article 149). In parallel, the Law on Investment (2020) directs fiscal and land-related incentives to priority sectors and locations (Article 15–16), indirectly steering capital, and banks' lending pipelines, toward greener activities. Completing the legislative core, the Law on Credit Institutions (2024) strengthens governance through mandatory internal control and internal audit systems (Article 57–59), which form the compliance backbone for embedding environmental- and social-risk procedures in credit processes and disclosures. Against this primary-law backdrop, strategy documents set long-horizon targets: the National Green Growth Strategy 2011–2020, vision 2050 (Decision 1393/QĐ-TTg, 2012) provided Vietnam's first high-level green growth orientation (Prime Minister, 2012), and was then superseded by the National Green Growth Strategy 2021–2030, vision 2050 (Decision 1658/QĐ-TTg, 2021), which tightened objectives and explicitly mobilized the financial sector for low-carbon transition.

Building from principles to practice, the SBV introduced sector-specific instruments that transfer strategy into supervisory expectations. The starting point was Directive 03/CT-NHNN (2015), which instructed the banking system to promote green credit and manage environmental and social (E&S) risks in credit activities, while assigning SBV departments capacity-building and guidance roles (The State Bank of Vietnam, 2015). In 2018, two moves accelerated the agenda: the SBV's Decision 1604/QĐ-NHNN approved the Green Bank Development Scheme, including the oft-cited ambition that by 2025, 60% of banks would access green capital sources (The State Bank of Vietnam, 2018), and the Prime Minister's Decision 986/QĐ-TTg (2018) embedded green banking aims within the broader Development Strategy for the Banking Sector to 2025, orientation to 2030, thereby aligning prudential modernization with sustainability priorities. In the same year, SBV issued Decision 1731/QĐ-NHNN (2018), which is the banking sector Action Plan to implement the 2030 Agenda for Sustainable Development, which set concrete, system-wide tasks and targets, creating an explicit bridge between national SDG commitments and bank-level governance.

The next phase focused on operational detail and enforcement. Circular 17/2022/TT-NHNN (effective 2023) provided binding guidance on environmental-risk management in credit extension, requiring banks and foreign bank branches to integrate E&S assessment into lending processes and internal systems (The State Bank of Vietnam, 2022), thus converting earlier strategy and action-plan aspirations into examinable procedures. To align the sector with the upgraded national strategy and COP26 pledges, SBV issued Decision 1408/QĐ-NHNN (2023) adopting a banking sector Action Plan for Green Growth 2021–2030 that consolidates deliverables across supervision, credit programs, and disclosure, reinforcing coherence across prior instruments. Most recently, Decision 1663/QĐ-NHNN (2024) amended and strengthened the 2018 Green Bank Development Scheme, introducing enhanced support mechanisms, such as priority refinancing/rediscount incentives tied to green-credit portfolios, to tighten the link between supervisory objectives and funding economics (Vietnam's Bank Associataion, 2024), while the 2024 LCI's internal-control provisions give these programmatic incentives a firmer governance channel inside banks.

4.1.2 Scope and coverage of current legal instruments

Table 1. Scope and Coverage of Vietnam's Sustainable Banking Legal Instruments (2012-2024)

Legal Instrument	Primary Focus	Scope	Key Requirements	Specific Targets/ Metrics
Decision 1393/QĐ-TTg (2012)	National Green Growth Strategy	All economic sectors including banking	- Formulate mechanisms and policies to stimulate financial institutions for green growth implementation - Use financial, credit and market-based instruments to promote green economy - Establish management systems for certified greenhouse gas emissions trading - Mobilize loans, ODA, and technical assistance for green growth - Develop policies encouraging investment in green economy development	Green technology 42-45% of GDP by 2020; 3-4% GDP investment in environmental sectors
Directive 03/CT-NHNN (2015)	Green credit promotion & ESG risk management	All credit institutions	- Develop green credit programs prioritizing environmentally friendly projects - Incorporate environmental and social risk assessments into lending decisions - Establish quarterly reporting requirements to SBV	Quarterly reporting to SBV; ESG integration in lending

Legal Instrument	Primary Focus	Scope	Key Requirements	Specific Targets/ Metrics
			- Implement comprehensive ESG risk management systems - Build capacity for ESG risk evaluation and monitoring	
Decision 986/QĐ-TTg (2018)	Banking Sector Strategy with green integration	All banking institutions	- Increase proportion of bank credit capital in renewable energy, clean energy sectors - Integrate sustainable development content into credit loan programs - Transform banking services toward comprehensive financial inclusion - Embed environmental considerations throughout banking transformation - Develop climate change adaptation measures in banking operations	Credit capital increase in renewable energy, clean energy sectors
Decision 1604/QĐ-NHNN (2018)	Green Bank Development Scheme	All credit institutions	- Develop internal regulations for environmental and social risk management (100% target) - Implement environmental social risk assessments in all credit operations - Establish dedicated ESG risk management units (10-12 banks minimum) - Create comprehensive risk management systems and reporting frameworks - Develop five-level strategic framework for green banking implementation - Build organizational capacity for sustainable banking practices	100% banks with ESG regulations; 60% banks accessing green capital; 10-12 banks with dedicated ESG units by 2025
Law on Environmental Protection (2020)	Link lending to environmental performance; define green credit	All lending/credit extension by banks and FBBs where environmental impacts arise	Integrate environmental- and social-risk (E&S) assessment into credit processes; environmental information/reporting; Government/SBV to issue roadmap & guidance for green credit (Article 149)	*Statutory obligations; no numeric target*
Law on Investment (2020)	Incentivize capital toward priority/"green" sectors	Investment projects eligible for incentives (sectoral/ locational), forming the credit demand addressed by banks"	Provide tax, land, and import-duty incentives; establish eligibility and procedures (Article 15–16)	*Incentive framework; no numeric target*
Law on Credit Institutions (2024)	Governance backbone for banks	All credit institutions and foreign bank branches	Establish/maintain internal control system and internal audit; strengthen risk-management and internal regulations (Article 57–59)	*Governance obligations; no numeric target*
Circular 17/2022/TT-NHNN (2022)	Environmental risk management in credit activities	All credit institutions (except microfinance,	- Develop internal environmental risk management regulations - Conduct mandatory environmental risk assessments for projects in Appendices III-	Projects under Decree 08/2022 Appendices III-V; mandatory

