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## **The Risk of “Financial Greenwashing” in Green Capital-Raising Activities in Vietnam: Identification, Mechanisms and Control Solutions**

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### **Abstract**

Vietnam’s green capital market is growing rapidly across both green credit and green bond channels in order to meet the financing needs of the net-zero emissions (Net Zero) target by 2050. However, the pace of market development has far outstripped supervisory capacity, creating conditions for the risk of financial greenwashing. Using a desk research method – synthesis, analysis, evaluation and comparison – this study identifies the nature of financial greenwashing, systematises four mechanisms arising along the green

capital-raising lifecycle, and proposes a control framework that links each risk point to a responsible party and a corresponding instrument. The findings contribute to connecting the concept of financial greenwashing with the requirement of integrity in Environmental – Social – Governance (ESG) practice, while providing a reference basis for refining the green taxonomy, the independent verification mechanism and the sanction regime in Vietnam.

**Keywords:** Financial Greenwashing, Green Capital Raising, Green Bonds, ESG, Green Taxonomy

### **1. Introduction**

At the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26), Vietnam committed to achieving net-zero emissions (Net Zero) by 2050. To realise this target, the World Bank (WB) estimates that from now until 2040 Vietnam needs to mobilise an additional investment of about USD 368 billion, equivalent to 6.8% of gross domestic product (GDP) per year. This enormous financing need has driven the rapid development of green capital-raising instruments. On the credit channel, by the end of the first quarter of 2025, 58 credit institutions had outstanding green credit balances totalling over VND 704,244 billion, accounting for about 4.3% of the total outstanding loans of the economy, with an average growth rate over the 2017–2024 period of more than 21% per year (State Bank of Vietnam, 2025) [7]. On the bond channel, over the 2016–2024 period, the total issuance of green, social and sustainability bonds in Vietnam reached nearly VND 33,500 billion (more than USD 1.4 billion), with 2024 alone recording growth of 171% over the previous year (FiinRatings, 2025) [2].

However, behind this impressive growth lies a worrying institutional gap: the capacity to supervise, verify and ensure the substantive “greenness” of capital flows has not kept pace with the scale of the market. For much of the growth period, Vietnam lacked a unified green taxonomy at the national level, while the mechanisms for independent verification and post-monitoring of fund use remained voluntary. It is precisely this gap between the pace of market development and supervisory capacity that creates fertile ground for financial greenwashing – understood as an issuer’s selective disclosure, exaggeration or concealment of environmental performance in order to access green capital at preferential cost without delivering the corresponding ecological commitments. Under information asymmetry, investors struggle to accurately assess actual environmental performance, allowing issuers to manipulate disclosures. Recent international studies have identified three common manifestations of greenwashing in the green bond market: exaggerated environmental pledges, misallocation of raised funds, and misleading disclosure (Shi *et al.*, 2023; Ge *et al.*, 2025) [6, 3].

Nevertheless, domestic studies on green finance have largely stopped at analysing the benefits, current status and barriers to the development of green credit or green bonds, and no work has yet systematically examined in depth the mechanisms through which greenwashing arises within the capital-raising activity itself – from project classification, issuance and disbursement, to disclosure. Meanwhile, financial greenwashing is closely tied to the dimension of integrity in Environmental – Social – Governance (ESG) practice, a perspective scarcely explored in the context of Vietnam’s capital market. This is

precisely the research gap this paper seeks to fill. Stemming from this gap, the study poses three questions: (i) How is financial greenwashing in green capital-raising activities identified? (ii) Through what mechanisms does this behaviour arise along the green capital-raising lifecycle in Vietnam? (iii) What control solutions are needed to limit this risk? Correspondingly, the objective of the paper is to identify the nature, systematise the underlying mechanisms, and propose a control framework for financial greenwashing appropriate to Vietnam’s context. Theoretically, the study helps clarify and connect the concept of financial greenwashing with the requirement of integrity in ESG practice – a novel approach in the domestic academic literature. Practically, the findings provide a reference for regulators in refining the green taxonomy, supervisory mechanisms and sanctions, while helping investors and issuers raise awareness so as to protect the transparency and trust of a green capital market still in its formative stage.

**2. Theoretical Framework and Literature Review**  
**2.1 The Concepts of Greenwashing and Financial Greenwashing**

Greenwashing was first systematically defined as a form of communication that leads recipients to form overly positive perceptions of the actual environmental performance of an organisation or product. In their foundational work, Delmas and Burbano (2011) [1] note that greenwashing results from the combination of concealing negative information and showcasing positive environmental information, and emphasise that this behaviour is especially hard to control where regulation is limited and uncertain. The authors classify the drivers of greenwashing into three levels – external (institutional and market pressures), organisational, and individual – an analytical framework that retains its reference value to this day.

