Enabling SME access to finance for sustainable consumption and production in Asia

An overview of finance trends and barriers in Vietnam

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Disclaimer: *This report was undertaken based on the engagement of SWITCH-Asia to determine the processes, products, and best practice of financing institutions in Vietnam on green initiatives that support climate change mitigation, as well as identifying barriers and risks. Based on insights from the case studies, research, survey and interviews conducted, recommendations are also included.*

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List of abbreviations

ADB	Asian Development Bank
AED	Agency of Enterprise Development
ASEAN	Association of Southeast Asian Nations
BIDV	Bank for Investment and Development of Vietnam
BTC	Belgian Development Agency
CSR	Corporate Social Responsibility
CTF	Clean Technology Fund
E&S	Environmental and Social
EECP	Energy Efficiency and Cleaner Production Financing Programme
EIB	European Investment Bank
ERIA	Economic Research Institute for ASEAN and East Asia
EUR	Euro
GCPF	Global Climate Partnership Fund
GIF	Green Investment Facility
GIZ	German Agency for International Cooperation
GSO	General Statistics Office
HFIC	Ho Chi Minh Finance and Investment State-owned Company
HNX	Hanoi Stock Exchange
IDA	International Development Agency
IFC	International Finance Corporation
JICA	Japan International Cooperation Agency
LDIFs	Local Development Investment Funds
MFI	Microfinance Institutions
MoIT	Ministry of Industry and Trade
MONRE	Ministry of Natural Resources and Environment
MoST	Ministry of Science and Technology
MPI	Ministry of Planning and Investment
MSME	Micro-, Small-, and Medium-sized Enterprises
NAFOSTED	National Foundation for Science and Technology Development
NASATI	National Agency for Science and Technology Information
NATIF	National Technology Innovation Fund
NBFI	Non-Bank Financial Institutions
PECSME	Promoting Energy Conservation in Small- and Medium-sized Enterprises in Vietnam
SBV	State Bank of Vietnam
SCP	Sustainable consumption and production
SDG	Sustainable Development Goal
SEF	Sustainable Energy Finance
SHB	Sangoi-Hanoi Commercial Joint Stock Bank
SME	Small- and Medium-sized Enterprises
USAID	United States Agency for International Development
USD	United States Dollar
VBSP	Vietnam Bank for Social Policies
VCCI	Vietnam Chamber of Commerce and Industry
VCIC	Vietnam Climate Innovation Centre
VDB	Vietnam Development Bank
VEPF	Vietnam Environmental Protection Fund
VGCTF	Vietnam Green Credit Trust Fund
VND	Vietnamese Dong
VNEEP	Vietnam National Energy Efficiency Programme
WEF	World Economic Forum

Executive Summary

In Vietnam, the need to improve access to finance for small and medium-sized enterprises (SMEs) has been recognised by the government. Efforts are being taken to increase lending to SMEs generally and to diversify the types of financing available for SMEs. Fostering green growth and low-carbon development are also among the government's top priorities. However, existing financial institutions are still somewhat inexperienced in providing financing to enterprises in green sectors. This study examines opportunities available for SMEs to obtain funding for sustainable consumption and production (SCP) measures, in particular for green innovations, efficiency improvements and pollution abatement. The study also identifies current challenges that restrain access to (green) finance for SMEs. The main results of the study can be summarised as follows:

- Promoting the SME sector has been on the agenda of the Government of Vietnam for over a decade and the respective legal infrastructure is slowly being built. Climate change and, more recently, green growth have been added to the priorities for development planning. On the national and provincial levels, funds have been set up to support industry, agriculture, environmental protection, technology innovation and other relevant topics. However, many of these funds are not fully operational yet or are currently not active in financing.

- The three most important sources of finance for SMEs generally were formal loans, retained earnings and informal loans in 2009-2013. The use of informal and internal financing was most important for SMEs when considering the number of SMEs. In terms of the total amount of capital taken up by SMEs, bank loans made up the most important source of funding.

- SMEs have been determined as a priority sector for lending by the State Bank of Vietnam (SBV). Many banking institutions, including state-owned commercial banks, policy banks and joint-stock commercial banks, have programmes on SME development providing reduced interest rates and other preferential loan conditions. Funding is often provided to national banks by international finance and donor organisations for on-lending to SMEs.

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

- Non-bank financial institutions are still in a nascent stage in Vietnam. Microfinance institutions (MFIs) and financial leasing companies cater mainly to micro or large enterprises, respectively. Obtaining capital through the equity and bond market also plays a subordinate role for the majority of SMEs. In turn, it can be considered beneficial for SMEs' access to finance that the availability of venture capital has increased lately.

- Despite positive development, financing for SMEs and sustainable production remains limited by various factors. Firstly, SMEs often do not approach banks because they lack information on financing opportunities or because they do not have the capacities to comply with application procedures. Secondly, banks are reluctant to lend to SMEs because of high costs for monitoring and verification. Many banks still preferably cater to large enterprises and have tightened credit conditions for SMEs as an answer to the global economic crisis in 2008.

Introduction

Since the *Doi Moi* (renovation) reforms in 1986, the Vietnamese socialist-oriented market economy has been growing by up to 7% per year (Vietnam Trade Promotion Agency 2014). Micro, small and medium-sized enterprises (SMEs)[1], as defined in Vietnam (*see Table 1*), have played and continue to play an important role in this development.

This economic success story of Vietnam, a transition economy, has resulted in Vietnam becoming a middle-income country in the beginning of this decade. Such an economic boom often comes at the cost of the environment causing air, water and soil pollution as well as increasing greenhouse gas (GHG) emissions – this has also been the case for Vietnam. Especially SMEs that lack technical, financial and knowledge capacities for minimising the environmental impacts of their production contribute significantly to environmental degradation. The awareness of Vietnamese SMEs regarding their impact on the environment and climate as well as opportunities for improving their performance in these areas is generally low. Most SMEs use out-of-date technologies that cause environmental pollution. As enforcement of environmental protection regulation in Vietnam is relatively low, SMEs do not perceive the need to change their behaviour (ERIA 2014, World Economic Forum (WEF) 2014).

Sustainable consumption and production (SCP) is a concept to reduce negative economic, environmental and social impacts of economic activities. It can be defined as "a holistic approach to minimising the negative environmental impacts from consumption and production systems while promoting quality of life for all" (UNEP 2011). SCP has also been included as Goal No. 12 of the United Nations' Sustainable Development Goals (SDGs) which states "Ensure sustainable consumption and production patterns" and explains SCP in a catch-phrase with "doing more and better with less" (UN, n.d.).

In this study it is examined which funding sources are available for SMEs in Vietnam to finance a shift towards more sustainable consumption and production patterns. How the term green finance is used in this study is explained in the box below.

The relevance of SMEs for the Vietnamese economy and thus their impact on the ecological footprint of the country is shown in the following figures: Statistics from the Vietnam Chamber of Commerce and Industry (VCCI) from September 2015 stated that SMEs accounted for 98% of businesses operating in the country, provided 51% of jobs and generated more than 40% of Vietnam's GDP. Additionally, they made up 31% of industrial production, 78% of total retail sale turnover and 64% of passenger transport both within and outside of Vietnam (VCCI, cited from Vietnam News 2015). Regarding the actual number of SMEs, available data is inconsistent – according to the General Statistics Office (GSO) only 325,000 enterprises were registered and active at the beginning of 2012, including 67% micro, 29% small, 2% medium and 2% large enterprises[2] (GSO 2013, cited from AED 2014). Considering that the country has a population of close to 90 million people, it appears likely that the number of SMEs is actually higher if both registered and unregistered SMEs of all sectors are counted.

The Vietnamese Government has taken several initiatives to tackle the environmental problems described above. One of the crucial tasks defined under the Vietnamese Green Growth Strategy is the greening of traditional industries and agriculture, for example through environmental management systems and modernisation of outdated equipment. At the same time, innovative in-

1 In this study, the abbreviation « SME » will generally include micro enterprises, unless further specifications are made.

2 During the field research phase, experts stated that the majority of SMEs in Vietnam are either family-owned business or have a size of 700 – 1,200 workers. This implies that there exist only few small and medium-sized enterprises and many of the enterprises considered as "small" are actually situated at the lower end of the range of employees and capital.

Table 1: SME classification by number of employees and total capital employees and total capital
(Source: Government of Vietnam 2009)

	Agriculture, forestry, fishery, industry, construction	Trade, services
Micro enterprise	≤ 10 employees	≤ 10 employees
Small enterprise	11-200 employees, ≤ VND 20 billion (EUR 0.8 million)*	11-50 employees, ≤ VND 10 billion (EUR 0.4 million)
Medium enterprise	201-300 employees, VND 20 - 100 billion (EUR 0.8 - 4.1 million)	51-100 employees, VND 10-50 billion (EUR 0.4 – 2.1 million)

* Throughout the study, monetary amounts will be expressed in Euro (EUR). For converting other currencies into EUR, conversion rates were retrieved from www.oanda.com on 27.11.2015 (EUR 1 = USD 1.06163 = VND 24,264.9). Decimal numbers were rounded to one decimal place; amounts below 1 million were rounded to increments of 1,000.

dustries working in emerging green sectors such as clean technology and renewable energy are to be promoted. The topic of SCP is currently not addressed with a specific policy, yet the Green Growth Strategy takes up many SCP issues without explicitly referring to the SCP terminology. A programme on SCP comprising a component on public procurement is expected to start in 2017 (VoVWorld, 2015). Making SMEs part of the solution towards more SCP in the Vietnamese economy is crucial given their importance for the overall economy and their environmental impacts. However, SME development is often compromised by insufficient access to finance. Only about 30% of SMEs receive funding from banks. The remaining 70% mainly use their own capital or informal loans for production and trading (Vietnam Chamber of Commerce and Industry, cited from Vietnam News 2015). This discrepancy has many causes that stretch from banks' risk aversion to SMEs being unwilling and unable to comply with formal lending requirements. Other sources of funding, such as the capital market, financial leasing companies and venture capital or impact investors, remain underdeveloped or are of little relevance to the vast majority of SMEs.

In the following chapters, the financing landscape for SMEs in Vietnam will be analysed in more detail regarding opportunities as well as challenges to access finance in general and green finance in particular.