Legal Instrument	Primary Focus	Scope	Key Requirements	Specific Targets/ Metrics
		people's credit funds, Social Policy Bank)	V - Integrate environmental considerations into credit risk evaluation processes - Implement environmental risk identification, assessment, and monitoring procedures - Establish mitigation measures for environmental risks - Collect and manage environmental information for risk assessment - Report on environmental risk management activities	assessments
Decision 1663/QĐ-NHNN (2024)	Enhanced green banking support	All credit institutions including non-bank institutions	- Extend green banking requirements to all credit institutions including non-banks - Implement prioritized refinancing policies for high green credit portfolios - Provide rediscounting policy preferences for green-focused institutions - Enhance support mechanisms for green credit development - Create financial incentives aligned with regulatory objectives - Ensure comprehensive sectoral coverage beyond commercial banks	Enhanced support for high green credit portfolio institutions

4.2 Stakeholder Theory Analysis: Stakeholder Integration in Vietnamese Regulations

4.2.1 Integrated Regulatory Framework: Stakeholder Identification and Mandatory Obligations

Vietnam's sustainable banking regulatory framework demonstrates a sophisticated operationalization of stakeholder theory that transcends traditional stakeholder identification to establish legally binding obligations for each stakeholder category. Rather than treating stakeholder engagement as voluntary corporate social responsibility, Vietnamese regulations institutionalize stakeholder theory's core premise that organizations must systematically serve multiple constituencies through concrete, measurable actions embedded within mandatory regulatory compliance frameworks.

Establishing comprehensive stakeholder taxonomy, the regulatory architecture identifies five distinct stakeholder categories, each with specific rights and corresponding banking obligations. Decision 1393/QĐ-TTg explicitly recognizes that "green growth is the cause of the entire Party, all people, every level of Government, ministries, localities, enterprises, and social organizations", thereby creating the foundational principle that sustainable banking must serve multiple constituencies simultaneously rather than prioritizing shareholder primacy. This broad conceptualization moves beyond Freeman's traditional stakeholder theory to encompass what Vietnamese regulations term "ecological stakeholders" and "intergenerational stakeholders", reflecting the country's emphasis on environmental protection and sustainable development as core national priorities.

Addressing shareholder and financial stakeholders, Decision 986/QĐ-TTg requires banks to fundamentally restructure their value creation models to integrate sustainable development considerations into strategic planning processes. Specifically, banks must demonstrate that long-term shareholder value creation aligns with environmental and social objectives through measurable performance indicators including credit portfolio composition, environmental risk assessment integration, and sustainable development impact metrics. In parallel, the Law on Credit Institutions (2024) requires each bank to maintain robust internal control and internal audit as part of risk management, ensuring that these shareholder-facing strategy commitments are embedded in governance, risk, and disclosure routines rather than remaining aspirational. Furthermore, the regulation mandates banks to transform their business

models toward "comprehensive financial inclusion by 2030", thereby requiring institutions to balance traditional profitability metrics with broader social value creation measurements that demonstrate sustainable banking's contribution to national development objectives.

Transitioning to customer stakeholder obligations, Decision 1604/QĐ-NHNN establishes comprehensive requirements that transform customer relationships from transactional exchanges to partnership-based sustainable development collaborations. Banks must "organize communication, education and awareness raising activities" for customers regarding green banking products and services, but more significantly, they must "promote and support communities to develop models of eco-city, green rural areas, green housing", thereby recognizing customers not merely as service recipients but as co-creators of sustainable development outcomes. In addition, banks are required to "provide guidance for enterprises to access finance and technology options to shift towards green industry and green agriculture", creating advisory relationships that extend far beyond traditional lending activities. Furthermore, Circular 17/2022/TT-NHNN requires banks to provide customers with detailed information about environmental risks associated with their financing decisions, thereby creating transparency obligations that enable informed customer decision-making and shared responsibility for environmental outcomes.

Addressing employee stakeholders, the regulatory framework recognizes that sustainable banking implementation depends fundamentally on workforce capabilities and institutional culture transformation. Decision 1604/QĐ-NHNN mandates banks to "provide training, knowledge enhancement as well as governance and management skills on green economy, green production sectors for government staff and enterprise staff, starting with leaders, policy makers and those involved in the formulation process". This requirement goes beyond traditional employee development to create systematic capacity-building obligations that ensure all banking personnel possess the knowledge and skills necessary to implement sustainable banking practices effectively.

Community stakeholder recognition and obligations represent perhaps the most innovative aspect of Vietnam's stakeholder framework, moving beyond traditional corporate-community relations to establish banks as integral community development partners. Decision 1393/QĐ-TTg requires banks to contribute to "employment, poverty reduction and improving the material and spiritual life of all people", while simultaneously Decision 1604/QĐ-NHNN mandates banks to consider "information from functional agencies, social organizations and residential communities, individuals directly affected by investment project activities" in their decision-making processes. Circular 17/2022/TT-NHNN also requires banks to gather "information from surveys, information from functional agencies, social organizations and residential communities, individuals directly affected by investment project activities regarding compliance with environmental protection regulations" before making credit decisions.