When shifting from consumer product markets to capital markets, the concept of financial greenwashing carries certain particularities. Unlike traditional greenwashing, which occurs mainly at the communication and product-marketing stage, financial greenwashing arises within the very process of raising and allocating capital: issuers selectively disclose or exaggerate environmental commitments, or misallocate funds relative to their original pledge, in order to access green capital at preferential cost. In the green bond market, manifestations of greenwashing include exaggerated pledges, misallocation of raised funds, and misleading disclosure (Shi *et al.*, 2023) [6]. Some issuers even “disguise” conventional bonds as green bonds to cater to market preferences, leading to serious moral hazard and harming the interests of stakeholders (Zhu *et al.*, 2024) [9].

**2.2 Green Capital-Raising Activities and International Principles**

Green capital raising in Vietnam currently takes place mainly through two channels: green credit and green bonds. Internationally, since 2014 the International Capital Market Association (ICMA) has issued the Green Bond Principles (GBP), establishing a global standard built around four pillars: use of proceeds, the process for project evaluation and selection, management of proceeds, and reporting. These four pillars are precisely the “control points” where greenwashing can creep in if independent verification is lacking. Notably, many green bond issuances in Vietnam

still rely on voluntary compliance with ICMA principles rather than being bound by a mandatory national green taxonomy.

**2.3 Underlying Theories**

Explaining the mechanisms behind financial greenwashing can draw on four mutually reinforcing theories.

**First**, information asymmetry theory holds that issuers possess more information about the actual environmental performance of a project than investors do, creating conditions for the manipulation of disclosures. This is regarded as the root condition giving rise to greenwashing in the green bond market.

**Second**, signaling theory explains why third-party certification matters: by sending a credible signal, independent verification helps narrow the information gap between issuers and the market. However, Zhu *et al.* (2024) [9], applying a signalling game model, show that third-party certification only genuinely prevents greenwashing when issuers have an incentive to participate voluntarily and when the information-transmission mechanism is sufficiently effective.

**Third**, stakeholder theory frames the responsibility of issuers towards investors, regulators and society, thereby emphasising that greenwashing is a violation of integrity in ESG practice that erodes stakeholder trust.

**Fourth**, institutional theory explains greenwashing as a “symbolic compliance” response to institutional pressure: where the legal framework is incomplete and sanctions are weak, issuers tend to emit symbolic rather than substantive green signals.

**Table 1:** Conceptual approaches to financial greenwashing and underlying theories

Aspect	Core idea	Explanatory theory	Reference
Nature of greenwashing	Concealing negative and promoting positive environmental information	Institutional theory	Delmas & Burbano (2011) [1]
Enabling condition	Investors cannot assess actual environmental performance	Information asymmetry	Shi <i>et al.</i> (2023) [6]
Manifestations in capital raising	Exaggerated pledges, fund misallocation, misleading disclosure	Information asymmetry & stakeholder theory	Shi <i>et al.</i> (2023) [6]; Ge <i>et al.</i> (2025) [3]
Control mechanism	Independent verification works when issuers are incentivised to participate	Signaling theory	Zhu <i>et al.</i> (2024) [9]

**2.4 Literature Review and the Research Gap**

Internationally, greenwashing in the green bond market has become an active research topic, focusing on three main directions: (i) identifying and measuring greenwashing by comparing pledges with actual ESG performance (Ge *et al.*, 2025) [3]; (ii) assessing the role of third-party certification as a control mechanism (Zhu *et al.*, 2024) [9]; and (iii) analysing the consequences of greenwashing for pricing and market trust (Shi *et al.*, 2023) [6]. Notably, the International Finance Corporation (IFC) has warned that emerging economies face a higher greenwashing risk – where issuers may misstate the use of proceeds to access green finance

markets – and has recommended tightening disclosure requirements and harmonising green taxonomies (IFC, 2023) [4].

Domestically, studies on green finance have revolved mainly around the status, benefits and barriers to the development of green credit and green bonds. However, almost no work has systematically and in depth examined the mechanisms through which greenwashing arises within each stage of the green capital-raising lifecycle, nor framed this issue in relation to integrity in ESG practice. This is precisely the research gap the paper addresses: connecting the international theoretical framework on greenwashing with the institutional particularities of Vietnam's green capital market, thereby identifying the mechanisms and proposing appropriate control solutions.

### 3. Research Methodology

#### 3.1 Approach and Research Method

The study uses a desk research method based on secondary data, with four core operations: synthesis, analysis, evaluation and comparison. This approach suits the paper's objective, because identifying the nature and systematising the mechanisms of financial greenwashing requires juxtaposing the international theoretical framework, green-finance standards and principles, the domestic legal-regulatory system, and market practice – data sources that are qualitative and dispersed. The method allows these multi-dimensional sources to be connected into a unified analytical framework without requiring primary data collection, thereby ensuring the feasibility of the study.

Specifically, synthesis is used to systematise the relevant concepts, underlying theories and legal provisions; analysis to dissect the mechanisms of greenwashing at each stage of the green capital-raising lifecycle; evaluation to assess the level of risk and the shortcomings of the current supervisory framework; and comparison to juxtapose international experience and recommendations with Vietnam's institutional context as a basis for proposing solutions.

