



The role and contribution of sustainable energy development in the implementation of ESG standards in Vietnamese enterprises

NGUYỄN THỊ THỤC

Institute for Regional Sustainable Development Studies

1. INTRODUCTION

Currently, the world is facing increasingly greater challenges of climate change and the depletion of natural resources, so the transition to a sustainable development model is more urgent than ever. In particular, the energy sector - both an essential input for all socio-economic activities (SEA) and a major source of greenhouse gas (GHG) emissions plays a key role in this transition. According to data from the Ministry of Industry and Trade, industrial sectors consume more than 50% of the total national energy and emit about 70% of Vietnam's total greenhouse gas (GHG) emissions. Energy costs for many industries and industrial production sectors still account for more than 60% of product costs (Thanh Nguyen, 2021)... Therefore, in this period, the transition to a sustainable energy use model is urgent for the State, community and businesses.

With the trend of shifting to a sustainable development model, ESG (Environmental, Social, and Governance) is increasingly being focused on globally as a set of standards for evaluating businesses. ESG is not only a tool to assess the sustainability and social impact of businesses, but also a tool to manage risks and create long-term value. According to Bui Thi Thu Loan et al. (2024), enterprises with high ESG scores tend to better financial performance and greater resilience to market shocks. According to KPMG (2022), enterprises that actively apply ESG standards can reduce energy costs by 5-20% through energy saving and efficiency measures.

In Vietnam, although the ESG concept is still quite new, awareness and application and implementation of ESG standards by enterprises, especially foreign-invested enterprises, are increasing. In particular, activities aimed at sustainable energy development play a particularly important role in the ESG framework as they directly impact all three aspects of environment, society and governance. The transformation and development of clean and renewable energy models by enterprises help reduce GHG emissions and protect the environment. Socially, sustainable energy ensures energy security, improves quality of life and creates jobs. At the same time, building a sustainable energy strategy requires a good governance structure, transparency and accountability of enterprises.

However, investing and changing the energy development strategy of enterprises towards a more sustainable direction, thereby strongly promoting the implementation of ESG in Vietnamese enterprises still faces many challenges, limitations in financial resources, technical and technological

conditions to the vision and awareness of enterprises. The article aims to analyze the role and contribution of sustainable energy development in the implementation of ESG standards in Vietnamese enterprises. Through assessing the current situation, identifying favorable and difficult conditions, the article makes a number of recommendations to promote the implementation of sustainable energy development, contributing to the improvement of ESG of enterprises, towards a green and sustainable economy in Vietnam.

2. OVERVIEW OF ESG IN VIETNAM

ESG is a tool for assessing the sustainability and impact of enterprises on society, including three main aspects: (i) Environment (E), assessing the impact of enterprises on the natural environment, including issues such as climate change, resource use, pollution and biodiversity conservation; (ii) Society (S), focusing on the relationship of businesses with stakeholders, including employees, customers, local communities and society in general; (iii) Governance (G), referring to how businesses are run and managed, including governance structures, business ethics, and legal compliance. The concept was first introduced in 2004 in the United Nations "Who Cares Wins" report (UN, 2004) and has since become an important tool in global enterprises assessment.

In Vietnam, awareness and interest of enterprises in ESG are gradually increasing, especially after the Government committed to achieving net zero emissions by 2050 at COP 26. However, the level of application and publication of ESG reports is still quite modest and uneven among businesses; ESG application is mainly by large businesses, especially those with foreign investment or export activities. For small and medium-sized enterprises, accounting for 97% of the total number of enterprises in Vietnam, ESG application is still limited. The main reasons are lack of financial resources, limited awareness of enterprises and lack of specific guidance from management agencies.



Although ESG is increasingly gaining attention in Vietnam, its implementation still faces many challenges, especially for small and medium-sized enterprises. In this context, sustainable energy development becomes an important part of ESG and a driving force for Vietnamese enterprises to start the journey towards comprehensive sustainable development.