Environmental stakeholder obligations reflect Vietnam's recognition that ecological systems and future generations constitute legitimate stakeholders with enforceable rights that banking institutions must protect and promote. Circular 17/2022/TT-NHNN operationalizes environmental stakeholder representation through mandatory environmental risk assessments that require banks to consider "environmental risks of investment projects" and collect comprehensive "information on environmental protection activities related to customer investment project implementation". The environmental obligations extend to proactive ecological protection and restoration requirements. Decision 1393/QĐ-TTg requires banks to support "investment in natural capital" and "restoration of degraded ecological systems", thereby creating explicit obligations to finance environmental restoration activities rather than merely avoiding environmental harm. Furthermore, banks must prioritize funding for projects that "reduce greenhouse gas emissions" and "improve environmental quality", while simultaneously implementing measures to "gradually reduce lending to activities that harm the environment".

Through the lens of stakeholder theory, Vietnam's regulatory framework reveals a systematic institutional transformation that moves beyond theoretical stakeholder acknowledgment to create enforceable stakeholder rights embedded within banking operations. The regulatory architecture demonstrates stakeholder theory's practical application by establishing legally mandated obligations for each stakeholder category, shareholders, customers, employees, communities, and environmental interests, thereby institutionalizing Freeman's multi-fiduciary approach through binding compliance mechanisms rather than voluntary corporate discretion (Freeman, 2023). The Vietnamese approach thus represents an advanced application of stakeholder theory that transforms normative principles to create institutional structures capable of transforming banking practice from shareholder primacy toward genuine multi-stakeholder value creation within a legally enforceable regulatory environment.

4.2.2 Comparative Analysis with International Stakeholder Engagement Standards

To provide a coherent basis for comparison, this section employs six explicit dimensions: (i) scope and stakeholder definition; (ii) governance and accountability; (iii) process requirements (identification–consultation–materiality); (iv) integration into risk management and credit processes; (v) disclosure, reporting and assurance; and (vi) enforcement and incentives. By structuring the analysis along these dimensions, we can trace not only where Vietnam converges with global expectations (GRI, Basel Corporate Governance Principles, UNEP FI Principles) but also where additional specification would enhance comparability and credibility across institutions and over time.

Firstly, on scope and stakeholder definition, Vietnam's framework is broadly aligned with GRI's inclusive conception of stakeholders and rights-holders. In particular, Circular 17/2022/TT-NHNN requires banks to obtain information from functional agencies, social organizations, residential communities, and individuals directly affected by project activities; as a result, under-inclusion risk is narrowed because affected parties are explicitly named rather than left to firm-level salience judgments. This moves from principle to prescription positions Vietnam close to GRI's intent while offering clearer operational signals to banks.

Secondly, in governance and accountability, Vietnam's revised Law on Credit Institutions (2024, Article 57–59) embeds internal control and internal audit responsibilities as statutory obligations. Consequently, board-level accountability is "hardened" in a way that is consistent with Basel's emphasis on safe and sound governance, risk culture, and the protection of stakeholders' interests. This legal anchoring ensures that engagement is not an optional CSR adjunct but a governance responsibility subject to oversight.

Thirdly, regarding process requirements, Vietnam mandates stakeholder identification, consultation, and documentation tied to environmental and social assessment under Circular 17. Whereas GRI and UNEP FI often frame these as principle-based or voluntary practices, Vietnam converts them into minimum, enforceable baselines with clear expectations about who to engage, what information to collect, and when to document it within the credit process.

Fourthly, integration into risk management and credit processes represents a further area of convergence—and in some respects, strengthening. While Basel calls for comprehensive risk management that considers broader stakeholder impacts, Vietnam operationalizes this call by requiring that engagement outputs inform credit appraisal, ongoing monitoring, and remediation. Therefore, stakeholder input is linked to concrete decision points across the credit lifecycle, tightening the loop between engagement evidence and risk outcomes.

Fifthly, on disclosure, reporting, and assurance, Vietnam's trajectory is toward regulator-facing evidence embedded in supervisory documentation, whereas GRI emphasizes public disclosure standards and UNEP FI highlights progress reporting and self-assessment. Accordingly, the Vietnamese approach prioritizes supervisory verifiability; however, to maximize external comparability, future steps could include standardized public templates and clearer pathways for external assurance of engagement quality and materiality determinations.

Lastly, enforcement and incentives distinguish Vietnam from voluntary regimes. Whereas GRI and UNEP FI rely primarily on market and reputational incentives (and Basel's expectations are mediated through supervision), Vietnam positions stakeholder engagement as a mandatory compliance obligation subject to supervisory review and potential remedial action. This, in turn, provides regulatory certainty and elevates procedural rigor while preserving convergence with international aims.

4.3 Legitimacy Theory Analysis: Transparency and Social Legitimacy Requirements

4.3.1 Comprehensive Regulatory Framework: Transparency, Governance, and Community Engagement

Vietnam's sustainable banking regulatory framework establishes a comprehensive legitimacy framework that operationalizes legitimacy theory through three interconnected mechanisms: systematic transparency and disclosure systems, restructured governance arrangements, and mandatory community engagement processes. Together, these mechanisms transform banks from traditional profit-maximizing entities into socially accountable institutions that must continuously earn and maintain public trust through demonstrated commitment to environmental and social objectives.

