NAVIGATING ESG REPORTING IN VIETNAM

July 2024

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	The Association of Southeast Asian Nations
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DE&I	Diversity, Equity, and Inclusion
EHS	Environmental, health, and safety
EPR	Extended Producer Responsibility
ESG	Environmental, social, and governance
ESRS	European Sustainability Reporting Standards
EU	European Union
EVFTA	EU-Vietnam Free Trade Agreement
FESE	Federation of European Securities Exchanges
GESI	Gender Equality and Social Inclusion
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
GRI	Global Reporting Initiative
HOSE	Ho Chi Minh Stock Exchange
IFC	International Finance Corporation
IFIs	International financial institutions
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IPG	International Partnership Group
ISSB	International Sustainability Standards Board
JETP	Just Energy Transition Partnership
KPI	Key Performance Indicator
LNG	Liquefied natural gas

PDP8	National Power Development Plan VIII
S.M.A.R.T	Specific, Measurable, Achievable, Relevant, and Time-bound
SASB	Sustainability Accounting Standards Board
SGDs	Sustainable development goals
SMEs	Small and medium-sized enterprises
VNSI	Vietnam Sustainability Index

INTRODUCTION

The primary objective of this technical guidance document is to enable Vietnamese enterprises to understand and implement environmental, social, and governance (ESG) reporting standards. The document provides practical advice for businesses and organizations to enhance their sustainability practices, measure and disclose their performance, and establish clear goals and action plans to contribute towards a more sustainable future. In a world facing unprecedented challenges in terms of social inequality, environmental degradation, and economic instability, businesses have a significant role to play in addressing these issues and fostering positive change. Adopting ESG practices can position enterprises to potentially take advantage of the market shifts that are emerging as the world adapts to these challenges.

By embracing ESG principles, businesses can make a positive impact on human rights and the environment, improve long-term financial performance, and strengthen their competitiveness and resilience in the global marketplace. The Government of Vietnam is responding to these opportunities by developing guidance and tools for ESG disclosure and has issued sustainability reporting guidance for publicly listed enterprises (see Section 2.2 - Part II).

To support the Government of Vietnam's efforts to strengthen private sector competitiveness, the U.S. Agency for International Development (USAID) is collaborating with the Ministry of Industry and Trade (MOIT) to develop guidance on ESG and other climate change reporting standards. To that end, USAID engaged a consortium led by RCEE-NIRAS to prepare the following document on how to navigate ESG reporting and funded the work through the USAID INVEST project. RCEE-NIRAS consulted with Vietnamese business associations to understand priorities and information needs and based on these discussions prepared the following technical guidance document which is organized into three parts: 1) understanding ESG, 2) ESG context in Vietnam, and 3) integration of ESG in Vietnamese businesses.

CHAPTER 1: UNDERSTANDING ESG

1.1. What is ESG?

Environmental, Social, and Governance refers to how businesses operate across environmental sustainability, social responsibility, and ethics and good governance. It provides a framework for evaluating risks and opportunities within these areas. In financial sectors, for example, certain investors employ ESG criteria to analyze companies, influencing their investment decisions in what's termed as ESG investing.

Categorized as non-financial performance indicators, sustainability, ethics, and corporate governance are integral in company disclosures and investor assessments. ESG reporting ensures accountability on measures to regulate a company's impact. This includes measuring its carbon footprint and defining its treatment of employees, suppliers, and other stakeholders. Ultimately, ESG initiatives contribute to broader corporate sustainability endeavors, aiming to strengthen companies for sustained success based on principled corporate governance and strategic business actions.

ESG standards encompass guidelines, principles, or benchmarks providing a framework for evaluating and measuring environmental, social, and governance factors within businesses. They serve as a point of reference for companies, investors, regulators, and other stakeholders to assess and compare the sustainability and ethical performance of businesses.

ESG standards typically encompass a wide array of topics. Figure 1 illustrates the general dimensions companies may report on within an ESG framework, highlighting how businesses can assess their impact on environmental sustainability, social responsibility, and corporate governance. These standards act as a benchmark for evaluating risks and opportunities within these areas, guiding companies to adopt comprehensive ESG strategies that include[1]:

- **Environmental objectives**: Addressing issues related to environmental sustainability, such as greenhouse gas (GHG) emissions, energy efficiency, pollution control, resource conservation, and biodiversity preservation.
- **Social objectives:** Focusing on aspects of social responsibility, including labor practices, human rights, diversity and inclusion, community engagement, consumer protection, and product safety.
- **Governance objectives:** Relating to the structure, policies, and practices of corporate governance, including board composition, executive compensation, transparency, accountability, risk management, and ethical leadership.

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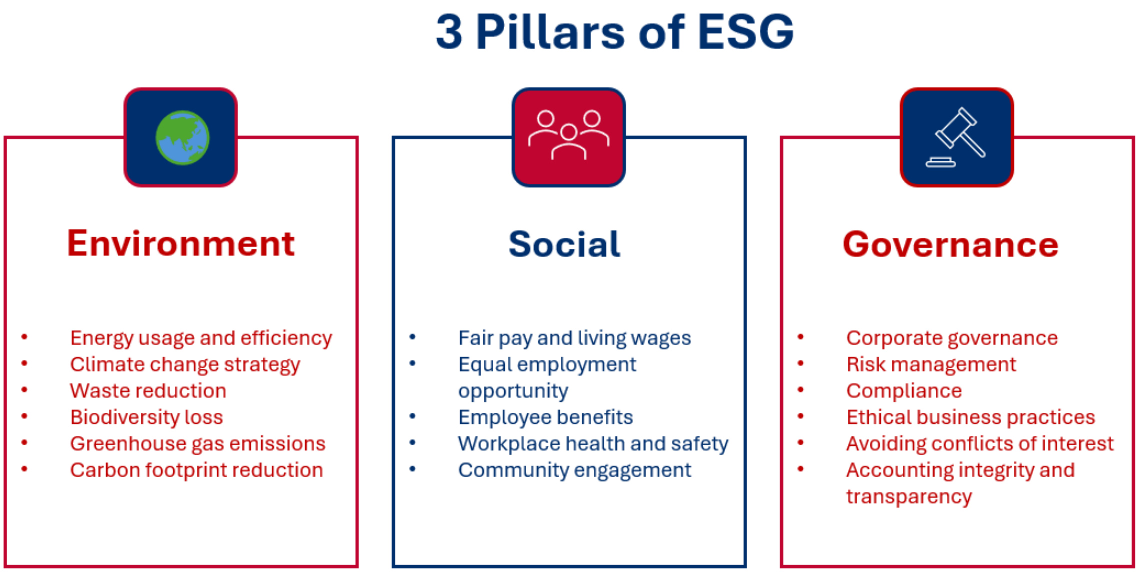
[1] https://www2.deloitte.com/ce/en/pages/global-business-services/articles/esg-explained-1-what-is-esg.html

Figure 1. ESG general framework



Source: Adapted from [*Tech Accelerator - ESG strategy and management, complete guide for business*]

1.1.1. E – Environmental

Environmental concerns encompass aspects such as a company's climate change mitigation and adaptation policies, energy consumption, waste management, pollution control, natural resource preservation, and animal welfare. Evaluating these ESG factors helps in assessing environmental risks a company may encounter and how to manage them effectively.

The environmental pillar, which prioritizes the health of our planet, advocates for the conservation of natural resources, reduction of pollution, and promotion of biodiversity for the benefit of future generations. Our well-being is intricately linked to the health of the environment. For instance, excessive fishing not only threatens marine ecosystems, but also jeopardizes the livelihoods and food security of millions dependent on the fishing industry.

Through sustainable practices, businesses can enhance environmental efficiency and contribute to economic growth by reducing resource consumption and waste. The following aspects fall within the environmental dimension:

- ***Climate change:***

Businesses should evaluate and mitigate the impact of their operations on climate change, including GHG emissions, energy usage, and renewable resource utilization. Increasingly, they must also examine how they can adapt and build resilience of their operations to the impacts of climate change.