Green Finance, SMEs and SCP

The term "green finance" is used to link three focal topics discussed in this series of study: small and medium enterprises (SMEs), sustainable production and consumption (SCP), and access to finance. Aspects of SCP most relevant for SMEs are the reduction of energy and material intensity of goods and services production; the reduction of waste and emissions from raw material extraction, production, consumption, and disposal; and the application of life-cycle thinking in all stages of product life (UNEP 2012). Green finance is thus defined as all capital from public and private source enabling SMEs to achieve or contribute to these SCP goals.

Green finance from the financial institutions' perspectives usually comprises financial products and services to promote environmentally responsible investments and stimulate low-carbon technologies, projects, industries and businesses. For green finance products financial institutions usually consider environmental factors in their internal procedures, e.g. loan sanctioning, monitoring or risk assessment (PWC 2013). Green finance covers not only investment costs but also operational costs such as production preparation or land acquisition costs for green projects (Zadek and Flynn 2013).

In addition to the dedicated green finance, this study also takes into account a selection of SME products. This is based on the fact that SMEs may also use conventional financing sources for making green investment, especially if the green finance landscape is still underdeveloped. Finally, the study will also make reference to fiscal incentives for SMEs such as preferential tax policies. Even though such instruments are not strictly funding, they can reduce the financial burden for SMEs and stimulate additional investments.

Methodology

The objectives of this study are to:

- Present an overview of funding opportunities for SMEs with a focus on green SME projects
- Identify and analyse successful cases of green SME financing
- Identify and analyse barriers to green financing for SMEs

The results of this study can be used to inform relevant stakeholders of the situation regarding access to finance by SMEs in Vietnam. This shall especially foster the development, up-scaling and replication of green financing schemes for SMEs to enable more investments in sustainable production and consumption practices.

Data collection was conducted through literature review and face-to-face interviews.

Literature review was conducted on relevant topics, including the situation of SMEs in Vietnam, situation and trends in green financing, etc. Reviewed literature includes studies, reports, newspaper articles as well as statistical data.

Face-to-face interviews were held with senior officials in Vietnamese financing institutions, international donor organisation as well as research institutes and consultancies in Hanoi between August 2, and August 9, 2015.

Green Finance for SMEs in Vietnam

Government schemes

Fostering SMEs and green development

The Vietnamese government is looking for ways to **promote green development**. While regulation for mitigation and adaptation to climate change and, in particular, environmental protection have been in place for years, the **Vietnam National Green Growth Strategy** and the corresponding Action Plan were launched in 2012 and 2014, respectively. The Green Growth Strategy has three focal points: low-carbon growth, greening of production, and greening of lifestyles (see Figure 1). Although not using the terminology, the Green Growth Strategy covers many of the aspects of SCP. Implementing the Green Growth Strategy will cost about EUR 28.3 billion until 2020. This number seems high compared to the EUR 941.9 million that the government is spending on climate change action every year (Green Fiscal Policy Network n.d.). In order to mobilise additional funding, particularly from the private sector and international climate funds, the government has stepped up its efforts to develop enabling policies and incentives. For instance, it is expected that the concept of green economy will be integrated in the Socio-Economic Development Plan 2015-2020 which serves as a guidance document for the economic development of the country (Pham 2015).

At the same time, the government is continuously improving the policy framework for **SME development**. Specific guidance documents include the Decree 56/2009/ND-CP (2009) and the second Five Year SME Development Plan (2011-2015). The former provides a definition of SMEs and lays out general strategies and responsibilities for SME support (Government of Vietnam 2009). The Five Year Plan determines specific targets and strategies for the development of the SME sector. Improved access to capital is one of the eight specific solution groups (Government of Vietnam 2012). In order to further spur SME growth, the Ministry of Planning and Investment (MPI) has recommended the government to promulgate an SME promotion law (Vietnam Business Forum 2015).

Figure 1: Vietnam Green Growth Strategy
(Source: Frankfurt School 2015)

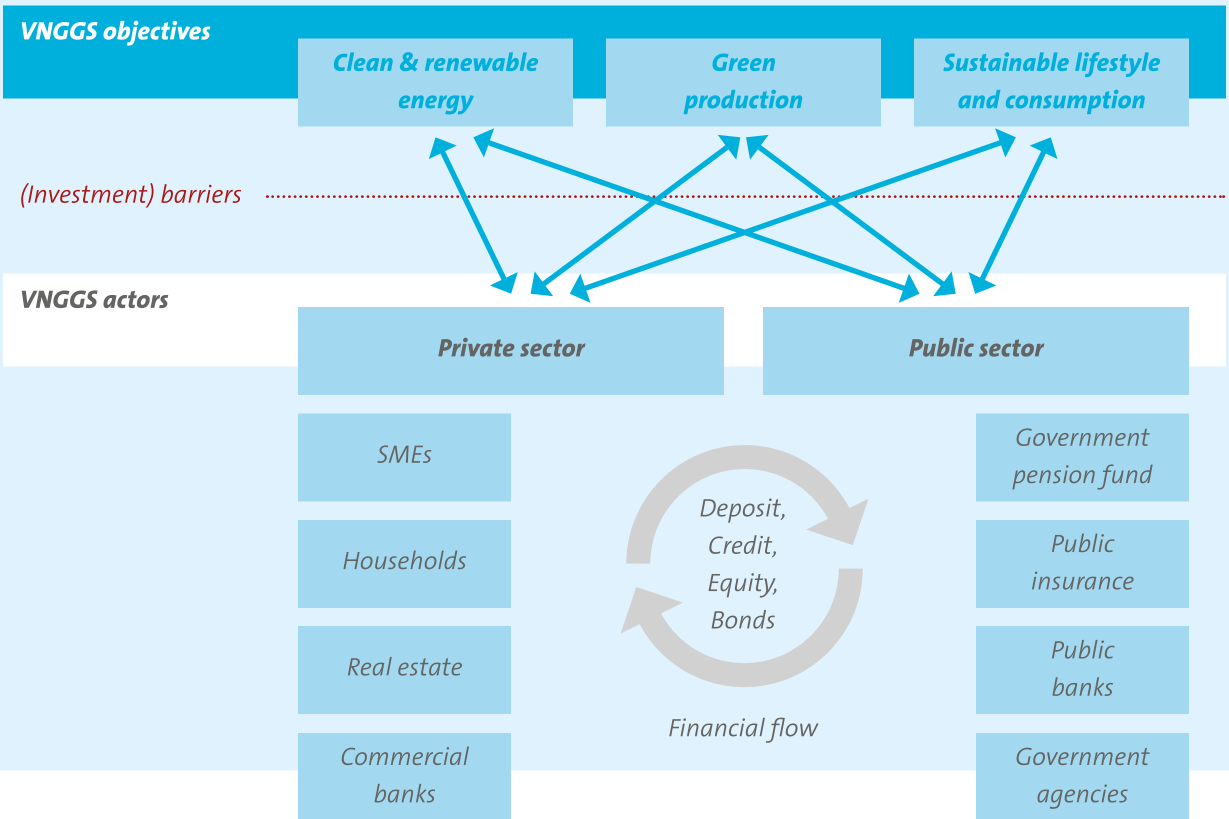
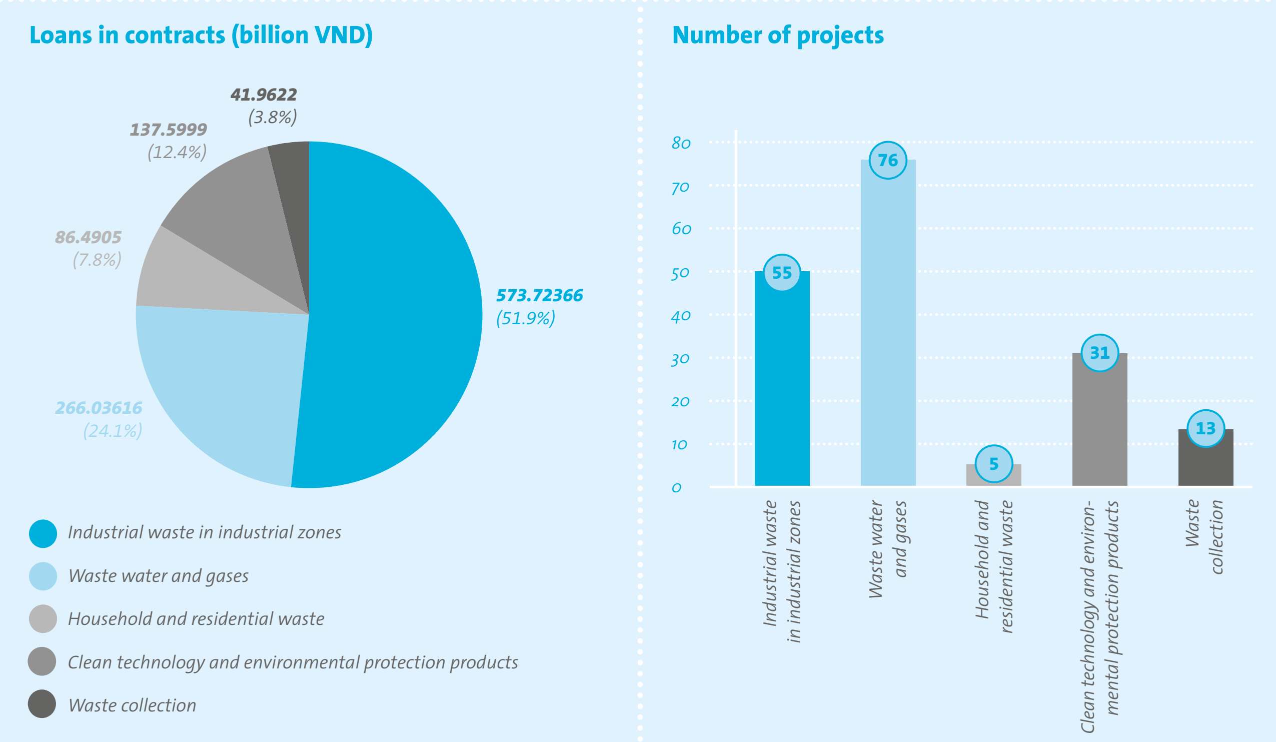


Figure 2: Volume of VEPF loans according to sector and number of VEPF projects according to sector from 2004 – 2013
(Source: Khan Tran Hung & Nguyen Duc Hung 2014)



Government funding for green investments with relevance for SMEs

The **Vietnam Environmental Protection Fund (VEPF)** supports conservation and pollution control projects through a variety of financial mechanisms including soft loans and interest rate support (see Figure 2). Eligible projects are such that invest in waste management, emissions reduction, nature conservation and biodiversity protection, etc. (Sustain EU ASEAN 2014). Loans are usually given at an interest rate of around 5%, but in 2015 the VEPF announced that it would further reduce interest rates to 3.6%. VEPF loans can cover up to 70% of a project's investment costs. The VEPF was established in 2002; since then it has spent VND 1 trillion (EUR 41.2 million) for over 180 projects in various sectors (Vietnam Plus 2015). However, according to data provided gathered from interviews, the majority of funded projects are large or medium-sized as they can achieve impacts more quickly.