Creating foundational transparency architecture, the regulatory framework establishes extensive reporting and disclosure systems that enable public monitoring of banking sector sustainability performance. Decision 1604/QĐ-NHNN requires banks to develop comprehensive reporting guidance that details governance structures, policy systems, process management, and information disclosure protocols, while simultaneously mandating quantitative disclosure of credit capital allocation to green sectors prioritized by SBV. Furthermore, Circular 17/2022/TT-NHNN operationalizes these requirements through mandatory environmental risk disclosure procedures that require banks to maintain systematic records of customer environmental protection reports and document implementation of

environmental risk mitigation commitments. Consequently, these transparency mechanisms create institutionalized accountability systems that enable stakeholders to assess banking sector environmental and social performance through standardized, comparable reporting formats. Consistently, the Law on Environmental Protection (2020) requires environmental information to be generated and shared within the investment/permitting process, which banks must reflect in credit files and disclosures; and the Law on Investment (2020) aligns disclosure with incentive screening for eligible (priority/"green") projects, so that bank reports substantiate both prudential oversight and investment-incentive compliance. Building upon disclosure foundations, the framework establishes sophisticated public communication and education systems that transform banks from passive information providers into active community educators and partners.

Complementing transparency with institutional restructuring, the regulatory framework mandates comprehensive governance reforms that embed sustainability considerations at the highest organizational levels. Decision 1604/QĐ-NHNN requires banks to establish dedicated ESG risk management units with senior management accountability for green banking development and implementation, thereby ensuring that sustainability commitments receive board-level strategic priority rather than peripheral treatment. Unlike traditional governance structures focused exclusively on shareholder returns, these requirements create decision-making systems that systematically balance multiple stakeholder interests, thereby institutionalizing consideration of broader social and environmental impacts in routine banking operations.

Transforming banks into community development partners, the regulatory framework requires active participation in local sustainability initiatives that extend far beyond traditional financial intermediation roles. Decision 1393/QĐ-TTg requires banks to support eco-village development, green housing initiatives, and community-based environmental protection programs, thereby transforming institutions from external capital providers into invested community partners committed to local development outcomes. Moreover, banks must provide technical assistance and training to help communities and businesses transition to sustainable practices, creating value-added relationships that position banks as trusted advisors supporting community development goals through demonstrated expertise and long-term commitment.

In general, analyzing Vietnam's regulatory approach through the lens of legitimacy theory reveals a sophisticated institutional design that systematically addresses the core theoretical requirement for organizations to continuously earn societal acceptance through demonstrable social value creation. By transforming voluntary corporate social responsibility practices into legally mandated accountability systems, Vietnamese regulations create what legitimacy theory identifies as essential institutional mechanisms for ongoing social validation. Most significantly, this regulatory approach moves beyond traditional compliance-based legitimacy maintenance toward proactive legitimacy building, requiring banks to demonstrate continuous social value creation through measurable environmental and community development contributions rather than simply avoiding social disapproval through minimal compliance activities.

4.3.2 Comparative Analysis with International Transparency and Disclosure Frameworks

To provide a coherent basis for comparison, this section employs six explicit dimensions: (i) scope and definition of what must be disclosed; (ii) governance and accountability; (iii) process requirements (data identification, consultation, materiality, and controls); (iv) integration into risk management and the credit lifecycle; (v) disclosure, reporting, and assurance; and (vi) enforcement and incentives. By structuring the analysis in this way, we can trace where Vietnam converges with the GRI Standards, TCFD recommendations, and the EU Taxonomy; and where additional specification would strengthen comparability, credibility, and investor decision-usefulness.

Firstly, on scope and definition, Vietnam's framework delineates a broad transparency perimeter that overlaps with GRI's banking topics (e.g., climate, biodiversity, financial inclusion, local community impacts). Decision 1604/QĐ-NHNN anchors disclosures on environmental risks, community impacts, and sustainable development contributions, while Circular 17/2022/TT-NHNN requires banks to collect information from functional agencies, social organizations, and affected communities. In parallel, the EU Taxonomy narrows scope through technical screening criteria and "environmental objective" alignment; Vietnam, by contrast, combines environmental objectives with social-development priorities (poverty reduction, rural development, inclusion), producing a wider disclosure canvas than the EU's primarily environmental focus.

Secondly, in governance and accountability, TCFD calls for board oversight and clear management responsibilities for climate risks and opportunities. Vietnam aligns by directing banks, through Decision 1604, to establish ESG risk functions with senior accountability and by embedding internal control and internal audit duties in

the Law on Credit Institutions (2024). This legal anchoring hardens accountability relative to GRI's principle-based expectations and mirrors the EU's movement toward board-level responsibility for Taxonomy-related statements.

Thirdly, regarding process requirements, GRI and TCFD emphasize materiality assessment, data quality, and internal controls, yet remain principle-based. Vietnam converts these into minimum, enforceable baselines: Circular 17 stipulates identification, consultation, documentation, and verification pathways that connect data gathering to stakeholder inputs and official sources. This creates multi-source validation that can mitigate greenwashing risks often associated with self-declared materiality. The EU Taxonomy, for its part, specifies activity-level classification logic; Vietnam complements this with procedures that explain how banks must obtain, test, and document underlying evidence.

Fourthly, integration into risk management and credit, where TCFD's "risk management" pillar urges embedding climate risks into processes, is operationalized in Vietnam by requiring that environmental and social assessments inform credit appraisal, monitoring, and remediation. This linkage ensures disclosures are not merely ex-post narratives but reflect ex-ante risk decisions. While the EU Taxonomy primarily classifies assets, Vietnam's approach goes further by tying transparency to the mechanics of risk selection and portfolio steering.