- ***Minimize environmental pollution through waste management and recycling:***

Under this category, businesses report on measures to minimize waste and pollution resulting from their production processes and operations. This may include adopting clean technologies, strengthening sustainable waste management, ensuring compliance with environmental regulations, minimizing emissions of hazardous gasses, and using environmentally safe chemicals.

- ***Clean energy:***

Businesses implementing ESG also track and report on measures to adopt energy-saving measures, including using energy-efficient equipment, optimizing production processes, and raising employee awareness of energy conservation. This may also include efforts to transition to renewable energy sources (e.g., solar, wind, biomass, or hydroelectric) and purchasing electricity from renewable energy providers.

- ***Natural resources:***

This category refers to measures to ensure the sustainable use of natural resources such as water, land, forests, and oceans. Businesses report on measures to protect these resources, minimize pollution, and restoring the environment, including:

  - ***Using natural resources efficiently and sustainably:*** Recycle and reuse natural resources, minimize resource waste. Use sustainably sourced input materials.

  - ***Biodiversity conservation:*** Limit the impact of business activities on natural habitats. Support biodiversity conservation activities.

1.1.2. S – Social

The social pillar refers to the acceptance of a company's business activities and operational processes by employees, stakeholders, investors, and customers. This pillar can sometimes be challenging to measure, revolving around people, evolving opinions, and landscapes.

Some companies elevate the social aspect of their business activities, integrating it into their brand. For example, Albertsons[2], a retail company, commits to ending hunger in the communities they serve. By providing groceries and meals to financially disadvantaged families, Albertsons gives back to the community where it is headquartered.

While not all companies may have the capability to be as proactive, it is important that businesses at least consider and track the social impact of their actions. Ultimately, in today's environment, consumers are increasingly concerned about doing business with

[2] https://www.albertsonscompanies.com/newsroom/press-releases/news-details/2022/Albertsons-Companies-Expands-Commitments-to-Fighting-Hunger-and-Inspiring-Healthy-Eating/default.aspx

companies that share their values. Some aspects in the social pillar that businesses should consider:

- ***Privacy rights***

Privacy policies and personal data protection are important aspects, although regulations and laws are still relatively new in Vietnam. Some common security laws include the Civil Code, Information Technology, Cybersecurity Law, etc. ESG-implementing businesses need permission from stakeholders before collecting, using, or doing anything with their personal data.

- ***Diversity, equity, and inclusion***

Diversity, Equity, and Inclusion (DE&I) play a crucial role in the social pillar of ESG. Many countries enact laws and regulations on DE&I, requiring businesses to comply. However, DE&I is also increasingly important to investors, customers, and the community.

DE&I promotes a fair and equal working environment for everyone, regardless of background, gender, religion, or sexual orientation. Building an open corporate culture, respecting differences, and encouraging creativity contribute to building a civilized, progressive society and minimizing inequality.

Implementing DE&I brings many benefits to businesses and adoption is expected to grow in the future. ESG-implementing businesses should track and report on measures to incorporate DE&I into their corporate culture for sustainable development and enhanced competitiveness.

- ***Community investment***

Businesses engaging in community investment activities are perceived as responsible organizations, caring about society. This helps enhance the company's image and reputation in the eyes of customers, partners, and the community.

Employees today are increasingly concerned about working for companies with strong social commitments. Investing in the community demonstrates that the business is a responsible workplace, providing opportunities for employees to contribute to society and personal development. Reporting on community investment activities will help companies attract employees and build brands in target communities.

- ***Development environment and working conditions***

A core requirement of the social pillar involves reporting on measures to ensure a safe working environment. Relevant metrics include ensuring the health and safety of employees during work and minimizing the risk of occupational accidents. Good working conditions, including fair wages, reasonable working hours, development opportunities, and full benefits, help improve the quality of life and employee satisfaction and are common topics for reporting under this category.

1.1.3. G – Governance

The governance pillar refers to a company's policies and management practices. At its most basic level, this pillar is about trust. Can investors trust that a company will fulfill its promises? Are the goals of the board of directors and C-suite aligned with the interests of shareholders, employees, and customers? Do employees have confidence that their workplace is safe and fair?

A prominent example of a well-governed company is Patagonia[3]. This American clothing company is known for its ethical measures, including ensuring that their products are manufactured in factories that treat workers fairly, providing employees with ample opportunities to voice their concerns. Additionally, Patagonia is transparent about its decision-making processes, regularly publishing detailed reports outlining the company's successes and failures. This transparency builds trust between the company and various stakeholders.

The governance pillar of a business is crucial because it determines how a company operates. Practicing good governance ensures that the company is run ethically and transparently, which can lead to increased profitability, reduced risk, and improved relationships with employees, customers, and other stakeholders.

Examples of items the companies report on under the governance pillar include:

- Composition of the Board of Directors and its independence.
- Shareholder rights.
- Gender pay gap.
- Executive compensation relative to similar companies.
- Transparency in policies.

1.2. The history of ESG

The idea of ESG initially arose as Corporate Social Responsibility (CSR), a term denoting a company's societal and ethical obligations, introduced in a publication in 1953 by American economist Howard Bowen[4]. It created a foundation by which business executives could explore ethics as part of their decision-making and strategic planning. Bowen’s work continues to be cited today due to its relevance to current issues related to ethics in business planning.

In the 1980s, U.S. organizations started exploring the use of regulations to manage or reduce pollution (and other external negative impacts) generated in pursuit of economic growth. They also sought to enhance safety and labor standards for employees, although

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[3] https://www.patagonia.com/our-footprint/corporate-social-responsibility-history.html

[4] https://www.grinnell.edu/news/president-howard-bowen-corporate-social-responsibility

significant progress is still needed. This became known as environmental, health, and safety (EHS). In the 1990s, EHS evolved into a movement known as Corporate Sustainability, as some management groups aimed to reduce their company's environmental impact beyond what was legally required. There was some concern that corporate sustainability was used mostly as a marketing strategy to amplify efforts to protect the environment – a practice later termed "greenwashing.[5]" This led to renewed efforts to strengthen corporate governance. Thus, in the early 20th century, the corporate sustainability movement began incorporating ideas around how companies should address social issues. Corporate philanthropy was seen as a significant aspect of CSR. Employee volunteerism was another characteristic.

The concept of ESG was first suggested in 2004 by the "Who Cares Wins" initiative of the United Nations Global Compact[6], aiming to direct institutional investors toward understanding the interconnectedness and importance of environmental, social, and governance issues and taking these aspects into account when dispersing funds. Although the term "ESG" was first used in 2004[7], it wasn't until the late 2010s that it became widely adopted. ESG has since evolved into a comprehensive framework encompassing key factors related to environmental and social impacts, as well as corporate governance structures aimed at maximizing benefits for stakeholders. The objective of these ESG standards is to encourage companies to publicly disclose how they assess and handle risks and opportunities stemming from shifts in environmental, economic, and social systems. This, in turn, enables investors to make informed choices about where to allocate their funds and where to divest.