3. THE RELATIONSHIP BETWEEN SUSTAINABLE ENERGY DEVELOPMENT AND ESG

Sustainable energy development is one of the important goals of SDGs 2030, aiming to (i) Ensure universal access to modern energy services; (ii) Significantly increase the share of renewable energy in total energy supply; (iii) Doubling energy efficiency. The sustainable energy development of each country depends largely on the sustainable energy development of each enterprise in the economy. On the contrary, with the increasing demand for energy, sustainable energy production and use have a direct impact on the scale and development orientation of each enterprise. Therefore, sustainable energy development and a enterprises's ESG strategy are closely related, expressed through three aspects: Environment (E), Society (S) and Governance (G).

Environmental (E): Energy sustainable development plays a key role in reducing the environmental impact of businesses, especially reducing greenhouse gas emissions. The transition to clean and renewable energy directly contributes to the environmental goals in ESG by: (1) Reducing greenhouse gas emissions; (2) Conserving resources; (3) Reducing pollution.

Social (S): Energy sustainability has a positive impact on society through ensuring energy security, creating jobs and improving the quality of life. This is consistent with the social objectives in ESG of (1) Energy security; (2) Employment creation; (3) Public health; (4) Local development.

And on governance (G): Building and implementing an energy sustainable development strategy requires (1) Long-term strategic orientation; (2) Risk management; (3) Transparency and accountability; (4) Encouraging innovation and adaptation, in line with good governance principles in ESG.



In fact, in most ESG assessment indicators currently in use, energy occupies an important part, especially in the environmental aspect. For example, the Global Reporting Initiative (GRI) indicators have up to 5 energy-related indicators in GRI 302. A study of ESG assessment of ASEAN enterprises also showed that energy is the most disclosed topic in Sustainability Reports, with a disclosure rate of up to 65.4 % (NUS and ASEAN CSR Network, 2018).

Thus, it can be seen that the relationship between energy sustainability and a business's ESG development plan is comprehensive and multidimensional. Energy sustainability is the driving force that promotes and enhances the effectiveness of ESG implementation. It affects all aspects of ESG, from minimizing environmental impacts, improving social conditions, to strengthening corporate governance. Understanding this relationship helps businesses build a comprehensive and effective ESG implementation plan, creating sustainable value for all stakeholders.

4. CURRENT STATUS OF SUSTAINABLE ENERGY DEVELOPMENT IN ESG IMPLEMENTATION IN VIETNAM

Along with Strategies for Green Growth and Cleaner Production,... Vietnam has been implementing important policies and strategies to promote sustainable energy development. Resolution No.55-NQ/TW of the Politburo on the orientation of the National Energy Development Strategy to 2030, with a vision to 2045, has set a priority goal for encouraging investment in renewable energy with a series of policies, including incentives, to encourage businesses to manage and use energy in a sustainable manner. After committing to achieve net zero emissions by 2050 at COP 26, Vietnam has made stronger moves to encourage businesses to transform their energy production and consumption models towards sustainability.

Vietnamese enterprises, especially FDI enterprises, have begun to take positive actions to develop clean and renewable energy. In terms of the

▲ *Vietnamese enterprises implementing ESG will increase competitive advantage in the market and develop sustainable energy.*



environment, many enterprises have developed plans to reduce carbon emissions, in which switching to clean energy is considered the main solution. Currently, there are more than 10 cement factories using 35-40% of alternative fuels from waste to reduce emissions (Hai Yen, 2024). Vingroup also commits to achieving “zero” emissions by 2040 through the use of renewable energy and improving energy efficiency.

On the social side, with the potential and favorable exploitation conditions, the goal of developing clean energy for socio-economic development is also being strongly implemented. The country currently has nearly 90 solar power projects with a total capacity of more than 5,000 MW, typically: Solar power plant cluster in Ninh Thuan with a capacity of 330 MW; GT & Associates and Mashall&Street Ltd. plant in Quang Nam with a capacity of 150 MW.... At the same time, a recent study by WWF-Vietnam and The Vietnam Sustainable Energy Alliance (VSEA) shows the feasibility of supplying 100% of domestic electricity demand with renewable energy by 2050 with the support of a total of about 60 enterprises in many fields.