The **National Foundation for Science and Technology Development** (NAFOSTED) was established to promote research and development of technology contributing to national economic growth and competitiveness. Amongst other things, it has provided interest-free or low interest loans as well as loans guarantees for SMEs (ADB 2015). NAFOSTED loans can cover a maximum of 70% of the total investment costs of a project. Green technology is one of the priority areas for lending (NAFOSTED n.d.). While several funding rounds were held in the past, interviewed experts voiced the concern that NAFOSTED is currently not active in financing SMEs.

The Vietnamese government has recently entered into new cooperation programmes with donors in an attempt to further increase financial resources available for green investments. One of the major players is the **Vietnam Green Growth Strategy Facility** that will run from 2014 to 2019 by the Ministry of Planning and Investment (MPI) with financial and technical support from Belgium. The main objective of the facility is to channel funding to green investments projects (Van Quan 2014). In 2015, Vietnam entered into cooperation with UNDP and USAID for further **promoting green growth**. The initiative, that is running from 2015-2019, will help develop policies for promoting investment in green growth development and improve access to green growth financing for Vietnam. Total funding will amount to EUR 3.9 million (USAID 2015). Also in 2015, the European Union set up a new **sustainable energy cooperation programme** with Vietnam. The indicative budget of EUR 346 million will be channelled through the Vietnamese treasury during 2014 – 2020. As of now, however, it is not clear how the money from all three initiatives will be used and to which extent it will benefit SMEs.

As Vietnam is currently in a process of decentralisation, the channelisation of funds through lower-tier government structures has become increasingly important. Green funds have therefore also been established at the **provincial level**. An example of this is the Fund for Cleaner Production under the Ho Chi Minh City Finance and Investment State-owned Company (HFIC). It is a revolving fund that is co-financed by ADB and HFIC. According to interviews, available project funding ranges from EUR 94,000 – 565,000 with an interest rate of 4% annually. Another example is the Industry Promotion and Consultancy Development Center of Binh Phuoc Province which was awarded nearly VND4 billion (EUR 165,000) to develop support solutions to businesses in areas of industry promotion, energy efficiency and cleaner production (epronews 2013).

Fiscal policies in support of green investments include a feed-in tariff for electricity from waste as well as accelerated depreciation and tax incentives for renewable energy projects (Bloomberg New Energy Finance 2014, Otto and Cooper 2014). In 2012, the Environmental Protection Tax Law entered into force. However, by putting a tax on polluting material (fossil fuels, plastic bags, etc.), the law only functions as a disincentive for using these materials rather than creating specific incentives for investing into green projects (Government of Vietnam 2010).

Government funding for SMEs in general

The Vietnamese state supports SMEs via public funds operated by different national ministries and local governments (ADB 2014). One of these funds is the **National Technology Innovation Fund** (NATIF). It was officially initiated in January 2015 with the overall aim to promote SME access to finance for technology innovation (National Centre for Scientific and Technological Information 2015). The fund has a budget of VND 1 trillion (EUR 41.2 million) from the state budget and is expected to leverage further capital from domestic and foreign financial organisations and other sources. It is allowed to use up to 50% of its funds from the state budget to provide preferential loans and loan guarantees for technology research, transfer, innovation and improvement in SMEs and start-ups. It is established under the National Programme of Technology Innovation and administered by the Ministry of Science and Technology (MoST) (Government of Vietnam 2013).

The **National SME Development Fund** was launched in 2013 but has not yet been put into operation (as of October 2015). It is administered by the MPI and Agency of Enterprise Development (AED). The fund will receive VND 4 trillion (EUR 164.8 million) from the state budget over the next six years and is expected to attract additional funding from domestic and foreign organisations. Once it becomes operational, it will commission the Vietnam Development Bank and other commercial banks with providing loans to SMEs. The maximum loan for each project must not exceed VND 30 billion (EUR 1.2 million) or 70% of the project's total investment. Lending period will be seven years with interest rates reduction of 10% compared to average lending interest rates of state commercial banks. One of the main ideas behind the SME Development Fund is to coordinate the programmes for SME support and finance that are currently being realised in the country (Vietnam News 2014, Vietnam Government Portal 2015).

Governments at the provincial levels have also promoted the establishment of **funds for industry, agriculture, infrastructure** and other issues (Vo et al. 2011). Prominent examples are the Local Development Investment Funds (LDIFs) that are meant to mobilise capital and to enter into contracts with private companies to make direct and indirect investments for developing municipal infrastructure (World Bank 2009). For example, an LDIF was established in Tien Giang to offer loans for companies buying new equipment (Vo et al. 2011).

In addition to providing funds, the Vietnamese Government also facilitates business activities in the SME sector by **preferential tax treatment**. Most importantly, corporate income tax rates for SMEs and microeconomic organisations were reduced from 20% to 17% in 2014 (VCCI 2015a).

Banking sector

Guidance and incentives for the banking sector

Governments and bank regulators have several possibilities for directly or indirectly increasing bank lending to priority sectors. Above all, it is important to create an enabling framework that consists of clear and enforceable rules, economic incentives and information. Often banks refrain from lending to certain companies or sectors – for example, dedicated green business models focusing on renewable energy or energy efficiency – because they are unwilling or not flexible enough to take up additional risks inherent to the unknown. Traditionally, Vietnamese banks have been lending to large state-owned enterprises working with established technologies – SMEs and green innovations, on the other hand remain strange to many banks. Efforts have therefore been taken to increase the attractiveness of lending to these sectors.

In 2009, the Vietnam Development Bank (VDB) set up a **credit guarantee fund for SMEs**. By agreeing to pay back credits in the case that SMEs are unable to do so, credit guarantee organisations greatly diminish banks' lending risk. The VDB guarantees a maximum of 85% of the total loan volume per project, thus reducing lenders' residual risk to 15% (ADB 2013). Until the end of 2014, VDB signed more than 1,500 guarantee letters for enterprises (AED 2014). In addition to the national VDB fund, over 20 credit guarantee funds were set up at the provincial level in 2014 (ADB 2015). Thus far, however, only a few of these funds have been operating effectively, with the Ho Chi Minh City fund being the most active of the provincial funds (AED 2014).

Another important milestone on the way towards a multifaceted financing landscape can be achieved by reducing the information asymmetry between lenders and borrowers. In Vietnam, the **Credit Information Centre as well as the Private Credit Bureau** serve exactly this purpose – they were established to collect and analyse credit and creditor information (ERIA 2014, ADB 2015). This information is then used by banks to assess the credit-worthiness of their customers.

In addition to risk reduction, the Vietnamese government also uses more direct measures for increasing bank lending. The SME Development Plan 2011- 2015 stipulates that the State Bank of Vietnam (SBV), Vietnam's central bank, shall encourage commercial banks to increase lending to SMEs (Government of Vietnam 2012). The SBV has therefore mandated **interest rate caps and increased lending** for the following priority sectors: SMEs, agriculture and rural development, export, high-tech equipment and support industry (Vietnam News 2011, ADB 2015).

In March 2015, the SBV furthermore enacted the Directive No. 03/CT-NHNN "On Promoting Green Credit Growth and Environmental-Social Risks Management in Credit Granting Activities". It encourages credit institutions to actively **develop green credit programmes and to implement management systems for environmental and social risks** in credit granting activities (State Bank of Vietnam, 2015). While this is an important step in the right direction it will probably not be enough to trigger a change in banks' behaviour – none of the stipulations made in Directive No. 3 are mandatory and banks can decide for themselves how to implement them. Filling this gap is one of the objectives of the German-Vietnamese Macroeconomic Reforms/Green Growth Programme. Under the ambit of this programme, the German Agency for International Cooperation (GIZ) is cooperating with Vietnamese public and private stakeholders to develop a green credit policy. In preparation of the policy, a pilot programme is being developed for green financing of SMEs focusing on waste management, organic agriculture and renewable energy management. Piloting of the green finance approach will be completed by the end of 2017. The green financing policy will be based on the results of the pilot phase.

Most of the abovementioned efforts are targeted at SME financing in general. The only dedicated push for green finance by the government has been the Directive No. 3. With the Green Growth Strategy government has made clear that green topics matter. With the further development of the financial sector in Vietnam, green issues should be considered in more of the government programmes that relate to SME financing. The effect of the Directive No. 3 on the green financing landscape remains to be seen. As was noted by some of the interviewees, it might be necessary to make the Directive's provisions mandatory.

Green lending with relevance for SMEs

Vietnamese banks have begun to show interest in increasing their green lending portfolio. However, the great majority of banking institutions still lack the necessary capacity for designing and managing green credit products, including risk assessment, evaluation of new technologies, etc. Lending has therefore usually been realised in cooperation with international finance and donor organisations (Banking Strategy Institute 2015).