1.3. Why should ESG matter to a company?

ESG matters because it can be linked to long term corporate performance. Recent research[8] demonstrates that successful companies excelling in all three aspects of ESG tend to outperform the market and create sustainable value over the long term. ESG disclosures enable stakeholders and investors to channel their investments towards activities that uphold sustainable practices and reflect their own principles and values. ESG reporting serves as a tool to hold institutions accountable for their operations and a catalyst for positive change that aligns with frameworks like the UN SDGs that is presented in Figure 2. Businesses that excel in ESG are often better equipped to handle emerging challenges, such as climate change, conflicts, and global pandemics, and maintain stability over time.[9]

[5] What Is Greenwashing, and How Do You Spot It? (businessnewsdaily.com)

[6] IFC report “Who cares Wins”-2004-08

[7] IFC report “Who cares Wins”-2004-08

[8] https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/the-triple-play-growth-profit-and-sustainability

[9] https://www.nature.com/articles/s41598-024-52245-7.pdf

Figure 2. United Nations Sustainable Development Goals (UN SDGs)

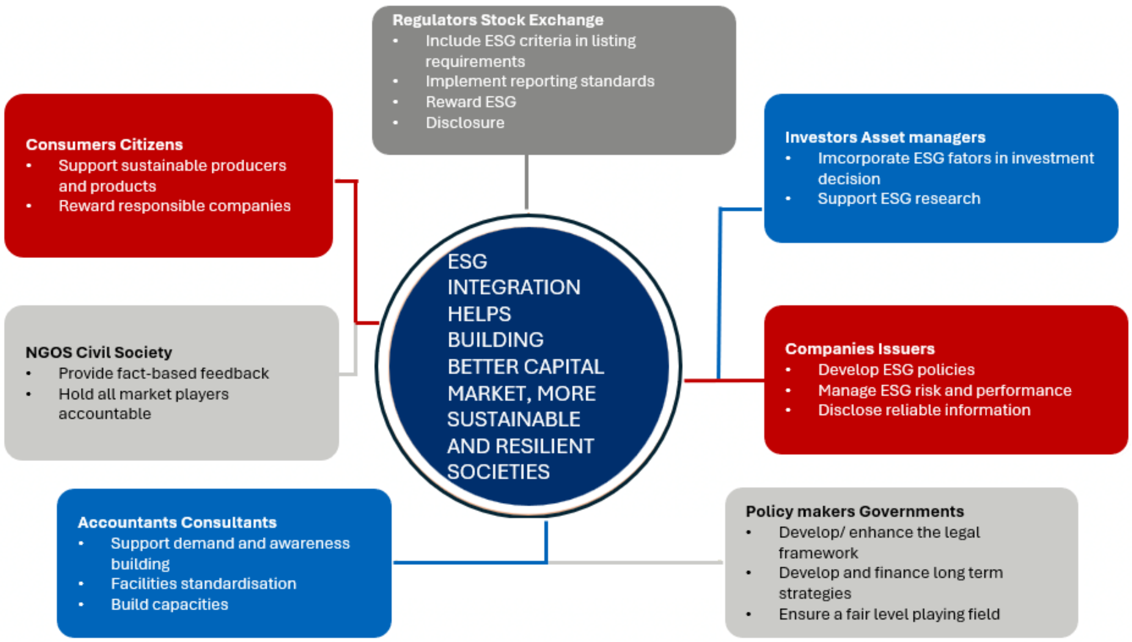
Source: Adapted from United nations

As a result of the increasing emphasis on corporate social responsibility and sustainability, businesses are experiencing mounting pressure to take decisive action and enhance transparency in their operations. At the forefront of this paradigm shift are three pivotal forces compelling businesses to confront the multifaceted challenges that influence their capacity to create enduring value over time:

- Regulatory bodies setting stringent guidelines,
- Capital providers and multilateral development institutions aligning investments with sustainable practices, and
- Employees and other stakeholders advocating for ethical conduct and social responsibility.

Figure 3 shows the various stakeholders and their roles in fostering sustainability and resilience through ESG integration. It emphasizes the interconnectedness of businesses, governments, and communities in achieving environmental goals and promoting sustainable development. Section 2.2 (Part II) below describes the emerging landscape supporting ESG reporting in Vietnam.

Figure 3. Key actors supporting sustainable societies and resilient economies through ESG integration



Source: Adapted from [IFC ESG guidebook, 2021, page 25]

ESG can create opportunities[10] for businesses as seen below and illustrated in Figure 4:

- **Top-line growth**: Financially successful companies that integrate ESG into their strategies tend to outperform their peers in terms of shareholder value[11]. ESG practices can result in market share consolidation, growth in new products, and customer diversification. By prioritizing sustainability, businesses can cultivate strong relationships with stakeholders, maximizing resources and fostering long-term success.
- **Cost reduction**: Implementing ESG practices can lead to cost reductions by addressing escalating operating expenses, including from use of raw materials, water, or energy. Research by McKinsey and Co. indicates that these factors can impact operating profits in the resource-intensive sectors like manufacturing and utilities by up to 60%[12], highlighting the financial advantages of ESG implementation.

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[10] McKinsey Quarterly report: Five ways that ESG creates value – November 2019 https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.ashx

[11] Achieving sustainable profitable growth with ESG | McKinsey

[12] ESG framework | McKinsey

- **Regulatory and legal intervention**: Strong ESG practices can safeguard businesses from financial and reputational harm caused by environmental incidents or scandals. By proactively addressing ESG issues, companies can mitigate legal risks and avoid potential regulatory penalties. Adhering to ESG standards also demonstrates a commitment to sustainability and responsible business practices. This fosters trust among partners, shareholders, and customers.
- **Productivity uplift**: Companies that excel in ESG implementation prioritize the health and well-being of their employees by offering a safe, supportive, and inclusive work environment, as well as opportunities for professional growth. A well-implemented ESG framework can potentially assist firms in attracting and retaining talented employees, possibly bolstering employee motivation and enhancing overall productivity. Research indicates[13] a link between employee satisfaction and improved shareholder returns.
- **Investment and asset optimization**: Leveraging ESG principles can optimize investments and asset management by directing funds towards sustainable and innovative ventures, such as renewable energy, waste reduction, and air filtration technologies. Businesses that implement ESG practices may experience reputational advantages and potentially enhanced access to capital.

[13] https://knowledge.wharton.upenn.edu/article/why-employee-satisfaction-matters-shareholders/

Figure 4. A strong ESG proposition links to value creation in five different ways

	Strong ESG proposition (examples)	**Weak ESG proposition** (examples)
Top-line growth	Attract B2B and B2C customers with more sustainable products Achieve better access to resources through stronger community and government relations	Lose customers through poor sustainability practices (eg, human rights, supply chain) or a perception of unsustainable/unsafe products Lose access to resources (including from operational shutdowns) as a result of poor community and labor relations
Cost reductions	Lower energy consumption Reduce water intake	Generate unnecessary waste and pay correspondingly higher waste-disposal costs Expend more in packaging costs
Regulatory and legal interventions	Achieve greater strategic freedom through deregulation Earn subsidies and government support	Suffer restrictions on advertising and point of sale Incur fines, penalties, and enforcement actions
Productivity uplift	Boost employee motivation Attract talent through greater social credibility	Deal with "social stigma," which restricts talent pool Lose talent as a result of weak purpose
Investment and asset optimization	Enhance investment returns by better allocating capital for the long term (eg, more sustainable plant and equipment) Avoid investments that may not pay off because of longer-term environmental issues	Suffer stranded assets as a result of premature write-downs Fall behind competitors that have invested to be less "energy hungry"

Source: Adapted from [ESG framework | McKinsey]

Businesses also face challenges in the adoption of ESG frameworks, including:

- **Insufficient data availability**: Investors and regulatory bodies increasingly consider ESG factors when evaluating a company's profitability and sustainability. Without adequate ESG information, a company's credibility may be compromised, impacting its ability to attract capital and maintain market value. A scarcity of ESG data can impede internal efforts to enhance environmental, social, and governance performance. Without access to clear ESG indicators and benchmarking against industry peers, businesses may struggle to identify areas for improvement and set meaningful goals. This lack of data transparency can hinder progress in achieving ESG objectives.
- **Performance concerns and sacrificing returns**: Businesses face constant pressure from investors to deliver high and consistent profits. This often leads to a

focus on short-term financial performance at the expense of long-term goals and critical factors such as sustainable development and social responsibility.

