

## ESG in Vietnam:

### Legal Framework and Path to Compliance

*With the growing prominence of ESG (Environmental, Social, and Governance) factors, businesses in Vietnam are increasingly recognizing their importance in driving global demand, societal impact, and economic value. A comprehensive acknowledgment of ESG-related legal requirements is critical for investors and companies operating in Vietnam to meet stakeholder expectations and ensure compliance.*

#### What is ESG, and what does the ESG legal framework look like in Vietnam?

ESG stands for Environmental, Social, and Governance—three pillars that guide enterprises toward responsible practices. ESG is used to assess a company's commitment to sustainability, social responsibility, and ethical governance. In Vietnam, the legal framework for ESG comes from international commitments as well as domestic law.

**International commitments:** Vietnam has demonstrated a strong commitment to ESG principles through its participation in key international agreements. These agreements set the foundation for Vietnam's approach to ESG, by addressing issues such as climate change, protecting workers' rights, and promoting sustainable development. Notable examples include:

- The Paris Agreement under the United Nations Framework Convention on Climate Change, ratified by Vietnam in 2016, which addresses, among other things, reducing greenhouse gas ("GHG") emissions, enhancing climate resilience, and integrating climate measures into national policies.
- The UN Climate Change Conference in Glasgow of 2021 ("COP26"), where Vietnam committed to achieving net-zero carbon emissions by 2050.
- Conventions of the International Labour Organization (ILO) such as Convention No. 98 on the right to organize and collective bargaining, ratified by Vietnam in 2020.
- The Convention on the Rights of the Child ratified by Vietnam in 1990, ensuring comprehensive protection of children's rights, and its Optional Protocol enhancing protections against child exploitation, ratified by Vietnam in 2001.
- The EU-Vietnam Free Trade Agreement (EVFTA), effective from 2020, promoting sustainable development and labor rights.
- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CP-TPP) ratified by Vietnam in 2018, addressing environmental protection, labor rights, and sustainable development.



**Domestic law:** Vietnam does not have a centralized ESG-specific law. Instead, ESG-related requirements are integrated into various laws and regulations covering a broad range of areas, including environmental protection, labor rights, and corporate governance.

These laws do not explicitly list the specific type of entities subject to ESG. Instead, ESG concepts are embedded in various legal requirements that enterprises operating in Vietnam must comply with under circumstances prescribed by relevant law, such as:

- **Environmental:** The fundamental law on environment in Vietnam is the Law on Environmental Protection, which comprises a range of provisions related to pollution control, environmental protection and waste management.
- **Social:** The key regulations pertaining to the social component in ESG are found mainly in the labor laws, focusing on labor rights, workplace safety, and gender equality.
- **Governance:** This aspect of ESG relates to corporate governance, ethical business practices, and transparency. Corporate governance laws, like the Enterprise Law, set standards for corporate structure, board of directors' responsibilities, and shareholders' rights. Anti-corruption laws and securities regulations also impose transparency and reporting requirements.

## Who needs to follow ESG regulations in Vietnam?

Generally, all Vietnam-based companies should comply with ESG laws and regulations. More stringent legislation is applied to public and listed companies in Vietnam, in comparison to private companies, in terms of governance standards and environmental compliance. For instance, public and listed companies are additionally required to report on ESG compliance as part of their annual report to the State Securities Commission ("SSC"). These reports must include, among other contents, the management structure, energy and water consumption, total direct and indirect GHG emission, and compliance with the law on environmental protection and employment policies.

In addition, in 2019, the SSC issued the [Corporate Governance Code of Best Practices](#), encouraging public and listed companies in Vietnam to comply. This code provides a comprehensive framework aimed at enhancing the governance standards of public companies, and emphasizes transparency, accountability, and ethical conduct within corporate structures. The code also requires detailed disclosure of both financial and non-financial information, promoting transparency in terms of environmental impact, labor practices, and corporate governance policies.

By integrating ESG considerations into the corporate governance framework, the SSC's code encourages companies to adopt sustainable practices, manage risks effectively, and engage in responsible business conduct, aligning with international ESG standards and contributing to sustainable economic growth in Vietnam.

## What are the benefits of ESG compliance?

Disregarding ESG considerations can impact the feasibility of investment projects and the sustainable growth of enterprises. For example, in 2020, Vietnam's Law on Investment introduced a legal restriction that prohibits extending licenses for investment projects using outdated technologies with a negative environmental impact.

Additionally, on October 1, 2021, the Prime Minister issued Decision No. 1658/QĐ-TTg approving the National Strategy on Green Growth for the 2021-2030 period, with a vision to 2050, whereby Vietnam plans to gradually impose limits on economic sectors that generate significant waste and cause environmental pollution, while encouraging the development of new green manufacturing sectors. This indicates that industries contributing heavily to environmental pollution may no longer be permitted in Vietnam.