In the past, several international finance organisations developed programmes to step up **lending to SMEs wanting to invest in SCP practices**. Unfortunately, programmes achieved only mixed results and, since then, donor interest seems to have shifted towards other financial instruments (such as credit guarantee funds). An example of such a financing programme was IFC's **Vietnam Energy Efficiency and Cleaner Production (EECP) Financing Programme**[3]. In 2010, Techcombank became the programme's first partner bank. It received a EUR 23.5 million long-term loan to facilitate lending to SMEs for energy efficiency and cleaner production projects (SWITCH-Asia MAG, 2014). Loans were given out to SMEs at favourable terms under the condition that funded projects would lead to energy savings of at least 15%. After the end of cooperation with Techcombank, the credit scheme was not continued and the energy efficiency unit that was developed under the

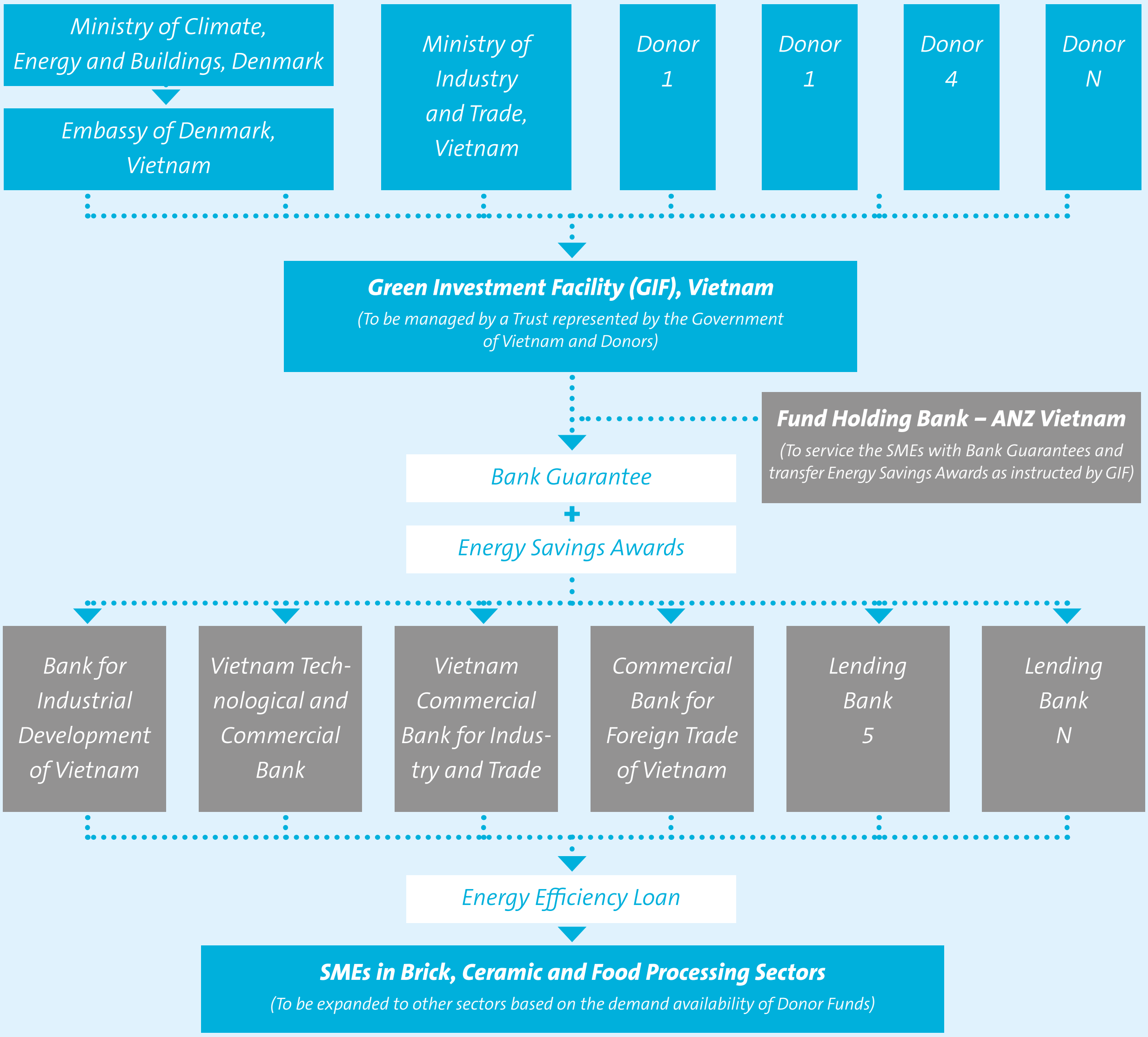
3 The EECP Financing Programme is part of Vietnam Sustainable Energy Finance (SEF) Programme under the broad ambit of the Clean Technology Fund (CTF). The CTF invests EUR 235.5 million in various projects in Vietnam to support the implementation of climate change mitigation action in the country (CIF n.d.). IFC was also advising Vietinbank and Sacombank to develop EECP financing products for local SMEs (IFC 2011). However, no further cooperation seems to have emerged from the consultancy.

Green Investment Facility

The Green Investment Facility (GIF) is one of the most interesting projects with regard to access of SMEs to green finance in Vietnam. Supported by the Danish Government, the GIF aims at promoting the uptake of energy efficiency measures by SMEs in the brick, ceramic and food processing sectors.

The GIF offers loan guarantees and grants for SMEs with fewer than 300 employees that invest in energy efficiency measures. In order to be eligible for funding, the planned measure should reduce the company's energy consumption or greenhouse gas emissions by at least 20%. The investment sum has to be between VND 400 million and 4 billion (EUR 17,000 – 165,000). If these conditions are given GIF can guarantee 50% of the value of a loan. A unique feature of the programme is that the loan guarantee can be given to any bank in the Vietnamese market – it is not restricted to certain financial institutions. If the savings achieved through the investment exceed 20%, the SME will receive a grant covering between 10 and 30% of the borrowed amount depending on the savings achieved (Green Investment Facility 2015, Ministry of Foreign Affairs Denmark et al. 2015).

Figure 3: Structure of the GIF *(Source: DANIDA 2015)*



The GIF is expected to promote access to finance for about 160 SMEs. In June 2015, around 90 companies had contacted the project, out of which eight were waiting for loan approval. Total fund volume amounts to VND 110 billion (EUR 4.5 million) (MoIT 2015).

project in the bank was closed. A reason for this was that the bank did not perceive the field of energy efficiency as a promising business opportunity. Another project with unsatisfactory performance was conducted by the European Investment Bank. It provided a EUR 150 million loan for enhancing small-scale climate change projects in the energy and industrial sectors. The loan was distributed by the Ministry of Finance to four state-owned banks (BIDV, Vietinbank, Agribank and VDB) for on-lending to eligible projects. When the project ended in 2014, only 14% of the total loan amount had been spent due to a lack of eligible borrowers (EIB 2012).

International donors are still active in promoting bank lending for SCP in Vietnam, however, not with exclusive focus on SMEs. For example, one of the funding opportunities currently available is provided by the **Global Climate Partnership Fund** (GCPF). This fund was set up to promote sustainable growth through the financing of energy efficiency and renewable energy projects in key focus countries, including Vietnam. Both financial institutions as well as companies working in the energy sector can apply for funding from the GCPF (Climate Finance Options 2013). Even though no stipulations are made regarding the size of eligible enterprises, the GCPF expects to fund mostly projects in the range of EUR 4.7 – 9.4 million. This amount is relatively high for Vietnamese SMEs. So far, the GCPF has provided Vietinbank with a EUR 23.5 million loan to finance energy efficiency projects in the industrial sector (GCPF 2012).

In order to mitigate some of the challenges met by loan-based green financing programmes for SMEs, some institutions have begun to support Vietnamese SMEs by providing **loan guarantees**. A prominent example that included loan guarantees was the programme for **Promoting Energy Conservation in Small and Medium-sized Enterprises in Vietnam** (PECSME, 2006-2010). It was implemented by the Ministry of Science and Technology in cooperation with UNDP and other partners. The overarching objective of this initiative was to reduce greenhouse gas emissions from SMEs by stimulating transfer, adoption and maintenance of energy efficiency technologies in five industries. One of the components under the project was focused on improving finance for energy conservation and efficiency. A EUR 1.6 million Loan Guarantee Fund was established at Vietinbank that facilitated SME access to finance for investment projects. As a result, partaking SMEs were able to reduce production costs by 10-50% while at the same time experiencing a boost in productivity and competitiveness. After the programme ended the fund was taken over by the government of Vietnam (UNDP 2011).

Another financing scheme that is very similar to the Green Investment Facility is the **Vietnam Green Credit Trust Fund** (VGCTF). This fund supports medium- and long-term investments of Vietnamese SMEs in cleaner production technology. It is financed by the Swiss Secretariat for Economic Affairs and coordinated by the Vietnam Cleaner Production Centre. The VGCTF cooperates with three commercial banks (Techcombank, Asia Commercial Bank, Vietnam International Bank) to provide loan guarantees and performance-based grants. The VGCTF guarantees 50% of the capital borrowed by SMEs. For obtaining a guarantee at least 50%, the SME's shares must be held by Vietnamese shareholders and the loan amount must be in the range of EUR 9,000 – 942,000. Projects qualify if they are related to climate change mitigation and adaptation, energy efficiency, fuel switching, low-carbon development, water efficiency and technology change. Similar to the GIF, the VGCTF also reimburses the borrower part of the investment costs after the successful installation of the cleaner production technology, if the borrower can demonstrate a reduction of negative impacts on the environment[4] (Climate Finance Options, n.d.).

SME lending in general

The three most important sources of finance for SMEs were formal loans, retained earnings and informal loans. While more SMEs used informal and internal financing, the total sum of capital provided through bank loans exceeded that of the other two sources (Central Institute for Economic Management 2011, cited from ADB 2015; Rand and Tarp 2014). By June 2015, the outstanding credit balance for SMEs was VND 977 trillion (EUR 40.3 billion), increasing 4% from the previous year and 13.5% from 2012 (Vietnam Bank Association, cited from Vietnam News 2015). As of 2012, SME loans outstanding accounted for 27.9% of total loans while total corporate lending accounted for almost half of total loans (ADB 2015).

Interviews have shown that various Vietnamese banks have dedicated SME **loan programmes** with preferential terms. This includes, for example, Vietnam's **state-owned commercial banks** (Agribank, Vietinbank, Vietcombank, Bank for Investment and Development of Vietnam (BIDV), Mekong Housing Bank) and **policy banks** (Vietnam Bank for Social Policies (VNBSP), Vietnam Development Bank (VDB)). These banks often receive large loans by multi- and bilateral organisations for on-lending to smaller fi-

4 For example, if a project achieves >30% environmental improvement, 15% is reimbursed; with 50% environmental improvement, 25% is reimbursed (Climate Finance Options, n.d.)

nancial institutions or for direct lending to enterprises[5].

One example for lending under the guidance of an international organisation is the **Vietnam Inclusive Innovation Project** (2014-2018). It is funded through a EUR 51.8 million loan by the World Bank's International Development Agency (IDA) and is targeted at promoting inclusive innovations for the Base of Pyramid population. Under component II of the project, SMEs will be given loans and/or grants for 1) upgrading, scaling up and commercialisation of inclusive technologies; and 2) acquisition, adoption and use of modern technology. Vietcombank and Vietinbank have been selected to channel loans of up to EUR 471,000 to eligible SMEs, where borrowers have to pay at least 20% of the project cost using their own capital resources. The matching grants are to be provided through National Foundation for Science and Technology Development (NAFOSTED) (World Bank 2013).