However, in terms of governance, the implementation and disclosure of energy-related ESG information in Vietnamese enterprises is still quite limited. According to the Vietnam ESG Readiness Report 2022 (PwC, 2022), only 35% of listed enterprises in Vietnam have set ESG commitments, while 58% plan to do so in the next 2-4 years. The main challenges in implementing ESG in Vietnam are the lack of clear ESG regulations and the lack of ESG leadership within the organization to promote the commitment. In terms of sustainability reporting practices, the majority of listed enterprises studied in Vietnam disclose short-term and medium-term ESG targets (84% and 70%, respectively). However, less than half (48%) disclose long-term targets (over 5 years) and only 8% disclose NetZero targets. Compared to the Asia Pacific region, Vietnamese businesses are facing a large gap in sustainability reporting practices related to senior management and their responsibilities towards ESG issues. Vietnam also has only one ESG investment fund of about 14 million USD, much lower than other countries in the region such as Thailand (61 funds worth 1.36 billion USD), Malaysia (27 funds, worth 393 million USD) (Thuy Nga, 2024).

In general, despite important policies and efforts from the State and large enterprises, integrating sustainable energy development into ESG implementation by the majority of Vietnamese enterprises, especially small and medium enterprises (accounting for 97% of all enterprises), there are still many limitations. Major barriers include: cognitive limitations, lack of financial and technological resources for implementation, as well as difficulties in measuring, reporting and disclosing standard ESG information. Therefore, to promote sustainable energy development within the ESG framework to become a widespread trend, it is necessary to have more specific support and guidance mechanisms from the State, as well as more efforts from businesses in raising awareness, investing resources and building a suitable transition roadmap.

5. ADVANTAGES AND DIFFICULTIES OF IMPLEMENTING SUSTAINABLE ENERGY DEVELOPMENT TARGETS IN ESG

Advantages: ESG and sustainable energy trends are becoming global standards, creating strong momentum for business transformation. Specifically, according to KPMG Big shifts, small steps (2023), currently 64% of investors are willing to pay more for Vietnamese businesses with good ESG performance, especially in the energy and environment sector. The government is also increasing support through incentives for green energy development. In addition, by investing in sustainable energy, businesses can open up opportunities to access new markets, especially export markets with high ESG standards and the potential to reduce energy costs in the long term (IFC, 2022).

Difficulties: the biggest barrier is the initial investment cost. According to *The Asian Development Bank* estimates that Vietnam needs about 16 billion USD in investment for clean energy in the period 2015 - 2030. In addition, there are limitations in infrastructure and technology as Vietnam still lacks long-term planning, strategies and specific roadmaps for renewable energy development (VCCI & Deloitte, 2022). Awareness and knowledge of sustainable energy in ESG of many businesses, especially small and medium enterprises, are still limited. Difficulties in measuring, compiling statistics and reporting indicators are also significant barriers, requiring businesses to invest in data collection systems and improve reporting capacity (PwC, 2022).

Thus, in addition to important driving forces from market trends, investor demands and government support, integrating sustainable energy into ESG still faces many difficulties from businesses themselves, with limitations in finance, technology, awareness and measurement and reporting capacity. These are complex and multi-dimensional issues that require efforts and cooperation from many parties to resolve. All need to be fully considered in the process of developing and implementing solutions to promote sustainable energy within the ESG framework, creating a favorable and consensual environment for businesses to actively participate and take the lead in this transformation process.



6. RECOMMENDATIONS FOR DEVELOPING CORPORATE SUSTAINABLE ENERGY TO IMPROVE ESG

To develop sustainable energy in ESG implementation in Vietnam, Vietnamese enterprises need to focus on solutions such as:

Firstly, build a long-term sustainable energy strategy, linked to the overall development orientation of the enterprise. This strategy needs to be based on a comprehensive assessment of the enterprise's potential, conditions and market trends, and at the same time set specific, ambitious but feasible goals and targets. Integrating the sustainable energy strategy into the enterprise's business strategies and processes is also very important to ensure consistency and effectiveness in implementation.