Fifthly, on disclosure, reporting, and assurance, GRI provides public, market-facing disclosure architecture (with optional assurance), and TCFD emphasizes financially material, investor-oriented climate metrics and targets. The EU introduces quantitative ratios such as the Green Asset Ratio to enable cross-bank comparability. Vietnam's trajectory currently prioritizes supervisor-facing evidence embedded in regulatory files, while increasingly encouraging quantitative reporting on green credit allocation consistent with Decision 1604.

Lastly, enforcement and incentives differentiate frameworks. GRI and TCFD are largely voluntary (market and reputational enforcement), whereas the EU regime is legally binding within its jurisdiction through Taxonomy-linked disclosure regulations. Vietnam positions transparency and disclosure as mandatory compliance obligations subject to supervisory review and remedial action, providing regulatory certainty and elevating procedural rigor.

4.4 Institutional Theory Analysis: Response to International Pressures

4.4.1 Global Regulatory Integration Framework: Standards Alignment and Adoption Processes

Vietnam's sustainable banking regulatory framework demonstrates a sophisticated response to institutional pressures that operationalizes institutional theory through systematic integration of international standards and development of comprehensive adoption mechanisms. The framework reveals how external institutional forces, both coercive and normative, drive banking sector transformation through structured regulatory harmonization, international cooperation, and capacity-building processes that ensure effective implementation rather than superficial compliance with global institutional expectations.

Responding to coercive institutional pressures, Vietnam's regulatory framework systematically addresses formal institutional requirements from international regulatory regimes and supranational organizations that create binding expectations for sustainable banking practices. The SBV's implementation of Basel Committee guidelines on climate risks demonstrates direct response to coercive pressures from international banking supervision standards. Specifically, Vietnam's requirement in Circular 17/2022/TT-NHNN for banks to "develop internal regulations for environmental risk management" and "implement mandatory assessments for investment projects with potential adverse environmental impacts" directly reflects Basel Committee expectations that supervisors ensure banks have appropriate governance arrangements for climate-related financial risks. Furthermore, the SBV's systematic adoption of Basel II standards across all banking institutions, with foreign-invested banks required to maintain standards at least as stringent as Basel requirements, demonstrates institutional compliance with international regulatory coercion that shapes domestic banking sector practices.

The coercive pressure response extends to Vietnam's alignment with EU Taxonomy compatibility requirements that create institutional expectations for sustainable finance classification and disclosure. Decision 1604/QĐ-NHNN's quantitative disclosure requirements for banks to report credit capital allocation to green sectors prioritized by SBV directly parallel EU Taxonomy's Green Asset Ratio requirements, demonstrating how international institutional frameworks create coercive pressures that drive domestic regulatory development. At the project level, the Law on Investment (2020) channels incentives to priority/"green" activities; this creates a classification and eligibility screen that dovetails with EU-style taxonomy thinking and shapes the bankable pipeline that disclosures ultimately report on. Moreover, Vietnam's systematic revision of sustainable banking regulations, including the 2024 amendments through Decision 1663/QĐ-NHNN, reflects ongoing response to evolving international institutional

expectations that require continuous regulatory adaptation to maintain institutional legitimacy within global financial systems.

The normative pressure response is operationalized through comprehensive capacity-building initiatives that ensure Vietnamese banking institutions internalize international professional norms rather than merely complying with formal requirements. The collaboration between SBV, GIZ, and UNEP FI in producing practical guidance for TCFD disclosure implementation demonstrates how normative institutional pressures from international professional communities drive knowledge transfer and capability development. In addition, Decision 1604/QĐ-NHNN's requirement for banks to "provide training, knowledge enhancement as well as governance and management skills on green economy, green production sectors" reflects institutional response to normative expectations that banking professionals possess appropriate expertise for sustainable banking implementation. Operationalizing UN Sustainable Development Goals integration, Vietnam's banking regulatory framework demonstrates systematic alignment with normative institutional pressures from global development frameworks that create expectations for banking sector contributions to sustainable development outcomes. Decision 1393/QĐ-TTg's requirement for banks to contribute to "employment, poverty reduction and improving the material and spiritual life of all people" directly reflects normative pressures from international development institutions that position banks as essential actors in achieving global sustainability goals.

Addressing normative institutional pressures, Vietnam's regulatory framework demonstrates sophisticated integration of international professional standards and best practices that reflect normative expectations from global sustainable finance communities. The collaboration between SBV and international organizations demonstrates response to normative pressures from professional networks and expert communities that shape appropriate sustainable banking practices. Responding to mimetic institutional pressures, Vietnam's regulatory framework demonstrates sophisticated learning from international best practices and peer country experiences that shape institutional expectations for appropriate sustainable banking approaches. The systematic adaptation of international frameworks through Vietnam's Environmental and Social Risk Assessment Manual for 15 economic sectors demonstrates mimetic institutional behavior that incorporates proven approaches from advanced sustainable banking jurisdictions while adapting them to domestic contexts. This mimetic response reflects institutional theory's emphasis on organizations adopting practices from successful peer institutions when facing uncertainty about appropriate strategies. Vietnam's role in proposing and facilitating ASEAN Sustainable Banking Principles adoption demonstrates how countries respond to mimetic pressures by both learning from and contributing to peer networks that establish regional institutional norms. Moreover, Vietnam's participation in multiple international initiatives, including the Just Energy Transition Partnership and alignment with EU Global Gateway priorities, creates systematic mechanisms for learning from international experiences while establishing Vietnam as a regional leader in sustainable banking institutional development.