Several SME financing programmes have recently ended. For instance, under the **Small and Medium-Sized Enterprises Finance Project I-III** (1999-2015), Japan International Cooperation Agency (JICA) provided EUR 271.2 million of loans to the State Bank of Vietnam (SBV). The funds were allocated by SBV to participating financial institutions to support the development of SMEs in Vietnam (Vietnam Economic Times 2014; JICA n.d.). Additionally, the **Third Rural Finance Project**, funded by the World Bank's IDA from 2009-2013 and implemented through the Bank for Investment and Development of Vietnam (BIDV), has successfully financed over 65,000 projects of rural entrepreneurs and households. Total investment value amounted to EUR 405 million. Average loan size was approximately EUR 4,000. Participating financial institutions took measures to improve rural access to finance, for example by providing preferential interest rates and reserving funds for SMEs (World Bank 2014).

While lending to SMEs in terms of total capital lent has clearly been dominated by state-owned commercial banks in the past, **joint-stock commercial banks** have been very active in increasing the amount of money lent to SMEs (ADB 2015, Vo et al. 2011). SMEs make up a large share of customers of joint-stock commercial banks as they specialise mainly in loans to SMEs and retail banking. By the end of 2014, there were over 30 of such smaller banks in the country (Tran et al. 2015). One example for an SME credit is VPBank's "SME Success 2015" programme that aims at promoting SMEs' access to loans for production and business. Under this programme SMEs can borrow up to VND 2 trillion (EUR 83,000) with interest rates lower than the average. The credit line was made available from August 2015 to February 2016 (VPBank; VietnamPlus Vietnam News Agency 2015). Among all banks, the Global Banking and Finance Review named Saigon-Hanoi Commercial Joint Stock Bank (SHB) as the "Best SME Bank" in Vietnam for 2015. It offers credit lines with preferential interest rates for SMEs and also works on providing more middle- and long-term loans (Talk Vietnam 2015).

Other sources of finance

The **capital market** in Vietnam is less developed than in other ASEAN countries and there does not exist a specific SME board (Vietnam News 2015). Nevertheless, the majority of the 250 companies listed on the Hanoi Stock Exchange (HNX), are SMEs (ERIA 2014). Additionally, the HNX has a trading venue for unlisted companies – the UPCoM. It does not require listing fees and is therefore attractive for SMEs (ERIA and OECD 2014). UpCoM had 169 registered companies as of December 2014 (ADB 2015). The country's other stock exchange in Ho Chi Minh City so far attracted mainly large enterprises. Overall, obtaining capital through the equity and bond market plays only a subordinate role for the majority of SMEs which can be seen from the small number of listed SMEs.

In an effort to develop a **green capital market**, the Vietnamese State Securities Commission is presently collaborating with GIZ to develop several new instruments (Vietnamnet 2015). According to an interview of the authors with GIZ staff, this includes regulation for green capital markets, green bonds, a green index at the stock exchange, and guidelines for green information disclosure from companies. The development of a green index will take another two years. The criteria what "green" actually means for a green index still needs to be developed. Larger companies in Ho Chi Minh City are also considering issuing green bonds, yet this has not happened so far.

In the **non-bank financial institutions** (NBFIs) sector, Vietnam counted 17 finance companies, 12 financial leasing companies, 1,144 people's credit funds and over 50 microfinance institutions (MFIs) as of the end of 2013 (ADB 2015). However, SMEs generally do not benefit much from these institutions, as MFIs mostly lend money to individuals, households and micro enterprises while leasing companies cater to large companies (ERIA and OECD 2014). A project that aimed to increase leasing of energy efficiency and water savings equipment by SMEs was the SWITCH-Asia *MEET-BIS Vietnam* project implemented during 2009-2013. After a thorough assessment of the market and financing opportunities for clean technology, the project suggested to link specialised equipment sales

5 A relatively detailed list of SME funding programmes rolled out by partner organisations until 2013 can be found on the Open Aid Data Website (Open Aid Data, n.d.).

firms with general lease firms in order to develop dedicated equipment finance products. However, this innovative idea reached beyond the scope of the project and would require further time and resources to be fully developed (MEET BIS Vietnam 2013).

The **venture capital** market in Vietnam has long been suffering from a lack of attention by the government and donor community and from unfavourable regulation (Klinger-Vidra 2014). However, investment has recently picked up pace due to a number of factors, including continued economic growth coupled with the development of more investor-friendly policies (Deal Street Asia 2015a). Additionally, the Ministry of Science and Technology (MoST) is exploring the possibility to launch a national venture capital fund that will focus particularly on tech start-ups (Deal Street Asia 2015b).

The **impact investment** scene is still nascent in Vietnam. Lotus Fund has so far provided funding and incubator services to six social enterprises throughout Southeast Asia, including Vietnam (Lotus Fund n.d.). Unitus Impact has one Vietnamese company in its portfolio (Unitus Impact n.d.). Dragon Capitals' Mekong Brahmaputra Clean Development Fund specialises on funding clean technology projects in countries adjacent to the Mekong and Brahmaputra rivers (Dragon Capital n.d.). Additionally, Oxfam will initiate an Inclusive impact investment scheme piloted for SME development in Vietnam, Uganda and Nigeria. Under the scheme, SMEs can apply for loans of EUR 100,000 to 1 million for a period of up to eight years. Collateral will be determined on a case by case basis and is not a pre-requisite (Inclusive Impact Investments n.d.).

The **Vietnam Climate Innovation Centre** (VCIC) has been launched by the World Bank but, as of October 2015, is not operational yet. Once operational, it will link innovative companies with investors in order to increase access to finance for clean energy and climate technology. Moreover, it plans to provide risk capital through first-loss equity investments of EUR 141,000 – 707,000 (infoDev n.d.).

Challenges for SME Access to Green Finance

Despite positive developments in funding for SMEs and SCP, access to finance remained the most important challenge for doing business in Vietnam (WEF 2014, 2015). Considering that the lending portfolio by multi- and bilateral finance organisations is relatively large, liquidity does not seem to be the major bottleneck for creating a vibrant funding environment. Instead, issues hampering green finance development can be found in the structure and mind-set of both SMEs and financial institutions (Winterbottom 2015).

Demand-side barriers

- **Complex and resource-intensive application procedures prevent SMEs from accessing financing sources.** Even if SMEs are aware of and interested in obtaining funding from banks, the application preparation process is often too difficult for them. Many SMEs lack the necessary capacity and time for preparing convincing business development plans to persuade banks to lend them money. Existing SME (green) financing schemes have very different application requirements. This prevents SMEs from simultaneously applying to several schemes to be able to compare conditions and increase chances of receiving a loan.
- **SMEs lack status and adequate documents to produce convincing funding proposals.** SMEs lack good quality financial records and reliable financial statements – documents that banks usually require for evaluating borrower's credit eligibility. This challenge is aggravated by the fact that many SMEs do not operate as registered companies. Under these circumstances, lending to SMEs becomes even riskier for banks.
- **SMEs do not create enough demand for green finance due to a lack of 1) pressure from government and customers and 2) awareness on investment potentials and funding sources.** Interviewed experts mentioned that SMEs did not require large amounts of green finance because they are unaware of green topics and green investment opportunities in their companies. In addition to unawareness regarding the economic potential of green investment opportunities, SMEs are often also unfamiliar with the different types of finance that can be accessed. A reason for this is that drivers pushing SMEs towards greener production are still very weak. For example, government's enforcement of environmental regulation is not very strict and non-compliance is often cheaper for SMEs than paying for new equipment. Furthermore, energy

subsidies lead to very low energy prices. As a result, the competitiveness of the private sector does not depend on the efficient use of energy. International buyers of Vietnamese products are also not pushing their suppliers hard enough to reduce negative production impacts such as the carbon footprint or excessive water and energy consumption. Consumers are primarily concerned about more easily measurable production characteristics such as the use of hazardous substances and worker safety.

Supply-side barriers

- **As banks are risk averse and classify SMEs as risky customers, they are generally hesitant to provide SMEs with financing.** Following the global economic and financial crisis in the beginning of this decade, Vietnamese banks have become more risk-averse due to an increasing number of non-performing loans. Generally, financial institutions' risk aversion is one of the major problems for SMEs' access to finance.
- **Financial institutions offer unattractive loan conditions.** As a consequence of the factors mentioned above, banks often provide unattractive conditions to SMEs – high interest rates and collateral requirements as well as short lending periods.
- **The sanctioning process of financial applications often takes too long.** The approval process of loans often takes considerable amounts of time as it is sometimes required to conduct risk assessments or feasibility studies (especially for green investments). This reduces the attractiveness of loans for SMEs as they often need capital at short notice. This challenge negatively affected the demand for the Vietnam Green Credit Trust Fund (VNGCF) as the screening and sanctioning process of the application was simply too long for the enterprises.
- **Lack of continuity of donor-financed programmes.** Funding schemes with donor money are often implemented over a limited period only. After their completion, knowledge and organisational structures are passed on to national agencies but often financial support decreases or stops entirely. In many cases this leads to a phase out of the programme which is usually supposed to be continued by the national partner institutions. This discontinuity of SME or green financing programme destroys trust in such programmes on all levels.
- **High transaction costs for establishing business relations and trust make SMEs and green investments less profitable and attractive for financial institutions.** Small-scale investments, which are the typical SME investment, often entail high transaction costs for the banks in the form of paperwork and monitoring, which makes Vietnamese banks prefer to work with bigger enterprises. The Vietnamese definition of SMEs allows medium-sized enterprises to have a maximum of 300 employees, which is rather large compared to the definition of SMEs in other countries (MEET-BIS Vietnam 2013). Therefore, even banks that officially have a high share of SME clients often leave small enterprises unattended. Green finance comes with additional requirements and thus even higher transaction costs, for example for verification, monitoring and development of environmental impact assessments and feasibility studies (Vo et al. 2011). Consequently, profit margins from loans to SMEs, and especially green loans to SMEs, are often too low for many commercial banks. They prefer working with larger enterprises with conventional financing products.
- **Lack of knowledge on green investment concept and green technologies makes financial institutions hesitant to make more green finance available for SMEs.** Banks' awareness on the green credit guidance documents released by SBV, government and ministries remains low (Banking Strategy Institute 2015). Banks understand that an increase in production will increase the chance of returning the loan; however, it is more difficult for banks to understand that efficiency improvements also yield financial returns that can be used for repaying the loan. Therefore, it is much easier to get funding for expanding production or setting up a new plant than for efficiency improvements. Another important challenge is that many local branch loan officers lack the technical understanding for evaluating and approving loans for green investments. For example, assessing whether the replacement of an old machine with a more environmentally friendly one often requires a basic understanding of the technical process behind. Particularly investments in energy efficiency improvements have a large potential but are very difficult for banks to assess.