- **Greenwashing**: Greenwashing involves misleading stakeholders by falsely advertising or exaggerating a company's level of commitment to ESG practices. When exposed, businesses engaging in greenwashing risk losing stakeholder trust, resulting in decreased stock value, loss of market share, and damage to brand reputation. This deceptive practice also breeds skepticism among investors and customers, hindering genuine ESG implementation and creating challenges for businesses in building trust and credibility**.**

1.4. ESG reporting frameworks and standards

ESG reporting is a process where companies hold themselves accountable for their environmental, social, and governance practices. It involves measuring and collecting data on these areas, then presenting it in a transparent report. This information is valuable to a wide range of stakeholders, including investors who assess risk and potential, governments looking at regulations, employees seeking a responsible workplace, and clients or partners evaluating ethical practices. ESG reporting can help companies enhance their reputation, reduce risks, attract investors, and create value for society and the planet. By disclosing their ESG risks and opportunities, companies can demonstrate their commitment to transparency, accountability, and long-term value creation.[14]

ESG reporting is driven by a variety of frameworks, each of which is designed to enhance the consistency, comparability, and credibility of disclosures. These guidelines play an important role in leading corporations through the difficulties of ESG reporting and ensuring stakeholders can make informed decisions based on widely accepted criteria. ESG reporting models focus on principles. It focuses on the most important concerns, such as how data is structured and acquired.
Several ESG reporting frameworks are available to companies. Executives may need time to select and compare against one. Below we provide the most popular ESG reporting frameworks that Vietnamese companies can pick from or that may influence reporting by Vietnamese companies to buyers located abroad (i.e., European Union). The list includes examples of ESG reporting frameworks used in other Asian countries, such as India, as these may help inform Vietnamese businesses of regional trends.

- **Business Responsibility and Sustainability Report (BRSR):**[15]The Business Responsibility and Sustainability Report (BRSR) is an enhanced ESG reporting framework in India, mandated by the Securities and Exchange Board of India (SEBI) for the top 1,000 companies listed by market capitalization. It supersedes the Business Responsibility Report (BRR) and aims to deliver comprehensive ESG disclosures. BRSR enhances transparency and allows stakeholders to evaluate

[14] Integrating ESG risks and opportunities into strategies - KPMG Canada

[15] https://www.sebi.gov.in

companies' sustainability performance through detailed guidelines covering social, environmental, and governance dimensions.

- **Carbon Disclosure Project (CDP):**[16] Formerly known as the Carbon Disclosure Project, CDP is a global non-profit organization dedicated to environmental sustainability. It operates disclosure systems for investors, companies, cities, and states, focusing on climate change, forests, and water security. CDP's framework comprises a quality-reviewed GHG modeled emissions dataset, annual sustainability scores, and the A-List, aiding investors in making informed decisions and identifying sustainable partners.

- **Corporate Sustainability Reporting Directive (CSRD)**:[17] The EU's Corporate Sustainability Reporting Directive (CSRD) is an advanced ESG reporting framework for EU businesses, replacing the Non-Financial Reporting Directive (NFRD). It establishes the basis for sustainability reporting, requiring adherence to the European Sustainability Reporting Standards (ESRS). This directive is designed for multiple industries, including manufacturing, energy, financial services, and more, ensuring standardized and comprehensive ESG disclosures. It requires companies to report on their international supply chains.

- **Global Real Estate Sustainability Benchmark (GRESB):**[18] GRESB is an investor-driven organization providing validated ESG data, primarily targeting the real estate sector. It gathers, validates, scores, and benchmarks ESG data to assist investors in making informed decisions. GRESB offers annual benchmarks in categories such as Real Estate, Real Estate Development, Infrastructure Funds, and Infrastructure Assets.

- **Global Reporting Initiative (GRI):**[19] The Global Reporting Initiative (GRI) is a widely acknowledged ESG reporting framework, used by 73% of the world's 250 largest companies. GRI standards focus on the economic, environmental, and social impacts of a company in relation to sustainable development, which is of interest to a broad range of stakeholders. The GRI framework includes Universal Standards for all reporting organizations, Topic-specific Standards covering economic, environmental, and social topics, and Sector Standards organized into four priority groups of basic materials and needs; industrial; transport, infrastructure and tourism; and other services and light manufacturing. It aids companies in enhancing their ESG reporting, particularly those with established CSR programs.

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[16] https://www.cdp.net/en/

[17] https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/corporate-sustainability-reporting-directive_en

[18] https://www.gresb.com/nl-en/

[19] https://www.globalreporting.org/standards/

- **International Sustainability Standards Board (ISSB)**:[20] The International Sustainability Standards Board (ISSB) is a newly formed ESG reporting framework, consolidating the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board. Managed by the IFRS Foundation, the ISSB addresses the sustainability information needs of capital markets, aligning ESG reporting with financial standards. ISSB recently published two global sustainability and climate disclosure standards, including IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the IFRS S2 Climate-related Disclosures.

- **Sustainability Accounting Standards Board (SASB):**[21] The Sustainability Accounting Standards Board (SASB) offers global standards for disclosing financially material sustainability information. Now part of the IFRS Foundation, SASB Standards link businesses and investors to the financial impacts of sustainability issues. Covering 77 industries across 11 categories, the SASB standards provide a practical tool for implementing principles-based frameworks.

- **Science Based Targets initiative (SBTi)**:[22] The Science Based Targets initiative (SBTi) aims at reducing carbon emissions in the private sector. It helps companies quantify their emissions and provides science-based methodologies to achieve net-zero targets by 2050. SBTi promotes sustainable corporate practices and long-term environmental goals.

- **Task Force on Climate-Related Financial Disclosures (TCFD)**:[23] Established by the Financial Stability Board (FSB), the Task Force on Climate-Related Financial Disclosures (TCFD) develops climate-related financial disclosure recommendations. It focuses on governance, strategy, risk management, and metrics and targets, aiding companies and investors in understanding the financial impacts of climate-related issues. Following the ISSB Standards publication, TCFD's work was completed, but its recommendations remain available for use.

- **UN Global Compact:**[24] Offers a policy framework for organizing and developing corporate sustainability strategies in support of the 17 UN Sustainable Development Goals (SDGs).[25]

As one of the top global risks, climate change poses great threats on the short-, medium-, and long-term business operations for organizations due to its large-scale, long-term nature and limited precedent[26]. As a result, accounting and audit standards are evolving

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[20] https://www.ifrs.org/groups/international-sustainability-standards-board/

[21] https://help.sasb.org/hc/en-us

[22] https://sciencebasedtargets.org/

[23] https://www.fsb-tcfd.org/

[24] https://unglobalcompact.org/sdgs

[25] https://unglobalcompact.org/sdgs/17-global-goals

[26] https://www.weforum.org/publications/global-risks-report-2023/

to require businesses to consider climate risks in preparing financial statements. This shift reflects growing public recognition and investor emphasis on climate change as a material investment risk, particularly for carbon intensive industries[27]. ESG ratings agency MSCI[28] further reinforces this investor focus on companies taking action to manage climate related risks.

The growing demand for decision-useful, climate-related information has resulted in the development of several climate-related disclosure standards[29].

- Created by the Financial Stability Board in 2015 to improve and increase reporting of climate-related financial information, the TCFD has become a de facto standard for climate risk disclosure[30].
- The Global Sustainability Standards Board (GSSB) approved a project on Climate Change Standards in February 2023. As part of this project, GSSP is reviewing and revising GRI climate change-related standards to incorporate new issues on climate change impacts that go beyond energy consumption and GHG emissions[31].
- ISSP published the IFRS S2 Climate-related Disclosures in June 2023. It applies to annual reporting periods beginning on or after 1 January 2024[32]. As mentioned above, this standard subsumed the TCFD guidance.
- In July 2023, the European Commission adopted the European Sustainability Reporting Standards (ESRS) which covers the full range of environmental, social, and governance issues, including climate change, biodiversity and human rights[33].