Creating institutional harmonization mechanisms, Vietnam's regulatory integration framework establishes comprehensive processes that manage institutional complexity arising from multiple, sometimes competing, international institutional pressures. The SBV's development of detailed harmonization procedures that integrate international frameworks into specific domestic regulatory requirements demonstrates sophisticated institutional management that balances compliance with diverse institutional expectations while maintaining regulatory coherence. For instance, the adaptation of Basel Committee climate risk guidelines alongside EU Taxonomy compatibility requirements creates institutional synthesis that addresses multiple coercive and normative pressures through integrated regulatory approaches. Furthermore, the framework's emphasis on systematic integration of environmental considerations into routine banking operations reflects institutionalization of sustainable banking norms that transforms organizational fields rather than creating parallel compliance structures.

In general, examining Vietnam's regulatory framework through institutional theory reveals a systematic institutional transformation that demonstrates how coercive, normative, and mimetic pressures collectively drive sustainable banking adoption beyond voluntary corporate initiatives toward mandatory institutional compliance. The regulatory architecture shows institutional theory's three pressure mechanisms operating simultaneously: coercive pressures from Basel Committee guidelines and EU Taxonomy requirements create binding compliance expectations, normative pressures from international professional networks and development institutions establish appropriate practice standards, while mimetic pressures from peer countries and best practice sharing drive knowledge transfer and institutional learning. Most significantly, Vietnam's approach transcends simple institutional isomorphism by creating adaptive integration mechanisms that respond to multiple institutional pressures while maintaining domestic regulatory autonomy and developmental priorities.

4.4.2 Comparative Analysis with International Transparency and Disclosure Frameworks

To provide a coherent diagnosis of where divergences arise, this section employs six explicit dimensions: (i) scope and definition of what must be disclosed; (ii) governance and accountability; (iii) process requirements (data identification, consultation, materiality, and controls); (iv) integration into risk management and the credit lifecycle; (v) disclosure, reporting, and assurance; and (vi) enforcement and incentives. By structuring the analysis in this way, we can distinguish gaps driven by institutional isomorphism pressures from those rooted in domestic developmental constraints, and thereby clarify why full operational alignment with international expectations remains challenging.

Firstly, on scope and definition, Vietnam's transparency perimeter is intentionally broad, spanning environmental objectives alongside social-development goals such as rural inclusion and poverty reduction. While this breadth reflects national priorities, it also creates scope tension with frameworks whose definitions are narrower and more technical (e.g., activity classification or climate focus). As a result, banks face trade-offs between reporting comprehensiveness and the granularity needed for like-for-like comparability with international peers.

Secondly, in governance and accountability, statutes assign clear responsibilities to boards and internal control functions; yet, a capacity misalignment persists relative to jurisdictions where climate governance is supported by specialized board committees, seasoned ESG risk officers, and data-governance infrastructure. Consequently, Vietnamese banks may meet formal governance requirements but still struggle to convert them into decision-relevant oversight on complex topics (e.g., climate strategy setting, target calibration, and challenge functions).

Thirdly, regarding process requirements, regulations mandate identification, consultation, documentation, and verification; however, the operational depth required by international practice (such as end-to-end data lineage, model validation standards, and internal audit programs tailored to climate/ESG) is still developing. Limited automation and fragmented data pipelines constrain consistent materiality assessment, reduce auditability, and heighten the risk of form-over-substance compliance.

Fourthly, on integration into risk management and credit, the rules link environmental and social assessment to appraisal and monitoring, yet banks often lack the quantitative toolkits assumed by international frameworks, including stress-testing architectures, portfolio heat-maps, and sectoral transition pathways. This tooling gap impedes scenario analysis and makes it difficult to convert qualitative engagement outputs into risk parameters, covenants, and capital-relevant signals.

Fifthly, for disclosure, reporting, and assurance, Vietnam prioritizes supervisor-facing evidence; by contrast, international markets expect standardized, investor-grade disclosures and, increasingly, external assurance. The absence of uniform public templates, taxonomy-style ratios, and defined assurance pathways weakens cross-bank comparability and limits the usability of reports for international stakeholders, even when supervisory documentation is robust.

Lastly, in enforcement and incentives, Vietnam's mandatory approach accelerates adoption, but it can inadvertently reduce adaptive flexibility relative to principle-based, market-driven regimes. While coercive levers deliver coverage and minimum practice, they may dampen experimentation (e.g., pilot climate metrics, bespoke scenario sets) and slow iterative learning that voluntary frameworks often catalyze.

4.5 Overall Assessment of Vietnam's Regulatory Framework Promoting Sustainable Development in Banking

4.5.1 Strengths of Vietnam's Regulatory Framework

Vietnam's sustainable-banking framework is distinctive. In particular, an enforced legal hierarchy converts broad policy aims into daily bank practice, with primary statutes setting the agenda and anchoring subsequent rules.

Firstly, through institutional theory, primary statutes supply the coercive backbone that converts international expectations into domestic routine. The Law on Environmental Protection (2020) links lending to environmental performance and requires environmental- and social-risk procedures; the Law on Investment (2020) channels incentives toward priority "green" activities, shaping the pipeline of bankable projects; and the Law on Credit Institutions (2024) hard-wires governance through internal control and audit. Crucially, these do not stand alone; they cascade into strategy and sub-law instruments: Directive 03/CT-NHNN (2015), Decision 1604/QĐ-NHNN (2018), Decision 986/QĐ-TTg (2018), Decision 1408/QĐ-NHNN (2023), Circular 17/2022/TT-NHNN, and Decision 1663/QĐ-NHNN (2024), all of which together integrate mutual principles into supervisory expectations and then into bank-level processes. In short, coercive (statutory), normative (professional guidance and capacity building), and mimetic (peer learning and manuals) pressures are integrated rather than piecemeal.