Conclusions

The analysis has shown that some green finance is available for SMEs in Vietnam enabling them to invest in SCP measures. Although the amounts available would not be enough to lead to an economy-wide shift to SCP practices, it should be sufficient to create some examples and lessons learnt for the further development of the green SME finance landscape. To date, the experiences with the usage of the available green finance have been mixed. The greatest challenge remains a lack of demand for green finance products by the SMEs and the reluctance by financing institutions to offer corresponding financial products on a broader scale.

With SCP included in the United Nations' Sustainable Development Goals (SDGs), the topic will now gain more prominence in the political arena, internationally as well as nationally. It is clear that suitable financing mechanism need to be in place to enable companies and especially SMEs to leapfrog a polluting growth path and support them from early on in implementing SCP patterns. Given the barriers described above, the following recommendations are given to enable SMEs to better access funding for SCP implementation:

- **SME demand for green finance needs to be increased.** Several strategies can be used for increasing SMEs' demand for green finance in order to create sufficient investment pipeline. SMEs need to understand which improvement potentials they have in their facilities. A successful strategy chosen by the Green Investment Facility (GIF) is the inclusion of technology suppliers in promoting the financing scheme. Technology suppliers have the technical solutions available for improvements in energy or water consumption and resource efficiency, and can help companies identify improvement potentials. Additionally, environmental authorities as well as customers could increase pressure on SMEs to implement resource efficient and cleaner production practices and measures. Generally, capacity building among SMEs on the investment potentials in their plants is a suitable strategy to drive demand for green financing. Green finance needs to become a business case for financial institutions. Banks need to better understand that green finance can be a business case for them and is not only a component of their Corporate Social Responsibility (CSR) strategy.
- **SMEs need to access broader financing sources for green finance.** Besides expecting funding from conventional sources like banks, SMEs should look for new funding opportunities from stock markets, subcontracts with larger corporations or potential investment projects (VCCI 2015b). Besides, donor agencies, consultants and other experts could support SMEs in pointing to readily available conventional funding sources that could be used for green or SCP investments.
- **Financing institutions need mandatory targets for green financing.** So far, none of the stipulations made in Directive No. 3 are mandatory – banks can decide for themselves how to implement them. To really have an impact banks should be required to have a certain share of green loans in their lending portfolio. This would be a push-driver for green finance products and lead to the generation of a project pipeline as banks would start competing about the most promising green investments.
- **A value chain approach for green SME investments should be considered.** For improving the impact of green financing on a sector, value chain approaches should be considered from the very start of developing a green finance product. The particular challenges of a sector should be studied. Those steps and actors in the value chain need to be identified which have the most adverse impact on the environment. In a next step, the technical interventions to deal with these problems need to be identified. Green finance interventions should then be targeted at these areas supporting the implementation of the technical measures identified. Green finance should always be considered jointly with the other aspects along the value chain and not as a separate intervention.
- **Application procedures for SME green finance products should be streamlined.** Currently, there are no linkages between different funds and initiatives that make green finance available for SMEs. If there is an overall consensus that more green finance options should be made available for SMEs, the existing funds and initiatives could align the application procedures, for example, the form of feasibility studies and cost-benefit analyses required. If an application is rejected, an SME

could easily try to submit the same application to another fund or initiative. This would increase the probability of obtaining a loan and thus creating demand for green finance from the SME side.

- **A clear guidance for financial institutions should be developed on what constitutes green finance.** A general (policy) framework on what type of green finance and green investments need to be developed, which provides guidance to banks as to which of their activities can be classified as green. This framework should also support the development of stringent and comprehensive monitoring guidelines for green financing products. Guidance for financial institutions would also include staff training in issues related to green finance.

For the implementation of these recommendations a close cooperation between the different stakeholders – policy makers and authorities, private sector associations, financial institutions, and donor organisations – is required. Lessons learnt should be collected from past experience on what works and what does not in developing green financing products for SMEs. An example of how such an evolving approach can look like is the GIF's unique feature that allows cooperation with all Vietnamese banks. This approach distinguishes GIF from VGCTF which cooperates only with certain commercial banks. It remains to be seen whether a higher outreach of the GIF programme justifies the higher transactions costs. Developing a new approach for an environmental credit line should certainly take into account the learning from the IFC credit lines on energy efficiency with Techcombank.

For creating a stronger demand among SMEs for green financing products and building a project pipeline, it is also important to consider drivers for unsustainable production and consumption patterns, for example the subsidised energy prices. While considering poverty and employment effects, it would need to be assessed how subsidised financing instruments for SCP measures could offset the losses incurred by a rise in energy prices.

Embarking on the path of SCP patterns may allow Vietnam to avoid the so-called "middle income trap" which some fear the country to be caught in. With increasing labour costs, but not yet able to compete with industrialised countries in high-value exports, Vietnam is at risk of being trapped in the current economic situation. Improving the efficiency of the economy by introducing SCP measures on a broader scale is therefore an option to bring down costs of production. To achieve this, a stronger and more comprehensive push towards an enabling financial framework is needed – this will benefit not only Vietnamese SMEs but also, in the end, the entire country.

With its projects, the SWITCH-Asia Programme can contribute to the development of the financial sector in Vietnam, especially with regard to the development of dedicated green SME finance products. There is an enormous opportunity for the projects funded by the SWITCH-Asia Programme to contribute to a project pipeline for SCP measures. As up-scaling of SCP practices is the overall goal of the European Union funded programme and as most grant projects engage directly with SMEs, the SWITCH-Asia Programme can generate demand for green SME finance. It needs to be demonstrated to financial institutions that such demand exists to make of such financial products.

If project activities are related to SMEs, SWITCH-Asia projects often include a financing component. SMEs could be trained to increase their financial literacy and supported to develop appropriate financing proposals, preferably for SCP measures. At the same time financial institutions could be targeted through training and capacity building on specific opportunities for green investments. The financial institutions could be sensitised on the types of SCP investments relevant for the particular SWITCH-Asia project. This would make the access to finance easier for SMEs. Activities with financial institutions could be implemented on local branch level as well as general management level.

In addition, SWITCH-Asia projects could work on establishing alternative financing models for relevant SCP measures they implement. There is also potential for bringing the supply- and demand-side together. Fairs and market places could be set-up where financial institutions and SMEs meet. At such events investment proposals would come together with funding. These events could be held for SMEs involved in one particular SWITCH-Asia project only, or for all companies participating in the SWITCH-Asia projects in one particular country, or even at a regional level with financial institutions and SMEs from several countries. The SWITCH-Asia Programme should make use of its unique position and broad network to push the agenda for more and better access to green finance for SMEs in Vietnam and the region.

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Annex: Database with Funding Schemes

The Green Investment Facility (GIF)	
Implementing institution	DANIDA, Ministry of Industry and Trade, several Vietnamese banks
Description	The objective of the GIF is to encourage SMEs (in 3 sectors: bricks, ceramics and food processing) to adopt energy efficiency measures that will contribute to the Vietnam National Energy Efficiency Programme (VNEEP) energy savings targets of 5 – 10%.
Target group and investments	Target groups: 1. Direct target group: SMEs including the energy service companies (ESCOs) operating in the brick, ceramic and food processing sectors. Other sectors can also be considered. 2. Indirect target group: banks, suppliers and service providers in the energy efficiency business. Eligibility criteria concerning the SME: 1. Capital is 100% domestic owned and less than VND 100 billion (EUR 4 million). 2. At least a 20% reduction in energy use or CO2-emission, in the specific production step or equipment of the proposed EE project and comply with the Vietnamese regulations. 3. Employs less than 300 people 4. Proposed EE project has not been implemented already. 5. The Enterprise is established and operational. Eligibility criteria concerning the investment: 1. Loan for the proposed EE project is above VND 400 million (EUR 16,000). 2. Total subsidy from GIF and other schemes and donors is limited to 30% of the loan for the proposed EE project. 3. SME commits to allow visitors to learn from the proposed EE project and the publication of case studies to stimulate replication.
Type of finance	Bank Guarantee, loan rebate
Volume, duration and status	Volume: VND 110 billion (EUR 4.4 million) Duration: 2013 – 2016 Status: Running
Conditions	Guarantee: VND 200 million – 2 billion (EUR 8,000 – 80,000), max. 50% of the value of the loan Loan rebate: 10-30% of loan (VND 20 million to 1.2 billion or EUR 800 – 48,000)
Contact	Green Investment Facility (GIF) 11th Floor, BIDV Tower, 194 Tran Quang Khai, Hoan Kiem, Hanoi Tel: (84)4 3204 1616, E-mail: fm-info@lcee.vn *http://en.lcee.vn/*
Source(s)	MOIT 2015: Realisation of Financial Support for SMEs to Invest into Energy Efficiency. Retrieved 03.11.2015 from *http://vneec.gov.vn/tin-tuc/activity-news/t22097/realization-of-financial-support-for-smes-to-invest-into-energy-efficiency.html*

Vietnam Green Credit Trust Fund	
Implementing institution	SECO
Description	This fund supports medium- and long-term investments of Vietnamese SMEs in cleaner production technology. It is financed by the Swiss Secretariat for Economic Affairs and coordinated by the Vietnam Cleaner Production Centre. The VGCTF cooperates with three commercial banks (Techcombank, Asia Commercial Bank, Vietnam International Bank) to also provide loan guarantees and performance-based grants.
Target group and investments	Eligibility criteria concerning the SME: SMEs in cleaner technologies in the fields of industrial production and services Eligibility criteria concerning the investment: Related to climate change mitigation and adaptation, energy efficiency, fuel switching, low-carbon development, water efficiency and technology change
Type of finance	Credit guarantees, loan rebate
Volume, duration and status	Volume: USD 5 million (EUR 4.4 million) Duration: 2007 onwards Status: Running
Conditions	Guarantee: the loan amount is in the range of USD 10,000 – 1,000,000 (EUR 8,900 – 890,000) and at least 50% of the SME's shares are held by Vietnamese.
Contact	Vietnam Cleaner Production Centre Ms Nguyen Le Hang, Project Officer of GCTF Address: No 1 Dai Co Viet street, Ha Noi Email: hang.nl@vncpc.org Tel: 04 3868 4849 – Ext 14, Mobile: 0912 467 692 Vietnam Techcom Bank Ms Nguyen Thi Khai Phuong Email: phuongntk@techcombank.com.vn Tel: 04 3944 6368 – Ext 2704, Mobile: 0904 369 373
Source(s)	*http://gctf.vn/en/the-swiss-state-secretariat-for-economic-affairs-seco-paid-a-visit-to-the-enterprises-under-the-framework-of-green-credit-trust-fund-gctf-project*