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[27] https://www.blackrock.com/corporate/literature/publication/blk-commentary-sustainability-reporting-convergence.pdf

[28] https://www.msci.com/

[29] https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

[30] https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/sustainability/ey-the-future-of-sustainability-reporting-standards-june-2021.pdf

[31] https://www.globalreporting.org/standards/standards-development/project-for-climate-change-standard-s/

[32] https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/#:~:text=IFRS%20S2%20requires%20an%20entity,related%20risks%20and%20opportunities%20that

[33] https://ec.europa.eu/commission/presscorner/detail/en/mex_23_4044

CHAPTER 2: ESG CONTEXT IN VIETNAM

2.1. ESG Trends and Action Gaps in Vietnam

ESG considerations play a pivotal role in Vietnam's sustainable development efforts, particularly given the country's vulnerability to the impacts of climate change. With projections indicating a potential loss of 14.5 percent of its GDP by 2050 due to climate-related effects, Vietnam recognizes the urgency of addressing these challenges. However, climate change also presents significant opportunities, as evidenced by the country's potential to attract an estimated $753 billion in climate investment between 2016 and 2030[34]. Companies that proactively establish and implement robust ESG standards stand to gain substantial benefits and capitalize on emerging market opportunities.

Both the Vietnamese Government and enterprises are intensifying their efforts to advance sustainable development and work towards achieving net-zero emissions by 2050. Integration of ESG principles not only helps companies mitigate risks but also enables them to actively participate in sustainable supply chains. A recent survey[35] revealed that 80% of enterprises anticipate enhancing their commitment to ESG over the next two to four years. Such excitement demonstrates that more organizations now appreciate long-term gains associated with ESG such as stronger brand reputation, better risk management, or access to fresh investment opportunities. However, there remains a disparity between the intentions expressed by firms and their actual implementation.

Despite the growing recognition of the importance of ESG, challenges persist. While 57% of foreign direct investment firms have made explicit pledges regarding ESG, many listed enterprises in Vietnam are yet to formalize their commitments. [36] Moreover, among the businesses that have initiated ESG programs, only a fraction have comprehensive plans in place, with even fewer demonstrating active leadership involvement. Additionally, a significant portion of enterprises lack the necessary knowledge and resources to effectively report on their ESG initiatives, further complicating the implementation process. Even though 66% of Vietnamese businesses have initiated ESG programs, only 22% display holistic coverage which indicates that many organizations' implementation is limited as seen in Figure 5.

[34] https://www.ifc.org/content/dam/ifc/doc/mgrt/3503-ifc-climate-investment-opportunity-report-dec-final.pdf

[35] https://www.pwc.com/vn/en/publications/vietnam-publications/esg-readiness-2022.html

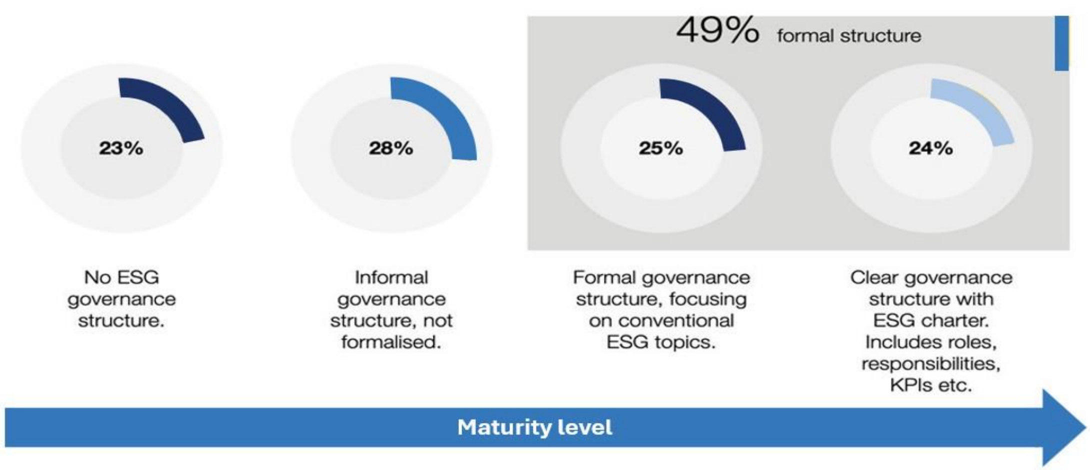
[36] https://www.pwc.com/vn/en/publications/vietnam-publications/esg-readiness-2022.html

Figure 5. The status of ESG program adoption in Vietnam

Source: Adapted from [Vietnam ESG readiness report prepared by PwC, 2022, page 21]

The absence of knowledge and understanding, particularly among leadership, is a major reason why this gap exists. In fact, just 29% of leaders surveyed felt confident in their ESG capabilities thus indicating skill shortages which must be addressed. Therefore, the practical application is limited with only about half (49%) having an established formal ESG structure and just over one third (35%) involving their board in ESG oversight as indicated in the Figure 6 below.

Figure 6. ESG governance structures adopted in Vietnam



Source: Adapted from [Vietnam ESG readiness report prepared by PwC, 2022, page 22]

Small and Medium Enterprises (SMEs) experience the most pronounced action gap. About 20% of Vietnamese companies do not show any commitment or plans to adopt

ESG practices at least for now, especially those with less than 200 employees[37]. Limited resources as well as lack of awareness serve as great entry barriers for SMEs towards joining the movement. This calls for targeted approaches to bridging this gap. There should be proactive discussions and building capacities to take care of existing gaps between various stakeholders including regulators and corporate governance associations. Proactive dialogue and capacity-building initiatives are crucial. The Vietnamese Government can play a vital role by providing educational resources, technical assistance, and potential financial incentives to encourage SME participation in the ESG landscape.

Transparency and accountability remain significant challenges in Vietnam's ESG development. ESG reporting in the country is still in its early stages, with a concerning 70% of companies having none or limited reporting practices[38]. This lack of transparency can create a perception of "greenwashing," where companies exaggerate their ESG performance to gain a competitive advantage. Independent verification, a critical element for building trust with stakeholders, is also lacking, with only 36% of companies undergoing audits. Robust reporting frameworks, coupled with independent verification processes, are essential to ensure the credibility and effectiveness of Vietnam's ESG efforts.

Despite these challenges, Vietnam's ESG adoption holds tremendous potential. The fact that a good number of Vietnamese businesses are well-aware of this issue is a strong starting point. Vietnam can leverage the power of ESG to achieve its sustainable development goals, enhance the competitiveness of Vietnamese companies, contribute to a healthier environment, and create a more inclusive and equitable society. Vietnam's ESG development requires collaboration from the government, businesses, and civil society. Through united efforts, Vietnam can turn its increasing ambition into tangible actions and become a regional leader in sustainable development.

2.2. ESG-related regulatory landscape

2.2.1. The global regulatory landscape and the implications for Vietnam

The regulatory environment surrounding ESG is undergoing profound changes worldwide, with significant implications for Vietnam. According to data from the Grantham Research Institute on Climate Change and the Environment and the Sabin Centre on Climate Change Law[39], there has been a remarkable surge in global climate change laws since 1997, encompassing over 1,200 relevant policies across 164 countries, which represent 95% of global greenhouse gas emissions.

The European Union (EU) has implemented the CSRD (See Section 1.4), obligating not only EU companies but also approximately 10,300 non-EU companies to report according

[37], Navigating ESG Trends in Vietnam: Progress and Challenges. https://arc-group.com/vietnam-evolving-supply-chain-landscape/

[38] Navigating ESG Trends in Vietnam: Progress and Challenges. https://arc-group.com/vietnam-evolving-supply-chain-landscape/

[39] https://www.lse.ac.uk/granthaminstitute/

to the European Sustainability Reporting Standards (ESRS)[40]. This directive, in effect since January 2023, mandates companies to disclose the impacts of their value chains.