Secondly, the framework advances stakeholder theory by moving from voluntary engagement to mandated, role-specific obligations; therefore, responsibilities are clear and enforceable. Shareholders are tied to strategy integration and measurable portfolio KPIs; customers receive transition advisory and risk transparency; employees are subject to systematic capacity building; communities are brought into consultation and consideration processes; and environmental interests are protected through mandatory risk assessment and restorative financing priorities. Notably, Circular 17/2022/TT-NHNN converts these duties into documentation, workflow checkpoints, and verifiable evidence in the credit file, thereby shifting accountability from policy statements to auditable practice.

Last but not least, the architecture strengthens legitimacy by designing credibility mechanisms around transparency and governance, and it absorbs global standards without losing domestic coherence. Standardized disclosure, third-party verification, and public information systems build trust proactively, while LCI-based control and audit functions ensure sustainability data are tested within core risk and assurance processes. In parallel, Basel climate-risk guidance maps into governance and control (LCI); EU-style classification logic dovetails with quantitative disclosure of green lending and aligns with investment-incentive eligibility (LOI); and capacity-building partnerships are embedded in supervision rather than left ad hoc. Consequently, Vietnam's model embeds sustainable development in credit risk, disclosure, and governance, thereby forging durable institutional change rather than mere isomorphic signalling.

4.5.2 Remaining Gaps Relative to International Standards

Although Vietnam's framework has matured quickly, several structural gaps remain when measured against leading international standards, and these gaps have practical consequences for comparability, supervision, and market credibility. Firstly, the classification of sustainable economic activities remains high level and qualitative, drawing primarily on "green credit" notions and incentive-linked eligibility under the Law on Environmental Protection and the Law on Investment; however, current SBV instruments (for example, Decision 1604/QĐ-NHNN on the Green Bank Development Scheme, Decision 1408/QĐ-NHNN on the banking sector Action Plan, and Circular 17/2022/TT-NHNN on environmental risk in credit) do not yet provide activity-level technical thresholds (e.g., emission-intensity limits, energy-efficiency benchmarks, technology screens) or do-no-significant-harm and minimum-safeguard tests that can be uniformly applied across sectors. By contrast, the EU Taxonomy specifies measurable criteria at the activity level and requires DNSH and minimum safeguards, while the ASEAN Taxonomy offers a tiered approach (including transition categories) that helps classify hard-to-abate activities. Because Vietnam lacks similarly granular rules, banks struggle to map portfolios consistently to international categories; as a result, cross-border investors cannot reliably interpret reported "green lending," and transitional investments (for example, efficiency upgrades in cement, steel, or power) risk being either excluded or treated inconsistently.

Secondly, disclosure and assurance are only partially aligned with global practice. While Circular 17 has moved environmental- and social-risk disclosure from aspiration to procedure, requiring banks to collect information from functional agencies, social organizations, and affected communities, it does not fully reflect the ISSB IFRS S1/S2 architecture that structures reporting around governance, strategy, risk management, and metrics-and-targets, nor does it prescribe common metrics and methods across institutions. Without shared cores, such as financed-emissions methodologies (for example, PCAF), exposure-based indicators (sectoral exposures to carbon-intensive or hazard-exposed activities), and a portfolio-level green-asset metric comparable to the EU's Green Asset Ratio, which are figures published by different banks are not strictly comparable across time or peers. Moreover, external assurance expectations remain limited, so users cannot assume sustainability data are tested with the same rigor as audited financials.

Thirdly, prudential integration is still developing, and the gaps are visible along the full supervisory chain—from risk identification to capital consequences. While SBV has begun to internalize climate and environmental risk through instruments such as Circular 17/2022/TT-NHNN (on environmental-risk processes in credit), there is not yet a consistently specified framework for scenario design, climate stress testing, risk-appetite cascades, ICAAP linkage, Pillar-2 measures, and Pillar-3-style disclosures. Because standardized sectoral datasets (for transition and physical risk drivers) are also limited, model reliability suffers, concentration risks are hard to benchmark across banks, and exposure-at-risk analytics cannot be used systematically in supervisory review. Consequently, climate risk is recognized conceptually but does not yet shape the intensity of onsite/offsite supervision, the articulation of Pillar-Two expectations (e.g., capital add-ons, remedial action plans), or the calibration of capital buffers in a way that is comparable across institutions.

Fourthly, verification capacity and market infrastructure remain thin, and this weakness is visible even where Vietnam has made progress on disclosure. While Circular 17/2022/TT-NHNN requires banks to collect verified

information from functional agencies, social organizations, and affected communities, the reality is that these environmental datasets (EIAs, permits, inspections, emissions inventories) are dispersed across ministries and provinces, use non-uniform formats, and lack consistent lineage, so banks face heterogeneous evidence and uneven verifiability. Moreover, Decision 1604/QĐ-NHNN on the Green Bank Development Scheme and Decision 1408/QĐ-NHNN (the sector Action Plan for Green Growth) both call for reporting and information systems, yet neither establishes a unified, machine-readable data utility or standardized templates that map official records directly to credit-file checkpoints and disclosure metrics; as a result, mid-tier banks bear high due-diligence costs and timelines diverge across institutions. By contrast, the EU's CSRD/ESRS architecture couples taxonomy-aligned KPIs (such as Green Asset Ratio-type measures) with external assurance, and ISSB's IFRS S1/S2 organizes disclosures around governance, strategy, risk, and metrics-and-targets, thereby creating a common evidentiary backbone that auditors can test; furthermore, NGFS guidance clarifies scenario inputs and reference datasets that supervisors and banks can reuse, so verification scales more predictably.