Secondly, prioritize resources for research and transfer of clean energy technologies, using energy efficiently in accordance with the characteristics of the enterprise. In addition to cooperation with domestic and foreign partners, enterprises also need to focus on internal innovation, encouraging employees to contribute ideas and initiatives to improve technology and energy management processes. Invest in the system. Advanced, automated energy management systems also help businesses better control energy usage and reduce waste.

Thirdly, regular training and communication to raise awareness and capacity on sustainable energy and ESG for managers and employees at all levels. The content should cover topics on policy, market, technology, good practices, as well as related planning, operation, monitoring and reporting skills. Building an energy-saving culture in enterprises is also essential to create diffusion and maintain the transformation process (VCCI, 2021).

Fourthly, continue to improve the quality of energy and ESG information disclosure, both to meet the increasing demands of the market and to help businesses see the overall picture to adjust their strategies accordingly. Referencing and gradually applying regional and international standards and good practices on ESG reporting will help information become more transparent, reliable and comparable. In addition to regular reporting, diverse communication channels should also be used to spread the message of sustainable development of businesses to the community.

Finally, work closely with stakeholders such as regulators, industry associations, NGOs and communities to jointly promote the sustainable energy transition. Through cooperation, businesses not only receive support in policy, finance, technology and market, but also have the opportunity to learn and share practical experiences to gradually improve their operations.

With the efforts and timely, synchronous actions from businesses themselves, along with the support and companionship of stakeholders, sustainable energy development activities and effective ESG implementation will gradually become a reality, to serve the practical needs of businesses as well as contribute essentially to the overall sustainable development process of the country ■

REFERENCES

1. Bui Thi Thu Loan, Tran Thi Lan Anh and Trang Hoang (2024). ESG disclosure and financial performance: Empirical study of Vietnamese commercial banks. *Banks and Bank Systems*, 19(1), 208-220. doi:10.21511/bbs.19(1).2024.18.
2. Hai Yen (2024). "Urge" businesses to soon participate in the carbon market. <https://baodautu.vn/thuc-doanh-nghiep-som-tham-gia-thi-truong-carbon-d224597.html>.
3. KPMG (2022). Big shifts, small steps - Survey of Sustainability Reporting 2022. <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2022/10/ssr-small-steps-big-shifts.pdf>.
4. Asian Development Bank (ADB). (2022). Change - PTBV Report 2022.
5. NUS and ASEAN CSR Network 2018. Sustainability reporting in ASEAN countries-Indonesia, Malaysia, Philippines, Singapore and Thailand.
6. PwC. (2022). From ambition to action: Vietnam ESG Readiness Report 2022.
7. Thanh Nguyen. 2021. Energy costs of many industries account for more than 60% of product costs. <https://haiquanonline.com.vn/chi-phi-nang-luong-cua-nhieu-nganh-chiem-hon-60-gia-thanh-san-pham-143971.html>.
8. Thuy Nga. (2024). ESG data is the biggest barrier for listed companies. <https://dantri.com.vn/kinh-doanh/du-lieu-esg-la-rao-can-lon-nhat-voi-doanh-nghiep-niem-yet-20240924112513108.htm>.
9. UNDP. (2022). Vietnam Human Development Report 2022: Just Energy Transition.
10. United Nations (2004). Who Cares Wins: Connecting Financial Markets to a Changing World
11. VCCI. (2020). Corporate Sustainability Index (CSI) 2020.
12. VCCI. (2021). Workshop Documents "Promoting Enterprises to Participate in Sustainable Energy Development". <https://vcci.com.vn/wp-content/uploads/2021/11/tai-lieu-hoi-thao-thuc-day-DN-tham-gia-phat-trien-nang-luong-ben-vung.pdf>.
13. VBCSD (2022). Guidelines for Integrating Sustainable Development into Corporate Strategy. Hanoi: Environmental Resources Publishing House.
14. VCCI. 2022. Survey on sustainable development strategies of Vietnamese enterprises.
15. Department of Energy Efficiency and Sustainable Development. 2024. Strengthening greenhouse gas reporting and inventory capacity towards building a domestic carbon market.