Other regulatory bodies and stock exchanges worldwide are responding to investor demands for standardized ESG information tied to financial performance. For instance, Singapore has enacted a rule[41] requiring issuers to compile annual sustainability reports, covering material ESG factors, policies, practices, performance, targets, and a board statement. Singapore is also exploring mandatory disclosures for non-listed companies.

Although Vietnamese companies may not be directly subject to these regulations, they could face indirect effects, such as through commitments made under the EU-Vietnam Free Trade Agreement (EVFTA) or when seeking financing from international sources. International financial institutions (IFIs) play a vital role in financing Vietnamese companies, many of which adhere to strict international regulations and voluntary commitments, such as joining the Glasgow Financial Alliance for Net Zero (GFANZ), aligning with the global transition to net zero emissions.

The regulatory landscape is expanding in both scope and coverage, with a notable increase in responsible investment policies. In 2021 alone, there were 162 new or revised responsible policies, with 33% focusing on corporate ESG disclosure.[42] While Europe leads in responsible investment regulations, Asia is witnessing a rise in such policies.

This regulatory momentum significantly influences financial institutions' financing decisions. Members of the Net-Zero Banking Alliance, comprising 134 banks across 43 countries with a total of USD 74 trillion in assets under management, have pledged to align their lending and investment portfolios with net zero emissions by 2050 or sooner. Consequently, Vietnamese corporates seeking international financing must be mindful of and compliant with the commitments and requirements of their capital providers, who are subject to ESG regulations within their respective jurisdictions.

2.2.2. Regulatory landscape in Vietnam

Vietnam has aligned itself with the 17 SDGs as part of its overarching development strategy. Notably, in 2017, the Government of Vietnam adopted the “National Action Plan for the Implementation of Agenda 2030 for Sustainable Development” with 115 specific criteria to meet the 17 SDGs[43]. The adoption of these SDGs reflects Vietnam's dedication to the principle of "No one is left behind," signaling a comprehensive approach to development that prioritizes environmental sustainability, social inclusion, and good governance practices. The country's pursuit of these goals is not only a moral imperative but also a strategic imperative for long-term economic growth and stability.

[40] https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

[41] SGX REPORTING - Sustainability Reporting Guide (greenco-esg.sg)

[42] About PRI global responsible investment regulation database | PRI (unpri.org)

[43] https://sustainabledevelopment.un.org/memberstates/vietnam

Vietnam's regulatory framework has evolved to promote ESG integration and disclosure. Key legislative developments, such as Circular No. 155/2015/TT-BTC issued by the State Securities Commission of Vietnam, have raised awareness among corporations about the importance of sustainability reporting. This circular outlines guidelines for corporate reporting on ESG metrics, encouraging greater transparency and accountability among listed companies.

Furthermore, Vietnam's commitment to addressing climate change has been underscored by its pledge to achieve net-zero emissions during the UN Conference of Parties (COP26) held in Glasgow in 2023. Figure 7 highlights Vietnam's strategic goals in addressing climate change, which include achieving a net-zero emissions target by 2050, phasing out coal-fired power plants by 2040, ending deforestation by 2030, and reducing greenhouse gas emissions by 2030. Additionally, it notes Vietnam's proactive stance in updating its nationally determined contributions (NDCs) as part of the global climate effort. This commitment has spurred collaborative efforts between government agencies, businesses, and civil society organizations to develop strategies and action plans for mitigating climate change impacts and transitioning to a low-carbon economy.

Figure 7. Vietnam's Commitments to Climate Change Mitigation

Source: Adapted from *Report on the Readiness for ESG Practices in Vietnam in 2022* *(PWC)*

The national development plan for 2021-2030 reflects support for ESG objectives, with a strong focus on social security, well-being, and sustainable resource management. Sector-specific plans and programs have been introduced to address critical areas such as energy, transportation, and urban development, aligning with the broader goals of environmental protection and public health.

In the financial sector, efforts to promote ESG integration have been further supported by initiatives such as the Vietnam Sustainability Index (VNSI),[44] introduced by the Ho Chi

[44] ESG implementation in Vietnamese businesses (tapchicongthuong.vn)

Minh (HCM) Stock Exchange partnership with the State Securities Commission of Vietnam and the German Organization for International Cooperation. This index serves as a benchmark for sustainable development standards among publicly traded companies, providing investors with valuable insights into ESG performance and facilitating informed investment decisions.

Recent regulatory developments have further bolstered ESG practices in Vietnam. Circular No. 96/2020/TT-BTC, issued by the Ministry of Finance, mandates ESG reporting for public firms listed on the stock exchange. These reports cover a range of topics, including greenhouse gas emissions, energy consumption, and community responsibility. Additionally, firms with annual revenues exceeding 100 billion VND are legally obligated to disclose their ESG practices.

Despite these advancements, challenges remain, particularly in the area of standardized guidelines for information disclosure. Clear and consistent reporting frameworks are essential for investors and businesses to evaluate performance effectively and make informed decisions. Addressing these challenges will require ongoing collaboration between government agencies, regulatory bodies, businesses, and civil society stakeholders.

2.3. ESG reporting in Vietnam

According to the 2022 report, *Climate Reporting in ASEAN - State of Corporate Practices*[45] the most widely used ESG reporting frameworks in Vietnam are the GRI and the United Nations SDG framework (see Section 1.4 for a description of these frameworks). The report studied the top 100 companies by market capitalization listed in the HCM Stock Exchange, of which only 40 companies have published sustainability reports with disclosures relating to climate. Various reporting frameworks used in climate-related reporting in Vietnam are listed in Table 1 below.

Table 1: ESG-related reporting frameworks used in Vietnam[46]

Country/ESG Framework	TCFD	SASB	IIRC	SDG	GRI
Vietnam	0%	2%	8%	42%	65%

Though the use of GRI reporting had been in place prior to the announcement of Vietnam's national commitments at COP26 and adoption of Circular 96, its prominence has grown since the 2017 launch of its Vietnamese version by HCM Stock Exchange, the

[45] https://www.globalreporting.org/media/oujbt3ed/climate-reporting-in-asean-state-of-corporate-practices-2022.pdf

[46] Climate Report 2022.indd (globalreporting.org)

GRI, and Vietnam Chamber of Commerce and Industry[47]. Many large corporations and enterprises are using the GRI Universal and Topics standards to identify their material topics and properly report to multiple stakeholders.

The HCM and HN Stock Exchanges are both members of the UN Sustainable Stock Exchange Initiative and are TCFD supporters (since 2017 and 2019, respectively)[48]. However, according to the Guidance on Vietnam's Climate Risks and Best Practices for TCFD Disclosure[49], currently, there is no disclosure rule or reporting guidance specifically on climate-related disclosure in Vietnam. This may be why only 30% of Vietnamese businesses surveyed in 2022 had taken action on ESG reporting disclosure[50]. The survey also pointed out that Vietnamese companies lag behind global counterparts in seeking independent assurance. Only 36% of the firms preparing ESG reports, confirmed that their ESG reporting had been audited or verified by external independent parties.

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[47] Sustainability Reporting Standard launched (vietnamnews.vn)

[48] https://www.giz.de/en/downloads_els/Vietnam%20Climate%20Risks%20and%20Best%20Practices%20for%20TCFD%20Disclosure.pdf

[49] https://www.giz.de/en/downloads_els/Vietnam%20Climate%20Risks%20and%20Best%20Practices%20for%20TCFD%20Disclosure.pdf

[50] Vietnam ESG Readiness Report 2022, PwC, https://www.pwc.com/vn/en/publications/vietnam-publications/esg-readiness-2022.html

CHAPTER 3: STEPS FOR INTEGRATING ESG INTO VIETNAMESE BUSINESSES

Businesses embarking on their ESG integration journey often grapple with fundamental questions and considerations, such as:

- Where should we begin, and what priorities should we set?
- What is the business case for ESG integration, and how do we identify material ESG issues?
- How can we align ESG strategy with our organizational capabilities and model?
- Which ESG standards and frameworks are relevant to our industry and business model?
- How do we incorporate sustainability risks into our existing risk management frameworks and supply chain operations?
- What leading practices should our board adopt to enhance ESG governance and oversight?
- Do we have the necessary internal controls and technologies to ensure transparency and data integrity in our sustainability disclosures?
- How can we measure the effectiveness of our sustainability initiatives and gain assurance on their outcomes?
- What steps should we take to ensure compliance with evolving ESG regulations and standards?