5. RECOMMENDATIONS

Based on the comprehensive analysis of Vietnam's sustainable banking regulatory framework through stakeholder, legitimacy, and institutional theory lenses, this study proposes some interconnected recommendations to enhance the effectiveness, harmonization, and implementation of sustainable banking regulations in Vietnam. These recommendations are designed to address the identified gaps while building upon Vietnam's existing regulatory strengths.

First and most fundamentally, for policymakers (the National Assembly and the Government), the priority is to cement the legal foundations that remove ambiguity and unlock implementation at scale. Because the most acute gap is the absence of a unified and activity-level taxonomy producing inconsistent classification and appraisal frictions across banks, policymakers should therefore enact a national green/sustainable taxonomy through a law or resolution that defines sector-specific criteria and authorizes delegated regulations by the SBV and line ministries. In doing so, Vietnam would not only create legal certainty for lenders but also enable consistent portfolio steering and reduce misclassification risk. Moreover, information asymmetries persist due to limited access to verified environmental and social data; accordingly, a state-backed E&S data utility that aggregates authoritative datasets from ministries and provinces, standardizes formats, and provides APIs would lower compliance costs while simultaneously elevating disclosure credibility. In addition, because current practice remains largely supervisor-facing, it follows that policymakers should create a statutory basis for market-facing sustainability disclosures and independent assurance under Vietnamese standards. Together, these three measures align domestic practice with investor expectations while preserving national sovereignty over format and scope, thereby converting strategic intent into legally enforceable and decision-useful information.

Secondly, for regulators (the State Bank of Vietnam and relevant ministries), the central task is to convert these foundations into consistent supervisory practice and usable templates. To that end, an SBV supervisory handbook should explicitly link taxonomy and climate/social risks to ICAAP, credit appraisal, monitoring, and remediation, and provide standard templates (stakeholder engagement logs, E&S covenants, remediation plans) alongside minimum documentation tests. Consequently, examinations become more predictable, and the gap between legal intent and risk decisions narrows. In parallel, SBV ought to publish uniform disclosure templates and a taxonomy-style quantitative ratio (e.g., a green asset share), coupled with a phased assurance roadmap developed with national audit bodies; as a result, bank-to-bank comparability improves and report credibility rises for both supervisors and markets. However, capacity constraints still impede implementation; therefore, regulators should launch a practical enablement program that includes climate stress-testing guidance, open-source tools for portfolio heat-mapping, model-validation notes, and a supervised sandbox for piloting metrics and scenarios. By sequencing enablement with standardization, institutions of different sizes can implement proportionately without duplicative reporting burdens or form-over-substance compliance.

Last but not least, for practitioners (commercial banks and the banking association), recommendations focus on embedding requirements into governance and the credit lifecycle so that disclosures reflect real risk choices rather than after-the-fact narratives. Accordingly, boards should adopt a sustainability risk charter and designate a management-level ESG risk committee with clear escalation and challenge functions across risk management and internal audit. Therefore, formal responsibility becomes decision-relevant oversight for strategy, targets, appetite, and performance. Next, banks should integrate stakeholder-derived evidence into underwriting by issuing policy addenda that map sectoral transition risks, set E&S covenants and triggers, and specify remediation protocols; in turn,

documenting how these inputs affect ratings, pricing, and exposure limits yields audit trails that supervisors can test and investors can interpret. At the same time, to eliminate data-lineage and auditability gaps, banks should establish control checklists for sustainability metrics, maintain end-to-end data-lineage maps, and run a disclosure calendar synchronized with regulatory timetables; meanwhile, piloting limited assurance on a single metric (for example, a green lending ratio) through shared association guidance helps build internal capability ahead of any mandatory assurance.

Taken together, these audience-targeted recommendations are mutually reinforcing: policymakers create the enabling legal architecture (taxonomy, data utility, disclosure mandate); regulators convert that architecture into consistent, comparable practice (handbook, templates, ratios, assurance pathways, capacity tools); and practitioners operationalize the requirements in governance, underwriting, and reporting. As a result, the specific gaps, including classification uncertainty, capacity and tooling deficits, fragmented templates and assurance, uneven risk integration, and harmonization tensions, are fulfilled in a logically sequenced manner that assigns clear accountability and measurable outcomes to each stakeholder group.

6. CONCLUSION

Vietnam's sustainable-banking framework has shifted from aspiration to implementation, as broad policy aims now be integrated into everyday governance, risk, and disclosure practices. Drawing on stakeholder, legitimacy, and institutional perspectives, the system assigns responsibilities across actors, builds credibility through transparency and controls, and aligns with international norms while retaining domestic priorities. Nevertheless, important gaps remain, because classification standards are still broad, reporting and assurance are not fully comparable, prudential methods are uneven, and verification infrastructure is thin. Therefore, the logical path forward is to sharpen common definitions, strengthen disclosure architecture and assurance, deepen prudential integration through clear supervisory expectations, and expand market infrastructure for credible evidence. By doing so, Vietnam can preserve development objectives while improving consistency and comparability, thereby supporting investor confidence, enhancing supervisory effectiveness, and accelerating the sector's contribution to sustainable development.

7. ACKNOWLEDGMENT

This research is funded by Hanoi University of Science and Technology (HUST) under project number T2025-TN-001.

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