Vietnam Environmental Protection Fund (VEPF)	
Implementing institution	Ministry of Natural Resources and Environment (MONRE)
Description	The VEPF, established in 2002, aims at supporting conservation and pollution control projects through a variety of financial mechanisms including loans with preferential interest rates and loan guarantees.
Target group and investments	Eligible projects are such that invest in waste management, emissions reduction, nature conservation and biodiversity protection, etc.
Type of finance	Soft loans, interest rate support, project funding and co-funding, price subsidies for environmental products
Volume, duration and status	Duration: 2002 onwards Status: running
Conditions	The maximum loan for each project may not exceed 50% of the project's total investment. The interest rate in 2014 was 3.6% per annum. Criteria for loan sanctioning are: urgent and effective environmental protection, size and characteristics of the project, solvency of the applicant, replication and sustainability of the project, application of appropriate technology, relation to policy objectives on environment.
Contact	Address: Đia chi: 6th Floor, NARENCA Publisher, No.85 Nguyen Chi Thanh Str, Dong Da, Hanoi, Vietnam Telephone: (+84) 4.37951221, Fax: (+84).4.39426329 Email: *info@vepf.vn*
Source(s)	Hung, Khan Tran & Nguyen Duc Hung 2014: State Financial Transfers in Environmental Protection: The Case of Vietnam. Journal of Economics and Development, Vol. 16, No. 2, August 2014, pp. 93 – 120. Retrieved 12.11.2015 from *http://www.vjol.info/index.php/KTQD/article/viewFile/18353/16243* *http://www.vepf.vn*

NAFOSTED Loan Programme	
Implementing institution	National Foundation for Science and Technology Development (NAFOSTED)
Description	NAFOSTED was established to promote research and development of technology contributing to national economic growth and competitiveness. Amongst other things, it provides interest-free or low interest loans as well as loans guarantees for SME.
Target group and investments	Target group of the fund are all organisations of science and technology as well as businesses that operate under Vietnamese law, and individuals who invest in projects on application of research and technology achievement. Funding is available for projects that apply domestic research and development results, priority given to high technology, green technology and technology that creates highly competitive products. A loan guarantee fund was established under the GEF funded "Promoting energy conservation in SMEs in Vietnam (PECSME)" project. After the end of the project in 2010, the fund was transferred to NAFOSTED.
Type of finance	Loans and loan guarantees
Volume, duration and status	Volume: Total capital for lending from state budget was expected to be VND 60 billion (EUR 2.4 million) in 2012. In 2013 up to VND 235 billion (EUR 9.4 million) were available. Duration: 2008 onwards Status: It is not clear whether the fund is currently active
Conditions	The maximum loan for each project would not exceed 70% of the project's total investment (up to VND 10 billion). The lending period is up to 36 months. Limit of the guarantee is up to VND 3 billion per project and up to VND 4.5 billion per guaranteed party. For receiving a guarantee, a fee of 0.8% on the guaranteed amount must be paid. In addition, equity of at least 30% of total investment capital for the project must be ensured. Projects under the guarantee fund must reduce energy efficiency and/or greenhouse gas emission by at least 10%. The Internal rate of return of the project must be greater than the local interest rate, the payback time must be less than 7 years and the Net present Value must be greater than 0.
Contact	Address: 4th floor, 39 Tran Hung Dao Street, Hoan Kiem District, Ha Noi City, Vietnam Telephone: +84-4.3936 7750, Fax: +84-4.3936 7751 Email: *nafosted@most.gov.vn*
Source(s)	*http://www.nafosted.gov.vn/en/grant-program/Loan-Program/Loan-Program-7/* *http://meet-bis.org/vietnam/wp-content/uploads/2013/01/3.-NAFOSTED-ENG.pdf*

National Technology Innovation Fund	
Implementing institution	Ministry of Science and Technology (MOST)
Description	The fund was officially launched in January 2015 with the overall aim to promote SME access to finance for technology innovation. The fund has a budget of VND 1 trillion (EUR 40 million) from the State budget and is expected to leverage further capital from domestic and foreign financial organisations and other sources.
Target group and investments	The fund targets organisations, individuals and enterprises which carry out tasks and projects to innovate technology processes and products. Particularly targeted tasks and projects are on: 1. Transfer of technologies encouraged as stipulated in Article 9 of the Law on 2. Technology Transfer 3. Incubation of science and technology enterprises 4. Development of expansion of production and business of science and technology enterprises 5. Transfer of technologies for the agriculture and rural development.
Type of finance	Loans, loan guarantees
Volume, duration and status	Duration: 2015 onwards Status: Running Volume: the fund has a budget of VND 1 trillion from the State; more is expected from other sources. 50% is supposed to be for direct project funding, the other 50% are supposed to be for concessional loans, interest support and loan guarantees.
Conditions	Conditions have not yet been specified
Contact	Director: Mr. Do Van Loc Email: *locdv@most.gov.vn* Address: 39 - Tran Hung Dao Street- Hoan Kiem district, Ha Noi *http://www.most.gov.vn/Desktop.aspx/Introduction/Organizational-Chart/National_Technology_Innovation_Fund/*
Source(s)	Government of Vietnam (2013): Decision No. 1051/2013/N-CP DECISION On issuing the Regulation on Organisation and Operation of National Technology Innovation Fund.

SME Development Fund	
Implementing institution	Government of Vietnam
Description	The fund was launched in 2013 but has not yet been put into operation (as of October 2015). It is administered by the MPI and the Agency of Enterprise Development (AED). The fund will receive VND 4 trillion (EUR 160 million) from the State budget over the next six years and is expected to attract additional funding from domestic and foreign organisations.
Target group and investments	SMEs; no dedicated funding focus
Type of finance	Fund for promoting loans to SMEs
Volume, duration and status	Volume: VND 2 trillion (EUR 80 million) Duration: 2013 onwards Status: Not operational yet
Conditions	The maximum loan for each project would not exceed 70% of the project's total investment (up to VND 30 billion). Lending period: 7 years with interest rates reduction of 10% compared to average lending interest rates of State commercial banks. To take loan from the Fund, SMEs have to meet the followings conditions: • For the investment a feasible business plan must be in place and the project must belong to the list of prioritised sectors of the fund. • The owner of SME undertaking the project must have full capacity for civil acts and civil law. • The funding seeker must assure its equity contributes for at least 20% of total capital of the investment project and has sufficient capital for implementing business plan/project. • The funding seeker must have the capability to pay the debt in the due date as stipulated in the signed credit contract. • SMEs that have a feasible business plan/project financed by the fund, shall not take other preferential loans from other public financial institutions.
Contact	N/A
Source(s)	*http://en.business.gov.vn/tabid/167/catid/590/item/12501/the-sme-development-fund-established.aspx*

National / Provincial Credit Guarantee Funds	
Implementing institution	Vietnam Development Bank (national level) Different provincial authorities under the supervision of the Ministry of Finance (provincial level)
Description	The Credit Guarantee Fund was established to support SMEs that cannot access affordable funding due to high risk aversion of banks. The fund reduces lending risks for banks by guaranteeing SME loans. On a provincial level, credit guarantee funds exist in 13 provinces.
Target group and investments	Credit guarantees are available for SMEs but exclude micro enterprises. To be eligible for a loan guarantee by the VDB, the SMEs shall be required to: 1. Belong to sector such as agro-forestry-fishery, processing industry, manufacturing, gas and water supply, waste treatment and management, construction and so on; 2. Have a minimum 15% of its equity participating in the investment project 3. Not to have any bad debts at the time of the guarantee application.
Type of finance	Loan guarantees
Volume, duration and status	Duration: 2009 onwards Status: Running
Conditions	Conditions for loan guarantees from Vietnam Development Bank are: To obtain a loan guarantee from the VDB, SMEs must: • have equity capital that accounts for at least 15% of total investment of the project and such equity should be entirely invested in fixed • not owe any bad debt (group 3 to 5 under SBV Circular No 02/2013/TT-NHNN) with credit institutions as well as at VDB (Bad-Debt Free Condition); • have written approval of loans from commercial banks for projects that have to be appraised and determined as profitable and creditworthy by the VDB The following conditions apply to the provincial Credit Guarantee Fund in Lang Son province: Applicants eligible to access credit guarantees are local SMEs meeting the following conditions: • Having project with minimum investment up to VND 2 billion or business plan cost up to VND 500 million • The project or business plan shall be efficient and bankable. • The applicant's mortgage value at commercial bank represents at least 15% of loan value. • Contribution from project owner is at least 15% equity of total investment. • There is no overdue debt to state budget as well as no non-performing loans at commercial banks at the time of guarantee application submission. • To each project or business plan, the maximum guarantee coverage does not exceed 70% of the total investment; and for each client, 15% of the Fund equity; • Total guarantees outstanding does not exceed five times the actual charter capital of the fund.
Contact	N/A
Source(s)	Vietnam Development Bank 2014: VDB branch of Lang Son entrusted to manage credit guarantee activities from local credit guarantee Fund. Retrieved 05.11.2015 from *http://en.vdb.gov.vn/news3101/vdb-branch-of-lang-son-entrusted-to-manage-credit-guarantee-activities-from-local-credit-guarantee-fund* Vietnam News 2014: New circular may not help SMEs. Retrieved 05.11.2015 from *http://vietnamnews.vn/economy/255754/new-circular-may-not-help-smes.html*