There are several steps that Vietnamese companies can take to effectively address these questions and align ESG initiatives with strategic objectives. These are described below and can be implemented concurrently with each other.

3.1. Define ESG objectives

The first step involves defining high-level objectives for ESG reporting as these will inform the standards, processes, and frameworks a company selects as a guide for ESG integration. Companies may engage in ESG to comply with regulations, improve branding, reduce resource costs, gain new markets, engage with local communities, or respond to other social, environment, and governance priorities. Some companies may have multiple objectives for engaging in ESG. It is important that these objectives are widely consulted and approved at the executive level to ensure trust and buy-in.

3.2. Assess current ESG status of the business

Based on the objectives selected in Section 3.1, the company should evaluate how it is doing against these at the current moment in time. This involves collecting information and data to evaluate business activities within the ESG scope. Such an assessment may involve governance and cultural aspects, institutional capacities, regulatory developments, environmental commitments and targets, value chain management practices, risk management frameworks, and stakeholder engagement practices. The assessment will help provide an overview of the current ESG status and become the basis for planning the next steps.

3.3. Choose an ESG framework

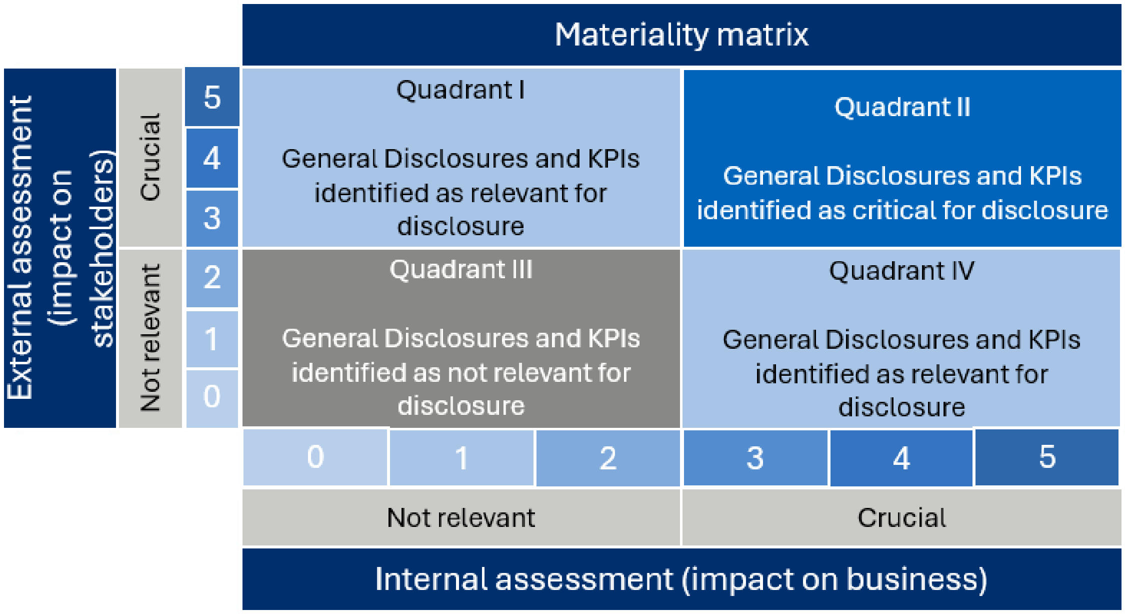
As described in Part I, ESG standards and frameworks consist of environmental, social, and governance indicators that help companies assess and disclose their performance in selected areas. Essentially, ESG frameworks act as a guide similar to those provided by the International Organization for Standardization (ISO), enabling businesses to report according to international standards for sustainability and social responsibility.

There are several international frameworks available for reporting on each of the three ESG dimensions, some of which are described in Section 1.3. The frameworks range from primarily reporting-related (i.e., Global Reporting Initiative) to focused on strategy and target-setting (i.e., UN Global Compact SDGs). Other standards are designed to comply with regulations (i.e., the European Union CSRD). When choosing an ESG framework, businesses should consider their specific ESG objectives before proceeding with adoption, including any industry-specific considerations such as GHG intensive manufacturing, consumer DEI preferences, or vulnerability to supply chain disruptions.

3.4. Identify improvement opportunities and assess materiality

All organizations have opportunities to improve sustainability, but these vary by company and its operations. Based on the results of assessing the company's ESG status in Section 3.2 and comparing it with the selected ESG framework selected in Section 3.3, businesses can start identifying opportunities to improve their ESG disclosure status. Not all improvement opportunities need to be implemented and implemented immediately. If a company has a limited budget, it may want to choose between the identified options. This can be done by evaluating the "materiality" of options using an ESG Materiality Assessment Matrix such as the one provided in Figure 8. The Matrix allows users to consider how important a proposed ESG improvement opportunity is to a company's business and its stakeholders when compared to other investments. From there, businesses can decide which improvements to make first, depending on the budget and objectives for the ESG program.

Figure 8. Materiality Assessment Matrix



Source: Adapted from [How to Prepare an ESG Report: A Step-by-Step Guide for ESG Reporting. HKEX, March 2020, page 13]

3.5. Adopt ESG reporting principles

By adhering to key ESG principles, businesses can enhance their ESG reporting, strengthen stakeholder relationships, and contribute to positive social, environmental, and economic outcomes. International ESG reporting frameworks such as GRI, ISSB, International Integrated Reporting Council (IIRC), and Federation of European Securities Exchanges (FESE) have several reporting principles in common which inform how companies are expected to implement their guidance. These include:

1. **Transparency and disclosure:** Businesses are encouraged to prioritize transparency and disclosure by openly communicating their ESG performance, risks, and impacts to stakeholders. This fosters trust, accountability, and informed decision-making among investors, customers, employees, and other stakeholders.

2. **Materiality and stakeholder engagement**: Identifying and prioritizing material ESG issues through robust stakeholder engagement processes ensures that organizations focus on areas that are most relevant to their business and stakeholders. This enables targeted action and effective resource allocation towards addressing key sustainability challenges.

3. **Integration into decision-making**: Embedding ESG considerations into strategic decision-making processes ensures that sustainability is integrated into the core

of organizational operations and long-term planning. This involves assessing the ESG implications of business strategies, investments, and operational practices to drive value creation and risk mitigation.

4. **Alignment with standards and frameworks**: Businesses should align their ESG reporting and practices with internationally recognized standards and frameworks such as GRI, ISSB, and IIRC described in Section 1.4. Adhering to common reporting principles enhances comparability, consistency, and credibility of ESG disclosures, facilitating better benchmarking and analysis by stakeholders.

5. **Continuous improvement and learning**: Embracing a culture of continuous improvement and learning allows firms to adapt to evolving ESG trends, regulations, and stakeholder expectations. Regularly reviewing and updating ESG strategies, targets, and performance metrics enables businesses to stay ahead of emerging sustainability challenges and opportunities.

6. **Accountability and governance**: Establishing clear accountability mechanisms and robust governance structures at the board and management levels ensures effective oversight of ESG integration efforts. Boards should actively engage in ESG oversight, set clear expectations for management, and hold executives accountable for driving sustainable performance.

