



## Viet Nam needs major changes to meet its renewable energy goals

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Viet Nam has made ambitious commitments to combat climate change under the Paris Agreement, but only by making massive changes will it be able to live up to those plans.

Viet Nam's carbon intensity—or the use of carbon in its economy—is currently the second highest in Asia. The growth in the amount of greenhouse gasses it produces is among the fastest in the world.

Rather than demonstrating a clear program to switch to alternative energy sources, the government plans an even greater reliance on fossil fuels to maintain the country's impressive growth rate.

Viet Nam's economy grew at an average 6% pace between 1985 and 2014 but the amount of carbon dioxide emissions per capita kept pace, increasing four times over the same period.

In 2015, coal made up 34% of Viet Nam's energy supply, followed by oil at 25%, biomass and thermal at 21%, natural gas at 13% and hydroelectric power at 7%. Only 3.7% of the total electricity supply derived from renewable energy.

It wasn't always like this.

Before 2000, biomass made up more than 50% of Viet Nam's energy. Burning wood or charcoal was commonly the source of energy for heat or cooking, especially in rural parts of the country. In 1990, biomass accounted for 70% of the country's energy.

Coal and oil, heavily subsidized by the government, rapidly replaced biomass as the country began to grow richer.

In 2016, the government released its plan for future energy supplies, a plan which sees a growing reliance on coal. By 2025, it expects coal to account for 55% of its energy needs. In 2011, Viet Nam had 38 coal-fired plants. The government aims to have 133 by 2030.

In a working paper for the Asian Development Bank Institute, researchers from Viet Nam's Academy of Finance explain the changes needed if their country is to rebalance and move away from its ever-increasing reliance on fossil fuels.

The changes they suggest are not only needed in the country's energy sector but extend deep into its financial system and corporate culture.

Viet Nam is potentially rich in renewable energy, particularly in wind power, solar power, and biomass. It is also high on the list of country's that will be hurt by climate change.

There are many obstacles in the way of those who would like it to increase its use of renewable energy, however.

The government spends a lot to support fossil fuels. It is estimated that the subsidies for fossil fuels will exceed \$540 million by 2025 and \$2.56 billion by 2030.

The government keeps electricity prices artificially low to promote industry and help consumers. But the authors of the paper cite research suggesting both industry and consumers would be better off in the long term if electricity prices reflected actual costs.

Those low electricity prices hurt renewable energy efforts in a number of ways. Viet Nam is expected to need 13% more energy each year as it continues to industrialize. For renewable energy to be part of that, private investors need to pay at least half of the costs of developing it. The government simply can't afford to pay for it all.

With electricity prices kept low, investors worry whether renewable projects will ever generate profits. They also worry about the financial sustainability of the only company authorized to buy the energy generated by renewable methods, the national power company Viet Nam Electricity.

The government does offer some help to the renewable sector through preferential tax rates and what are known as feed-in tariffs. These are subsidies for generating renewable energy, but in Viet Nam they are offered at rates well below those offered in neighboring countries such as Thailand or the Philippines. Higher rates would encourage more renewable development.

A carbon tax on fossil fuels could be used to help pay to develop renewable energy, the paper notes.

The authors suggest real change is needed in the country's financial system, banking and corporate culture if renewable energy is to make up a larger share of Viet Nam's energy needs.

Banks are reluctant to lend to renewable projects because they don't understand the technology involved or worry that the projects won't make money. There is also a mismatch between the banking system's reliance on short-term deposits and the long-term returns of energy projects.

Development of a domestic bond market might help, especially if the issuance of green bonds could be encouraged. Green bonds are used to fund renewable energy projects.

The authors suggest that renewable energy projects are a good match for pension funds, which have a longer horizon for their investment expectations. But as of now there is no national pension scheme in Viet Nam. Developing such a scheme could help provide for Viet Nam's rapidly aging population as well as provide funding for renewable energy.

This podcast was based on [\*Green Finance in Viet Nam: Barriers and Solutions\*](#), a working paper for the Asian Development Bank Institute by Trong Co Nguyen, director at Viet Nam's Academy of Finance in the Ministry of Finance; Anh Tu Chuc, an associate professor at the Academy of Finance in the Ministry of Finance; and Le Ngoc Dang, a faculty member of the International Finance Department at the Academy, which is based in Ha Noi.

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