CTF-IFC Vietnam Energy Efficiency and Cleaner Production (EECP) Financing Programme	
Implementing institution	IFC, Techcombank
Description	As part of the CTF-IFC Vietnam Energy Efficiency and Cleaner Production (EECP) Financing Programme, IFC provided Techcombank with a USD 25 million (EUR 22.4 million) long-term loan. The objective of the cooperation was to facilitate lending from Technobank to SMEs for energy efficiency and cleaner production projects. The agreement included a performance bonus for the bank in the case that all requirements are fulfilled at the end of the project. The IFC loan was complemented with an advisory programme to build Techcombank's technical expertise and understanding of credit and technical risks. The advisory services programme also offered audit services and technical advice to the bank's clients to help build the bank's pipeline of sustainable energy projects.
Target group and investments	SMEs for energy efficiency and cleaner production projects
Type of finance	Loan for promoting loans to SMEs. The loan was on-lent to eligible projects across Vietnam, in sectors including steel, cement, textile, pulp and paper, plastics, chemicals, metal processing, food processing, and agri-processing.
Volume, duration and status	Volume: USD 25 million (EUR 22.4 million) Duration: from 2010 onwards Status: Closed
Conditions	N/A
Source(s)	World Bank 2013: VIETNAM – TECHCOMBANK ENERGY EFFICIENCY LOAN. Retrieved 03.11.2015 from *http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/03/22/000333037_20130322114730/Rendered/PDF/761650BRI0IFC000Box374367B00PUBLIC0.pdf*

SME Success 2015	
Implementing institution	VPBank
Description	Aiming at promoting SMEs' access to loans for production and business, VPBank lends SMEs up to VND 2 trillion and offers them preferential interest rates lower than average ones during the period from the 24th of August, 2015 to the 21st of February, 2016. SME Success 2015 is based on similar programmes in previous years.
Target group and investments	SMEs that comply with the following criteria: operating business at least for 2 years, having no non-performing loans over the past 12 month, engaging in non-restricted business lines under VPBank's regulation, among others.
Type of finance	Loans with preferential interest rates
Volume, duration and status	Volume: VND 2 trillion (EUR 80 million) Duration: During the period from the 24th of August, 2015 to the 21st of February, 2016 Status: Running
Conditions	(1) Interest rate reduction for SMEs up to 1.8% for loans under VND 2 billion and 2.0% for those over VND 2 billion. (2) Preferential loans in USD for SMEs for an average interest rate per annum of 3.2% (intended to support local firms in import -export payments).
Contact	Phone: 1900 545 415 or 04 3928 8880 Email: *customercare@vpbank.com.vn*
Source(s)	VPbank: Preferencial credit program worth VND 2 trillion for SMEs. *http://www.vpbank.com.vn/bai-viet/sme/preferential-credit-program-worth-vnd2-trillion-smes?language=en* VietnamPlus, Vietnam News Agency 2015: VPBank offers preferential loans. *http://en.vietnamplus.vn/vpbank-offers-preferential-loans/81848.vnp.*

Inclusive Impact Investments	
Implementing institution	Oxfam
Description	The initiative, with the revolving fund (EUR 8 million) registered in The Hague, focuses on improving the lives of women and youth in poverty areas through financing SMEs. Based on the local teams (located in Vietnam, Nigeria and Uganda to date), the initiative provides investment capital, business development and impact measurement services.
Target group and investments	SMEs in low-income countries; no dedicated financing focus
Type of finance	In the form of debt, equity and mezzanine, the initiative implements co-investments, fund in fund structures and direct investments in SMEs.
Volume, duration and status	Volume: EUR 10,000 – EUR 1 million (EUR 300,000 on average)
Conditions	Status: N/A
Contact	Investments range from EUR 10,000 – EUR 1 million (EUR 300,000 on average) for a term of up to eight years.
Source(s)	Loans are provided in local currency as far as possible, and collateral is not a pre-requisite, but will be determined based on the nature of the SME.
	The interest rates on loans are in conformity to the market rates.
	Oxfam Vietnam
	22, Lê Dai Hành, Hanoi
	Tel +84-904191157
	Oxfam: Inclusive Impact Investment. *http://www.inclusive-investments.com/about-inclusive-impact-investments/, http://www.inclusive-investments.com/whatwedo/*

Mekong Brahmaputra Clean Development Fund L.P. (MBCDF)	
Implementing institution	Dragon Capital
Description	MBCDF was established in 2010 with the aim of developing clean technology in the Mekong River Region and the Brahmaputra River Region.
Target group and investments	Renewable energy, energy efficiency, water and waste treatment
Type of finance	Investments in clean technology development
Volume, duration and status	Volume: up to USD 100 million (EUR 89.5 million) Duration: N/A Status: Running
Conditions	USD 1 million – USD 7 million (EUR 895,000 – 6.2 million) per investment
Contact	Dragon Capital 9th Floor, BIDV Tower, 194 Tran Quang Khai, Hoan Kiem District Hanoi Vietnam, Tel: +84 4 3936 0203 Ho Chi Minh City, 1501 Me Linh Point, 2 Ngo Duc Ke Street District 1, Ho Chi Minh City, Vietnam, Tel: +84 8 3823 9355 *http://www.dragoncapital.com/contact-us*
Source(s)	Dragon Capital: Mekong Brahmaputra Clean Development Fund L.P., MBCDF. *http://www.dragoncapital.com/dragon-capital-funds/mekong-brahmaputra-clean-development-fund-lp*

Lotus Impact Fund	
Implementing institution	Lotus Impact Fund
Description	Lotus Fund was organised as an impact investment fund, aiming at investing in incubation services and impact capital for the social, environmental and financial growth of business, with a focus on SMEs in Southeast Asia, including Vietnam.
Target group and investments	Entrepreneurs and seed stage business
Type of finance	Seed round investment and/or incubation support
Volume, duration and status	Ongoing; no information on fund size
Conditions	N/A
Contact	Hanoi Office 6th floor, 17 Ngo Quyen, Hoan Kiem District, Hanoi, Vietnam Phone: +84 43 936 4630 Ho Chi Minh City Office 17th Floor, 115 Nguyen Hue District 1, Ho Chi Minh City, Vietnam Phone: +84.83.821.9930 *http://www.lotusimpact.com/#!contact/c24vq*
Source(s)	*http://www.lotusimpact.com/#!what-we-do/cjg9*

Technology Venture Capital Fund	
Implementing institution	IDG Ventures Vietnam (IDGVV)
Description	IDGVV has operated since 2004, as the first technology venture capital fund in Vietnam, in cooperation with innovation-oriented entrepreneurs.
Target group and investments	Companies at the initial growth stage, focusing on consumer, technology, media and ICT sectors
Type of finance	Investment
Volume, duration and status	IDGVV has capital of USD 100 million (EUR 89.5 million) and invested in more than 40 companies in their focus sectors
Conditions	N/A
Contact	Hanoi Office Address: V Building, 4th Floor, 125-127 Ba Trieu Street, Hai Ba Trung District, Hanoi City, Vietnam Phone: (84-4) 2220-0348 Fax: (84-4) 2220-0349 *www.idgvv.com.vn*
Source(s)	IDG Ventures. Retrieved 12.10.2015 from *http://idgvv.com.vn/en/about-us/idgvv*

Vietnam Climate Innovation Centre	
Implementing institution	Vietnam Climate Innovation Centre in cooperation with the Ministry of Science and Technology and the National Agency for Technology Entrepreneurship and Commercialisation (NATEC)
Description	The Centre was designed by the World Bank's infoDev to promote local climate activities particularly those at the initial stage of business by providing financial and technology services.
Target group and investments	Local innovators (SMEs) with the focus on clean technology solution, especially in the energy efficiency and sustainable agribusiness sectors
Type of finance	Grants
Volume, duration and status	Volume: not specified how much funding will be available for grants Duration: 3 years Status: Not operational yet
Conditions	N/A
Contact	*http://www.vietnamcic.org*
Source(s)	Climate innovation Centre Vietnam: Services. *http://www.vietnamcic.org/* Climate Technology Program: Vietnam Climate Innovation Centre (CIC): Summary Note. *https://www.infodev.org/infodev-files/resource/InfodevDocuments_1180.pdf* World Bank 2015: Project Information Document. Retrieved 10.11.2015 from *http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/EAP/2015/08/03/090224b083046807/1_0/Rendered/PDF/Project0Inform0VCIC00RETF000P155260.pdf*

Vietnam Inclusive Innovation project (VIIP)	
Implementing institution	World Bank International Development Association (IDA)
Description	Aiming at adopting, upgrading and developing inclusive innovations for the Base of Pyramid (BoP) population. One of the project components includes funding to SMEs for the acquisition, adoption, and use of technology and innovations in prospective areas for technology upgrading and growth.
Target group and investments	Target group includes: 1. Private enterprises (SMEs or large ones) for upgrading, scaling up and commercialization of inclusive technologies. 2. SMEs for upgrading their technological capabilities – acquisition, adoption and use of modern technology and innovation. The general eligibility criteria for sub-project selection under Component I and II include: 1. existing or new technologies applicable to Vietnam; 2. readiness for adoption/adaptation and cost reduction potential; 3. providing solutions to address the needs of the BoP that are affordable, durable, and environmentally friendly; 4. time-bound deliverables with 2-3 years to reach the prototype stage, or having the potential to commercialise in Vietnam within 2 years; 5. multi-disciplinary applications of new ideas/technologies; and 6. collaboration among RDIs, enterprises, local and international partners, researchers/innovators to ensure quality and commercialisation potential.
Type of finance	Fund for promoting loans to SMEs.
Volume, duration and status	Volume: USD 55 million (EUR 49.3 million) Duration: 2014 – 2018 Status: Running
Conditions	The maximum sub-loan size will be up to USD 500,000 with a maturity of 3-7 years and a grace period of 1-2 years. The sub-loan borrowers are expected to cover a minimum of 20% of the total sub-project cost from their own resources. Matching grants will be decided by NAFOSTED based on the recommendation of a Technical Review Panel. Detailed implementation arrangements have been finalised by NAFOSTED and PFI before Negotiations. The matching grant will be 30 percent of the approved sub-project cost and up to a maximum of USD 250,000 for activity (i) and USD 125,000 for activity (ii).
Source(s)	World Bank: *http://www.worldbank.org/projects/P121643/vietnam-inclusive-innovation-project?lang=en* World Bank 2013: Project Appraisal Document. Retrieved 02.10.2015 from *http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/04/25/000442464_20130425103308/Rendered/PDF/741010PAD0P121010Box374388B00OUO090.pdf*