3.6. Establish a governance strategy

Governance and strategy are the bedrock upon which businesses build their ESG and sustainability frameworks. This includes the establishment of robust governance models, the articulation of a strategic direction, and the cultivation of a culture centered around sustainability principles, accountability, and transparency. Businesses must ensure that their vision and mission statements prioritize long-term value creation for all stakeholders. Relevant governance and strategy considerations include:

- **Crafting a sustainability vision and mission:** Vision and mission statements should encompass significant ESG issues, respond to long-term megatrends, and align with SDGs and government commitments. Clear objectives aimed at achieving a "net positive impact" should be defined, guiding the organization towards sustainable contributions.

- **Governance structure and accountabilities:** At the helm of governance lies the board, bearing ultimate accountability for organizational performance, including sustainable practices and the mitigation of negative impacts on the environment and society. Defining clear governance structures and accountabilities at the board level is essential to enable effective oversight of sustainability initiatives. Enhancing governance effectiveness can involve appointing directors with relevant sustainability expertise and establishing dedicated committees or sub-committees.

- **Setting the tone for DEI at the top:** Embracing diversity among board members fosters an inclusive organizational culture, attracts talent, and brings diverse perspectives to the table. Genuine representation and understanding of the significance of diverse perspectives are crucial for the success of diversity initiatives. An example from Coteccons Construction JSC[51] underscores the importance of tailored board governance structures in driving sustainability efforts.

3.7. Incorporate ESG into operations and supply chains

Integrating sustainability into operations and supply chains is vital for long-term value creation. Key strategies include eco-friendly manufacturing, sustainable sourcing and product design, traceability, decarbonization, efficient delivery, effective return and disposal practices, and other circularity models. Businesses can follow a structured approach by prioritizing high-risk areas through materiality assessments, implementing targeted mitigation actions, and evaluating impacts to ensure progress and necessary adjustments.

Integrating ESG into risk management is also important for operational success. Key actions include identifying and logging sustainability-related risks, reviewing and quantifying material impacts, establishing mitigation controls, and developing comprehensive metrics for effective stakeholder communication and continuous improvement.

3.8. Define ESG goals, targets and indicators

Identifying relevant ESG issues and establishing measurable goals that align with the company's business strategy and ESG objectives are essential next steps. ESG indicators and targets are crucial for companies to monitor their progress towards sustainability and ethical impact. For example, a manufacturing company may focus on reducing GHG emissions, minimizing waste, and improving energy efficiency as primary ESG objectives to save costs and use less resources. A common method for goal-setting is the "S.M.A.R.T." approach, ensuring that objectives are Specific, Measurable, Achievable, Relevant, and Time-bound.[52]

3.9. Develop a strategy for ESG implementation

At this stage, detailed plans for achieving ESG goals are outlined. This includes defining timelines, milestones, and assigning responsibilities for each task. Establishing key performance indicators (KPIs) to measure progress towards ESG goals is essential for effective monitoring, timely adjustments, and simplified reporting internally and externally.

It is important for companies to have suitable ESG KPIs that reflect priorities and objectives. These indicators will vary depending on the specific areas that companies aim to enhance. Example ESG KPIs include greenhouse gas emissions, energy and water

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[51] https://www.coteccons.vn/en/governance/

[52] https://getgoodlab.com/resources/5-steps-to-making-data-driven-esg-goals-part-of-your-business-strategy/

consumption, waste generation, employee compensation data and turnover rate, charitable contributions, and diversity within the workforce and board of directors.

3.10. Define data and reporting systems

ESG data management involves establishing robust governance structures, leveraging technology for data management, promoting stakeholder engagement, ensuring data quality through validation processes, staying adaptable to evolving regulations, and collaborating with industry partners to share best practices and insights. These measures help ensure accuracy, balance, clarity, comparability, reliability, and timeliness in sustainability reporting, enhancing the credibility and usefulness of the reported information.

Incorporating ESG data into organizational processes includes the following considerations:

1. **Integration of new data**: Embracing ESG involves incorporating diverse data from external sources such as industry reports, market analyses, and regulatory updates. Additionally, internal data from various operational and HR systems, like production metrics and employee demographics, must be harnessed. Integrating this wide array of data sources presents technical and logistical hurdles, requiring robust data management systems and processes.

2. **Organizational-wide usage**: Unlike traditional data, which may be siloed within specific departments, ESG data permeates the entire organization. It influences decision-making across departments, from finance and marketing to operations and human resources. Ensuring that all stakeholders understand the relevance and implications of ESG data is essential for effective implementation and alignment with organizational objectives.

3. **Evidenced and explainable data**: Transparency and accountability are central to ESG initiatives. As such, all ESG data must be backed by evidence and capable of being explained comprehensively. This means maintaining clear records of data sources, methodologies, and calculations, allowing stakeholders to trace the origins of information and understand its significance. The company should also establish clear reporting channels and communication mechanisms to enhance trust and accountability in sustainability disclosures.

4. **Data quality variability**: The quality of ESG data can vary significantly, both within internal datasets and when sourced externally. Internal data may suffer from inconsistencies, inaccuracies, or incompleteness, stemming from disparate systems or manual input processes. External data, on the other hand, may lack standardization or reliability, posing challenges for comparison and analysis. Addressing these issues requires robust data governance practices and rigorous validation procedures.

5. **Evolving regulations and requirements**: ESG reporting frameworks and regulatory standards are constantly evolving in response to changing societal expectations and environmental challenges. Businesses must stay abreast of these developments and adapt their data management processes accordingly. This necessitates agile systems and flexible frameworks that can accommodate new requirements and ensure compliance with emerging standards.

3.11. Incorporate monitoring, continuous improvement, and assurance practices

Internal assurance mechanisms play a vital role in monitoring an organization's ESG performance. These mechanisms involve formalization of oversight for ESG-related risks and internal controls that ensure the accuracy, reliability, and effectiveness of ESG-related activities within the organization. The introduction of such mechanisms enhances accountability, transparency, and trust in an organization's ESG performance.

Internal assurance mechanisms typically involve:

1. **Regular assessments**: Leveraging self-assessment practices and conducting regular evaluations of ESG-related activities and processes to identify areas of improvement and ensure alignment with organizational goals and external standards.

2. **Audits:** Systematic examinations of ESG performance metrics, processes, and controls to verify compliance with internal policies, regulatory requirements, and best practices.

3. **Reviews:** Ongoing reviews of ESG initiatives, data, and reporting to ensure accuracy, completeness, continuous improvement, and transparency in communicating ESG performance to stakeholders.

4. **Collaboration with specialists:** Engagement of internal or external subject matter experts with expertise in ESG issues to provide insights, guidance, and support for ESG-related audits and assessments.

Depending on the objectives for ESG reporting, businesses may also need to obtain external assurance, which involves:

- Collaborating with external service providers possessing extensive global ESG expertise to assure the effectiveness of sustainability initiatives and internal controls. The large international accounting firms in Vietnam offer ESG assurance and consulting services in Vietnam. These firms provide a range of services, including ESG reporting, strategic sustainability consulting, and independent assurance on sustainability data, helping companies align their operations with international ESG standards.

- Ensuring that all ESG KPIs and disclosures receive assurance up to a reasonable level, reflecting a strong level of confidence in the accuracy and dependability of the reported data.
- Using recognized accounting methodologies like ISAE 3000[53]and protocols such as ISO 14064-1:2018[54] and ISO 14065[55] which include requirements for verification of GHGs and other environmental information, respectively. This ensures alignment between internal control processes and external verification standards, thereby enhancing the trustworthiness and transparency of ESG reporting efforts.

[53] Microsoft Word - ISAE 3000 (Revised) (mia.org.my)

[54] ISO 14064-1:2018 Greenhouse gases Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals (Edition 2, 2018) https://www.iso.org/standard/66453.html

[55] ISO 14065 General principles and requirements for bodies validating and verifying environmental information (Edition 3, 2020) ISO-14065-2020.pdf (iteh.ai)