Paying attention to ESG standards ultimately benefits enterprises. From a business perspective, ESG compliance significantly improves a company's operational efficiency, enhances brand and product reputation and, more importantly, attracts consumers and investors. From a legal standpoint, it helps enterprises to avoid severe legal fines, and potential closure or shutdown due to non-compliance.

Specifically, ESG compliance can be crucial for enterprises and other stakeholders in consideration of the following benefits:

- **Attracting long-term investors**, as ESG-compliant enterprises are viewed as less risky and are better positioned to adapt to compulsory regulations and market conditions.
- **Greater access to financing options.** Particularly, the Vietnamese government, through the Law on Environmental Protection and guidance from the State Bank of Vietnam ("SBV"), has established a robust policy framework to encourage "green financing" as part of its broader ESG strategy. Green financing specifically supports initiatives with positive environmental impacts, such as projects that aim to efficiently utilize natural resources, address climate change, manage waste, treat pollution and improve environmental quality, restore natural ecosystems, and conserve nature and biodiversity. Further, the SBV's directives highlight the importance of green financing and provide a clear roadmap for banks to follow. According to the SBV, by the end of 2022, financial institutions had provided green loans across industries such as textiles, clean agriculture, renewable energy, and environmental sanitation, with the outstanding credit for green projects accounting for approximately 4.2% of the total outstanding credit in the economy. The majority of this credit was allocated to renewable and clean energy projects (47%), followed by green agriculture (over 30%).
- **Easier access to high-standard markets like the EU**, which require strict adherence to environmental and social regulations under initiatives like the EU's Green Deal. By meeting these standards, Vietnamese exporters can avoid potential restrictions, enhance their competitiveness, and ensure continued market access, thereby supporting sustainable growth and increasing export opportunities.
- **Being more proactive in preparing for future ESG legislation** that may be officially introduced and enforced in Vietnam.

## How can enterprises enhance ESG best practices in Vietnam?

Enhancing ESG best practices will eventually help enterprises achieve sustainable development and align themselves with international standards, making it easier to attract foreign investors. Enterprises can consider the following steps to comply with ESG standards and improve their best practices:

- **Identify legal requirements and conduct ESG assessments:** Assess operations against ESG criteria to identify areas of compliance and potential risks. This step helps enterprises understand their current ESG performance and identify areas needing improvement.
- **Implement internal training on ESG policies:** Develop clear policies and procedures to address ESG issues, including waste management, energy efficiency, workplace safety, and anti-discrimination policies. Educate employees and management on ESG principles and the importance of compliance.
- **Adopt international certifications:** Consider obtaining international ESG-related certifications, such as ISO 14001 for environmental management or SA8000 for social accountability, to demonstrate a commitment to ESG best practices. Financial institutions and investors often view certified companies as lower-risk, which can expedite approval processes for loans and investments.
- **Collaborate with authorities and NGOs:** Work with government agencies, industry associations, and NGOs to stay informed about regulatory changes and participate in ESG-related initiatives.

For long-term compliance, SMEs can start with small, manageable changes, such as fostering a culture of sustainability by involving employees in ESG initiatives and encouraging their input and participation, and gradually expand their ESG efforts as resources allow. Large enterprises can allocate resources to research and develop new technologies and practices that enhance ESG performance and implement advanced risk management systems to identify and mitigate ESG-related risks across the organization

By taking these steps, enterprises can ensure compliance with ESG standards, ultimately driving them toward sustainable growth and long-term success.



### Outlook

Vietnam’s commitment to ESG principles, through its participation in international treaties and integration of ESG requirements into local laws, sets a strong foundation for sustainable development. Enterprises that align with these standards will ultimately benefit from increased operational efficiency, enhanced brand reputation, and better access to international markets and financing. Moreover, ESG compliance is becoming increasingly critical in M&A transactions, as investors and governments prioritize green projects and ESG-compliant best practices in their decision-making processes.

### Contact Us

At Tilleke & Gibbins, we offer comprehensive services to assist clients in navigating the ESG landscape. Our team is dedicated to helping investors achieve legal compliance, mitigate risks, and drive sustainable growth in Vietnam’s evolving regulatory environment.



#### Tilleke & Gibbins (Vietnam) Ltd.

E: vietnam@tilleke.com W: www.tilleke.com

#### Ho Chi Minh City

Viettel Tower A, 25th Floor, Suite 2506  
285 Cach Mang Thang Tam, District 10  
Ho Chi Minh City, Vietnam  
T: +84 28 628 45678

#### Hanoi

789 Office Building, 9th Floor  
147 Hoang Quoc Viet Street, Cau Giay District  
Hanoi, Vietnam  
T: +84 24 3772 6688

#### Key ESG Contacts:



**Tram Ngoc Bich Nguyen**  
Partner  
E: tram.n@tilleke.com  
T: +84 28 628 45675



**Tuyen An Thuy Nguyen**  
Counsel  
E: tuyen.n@tilleke.com  
T: +84 28 628 45674