#### 3.2 Secondary Data Sources

Secondary data were collected from four groups of sources to ensure reliability and verifiability: (i) academic literature comprising peer-reviewed scientific articles (2011–2025) providing the conceptual and theoretical framework; (ii) legal documents and policy orientations of Vietnam relating to green credit and green bonds; (iii) reports of regulatory agencies and professional organisations including the State Bank of Vietnam (SBV), the Ministry of Finance, the State Securities Commission (SSC) and the credit rating organisation FiiRatings; and (iv) reports of international organisations such as the WB, the IFC and the ICMA.

#### 3.3 Analytical Process and Reliability Assurance

The research process was carried out in three steps. Step one, collecting and screening documents according to criteria of source reliability and recency (prioritising the 2022–2026 period for market and policy data). Step two, classifying and coding information by each stage of the green capital-raising lifecycle – from project classification, issuance and disbursement, use of proceeds, to disclosure – in order to identify the corresponding risk points. Step three, cross-checking among sources to verify consistency, while comparing with international recommendations. All cited

academic sources were verified via their Digital Object Identifier (DOI).

### 4. Findings and Discussion

#### 4.1 The status of green capital raising and the Institutional gap in Vietnam

Vietnam's green capital market is growing rapidly in both the credit and bond channels. However, the salient feature governing the entire greenwashing risk is institutional lag: throughout the rapid-growth period of 2017–2024, Vietnam still lacked a unified national green taxonomy, forcing most green bond issuances to rely on voluntary compliance with ICMA's Green Bond Principles and the independent assessment of international organisations.

The legal turning point came only when the Prime Minister issued Decision No. 21/2025/QĐ-TTg dated 4 July 2025, stipulating the environmental criteria and the confirmation of investment projects belonging to the green classification list, effective from 22 August 2025. This Decision established, for the first time, the legal basis for confirming whether a project belongs to the green classification list, as a basis for granting green credit and issuing green bonds. However, even with a classification framework in place, two gaps remain: first, the mechanism encouraging adoption by credit institutions is still voluntary rather than mandatory; second, the mechanisms for post-issuance monitoring of fund use and for sanctioning misstatement of purpose have not been clearly and coherently regulated. These gaps create room for financial greenwashing.

#### 4.2 Identifying and classifying financial greenwashing mechanisms along the capital-raising lifecycle

On the basis of synthesising the international theoretical framework and juxtaposing it with Vietnam's institutional particularities, the study identifies four groups of mechanisms giving rise to financial greenwashing, distributed along the four stages of the green capital-raising lifecycle.

##### First, greenwashing at the project-classification stage:

This is the “root” mechanism, in which issuers falsely claim or attach a “green” label to projects that do not genuinely meet environmental criteria, or select favourable criteria to legitimise them. Where the green taxonomy is not mandatory and confirmation still relies heavily on self-declared dossiers, the risk of “disguising” conventional bonds as green bonds is real (Zhu *et al.*, 2024) [9].

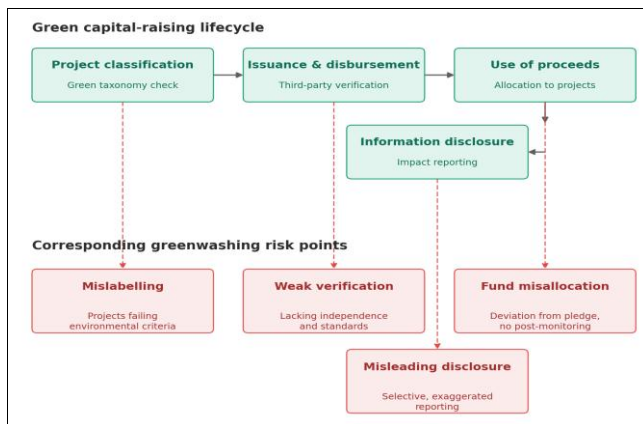
##### Second, greenwashing at the issuance and disbursement stage:

This mechanism arises when third-party certification lacks standards or independence. Under signaling theory, independent verification should be a credible signal that narrows information asymmetry; but Zhu *et al.* (2024) [9] demonstrate that when certification is not mandatory and issuers lack an incentive to participate, this mechanism's effectiveness in preventing greenwashing declines markedly.

**Third, greenwashing at the use-of-proceeds stage:** This is the most serious manifestation, where raised funds are allocated away from the committed “green” purpose. Owing to the absence of post-monitoring and fund-tracing mechanisms, misallocation is hard to detect in a timely manner (Shi *et al.*, 2023; IFC, 2023) [6, 4].

**Fourth, greenwashing at the disclosure and impact-**

**reporting stage:** This mechanism manifests as selective disclosure, exaggeration of environmental results or concealment of negative impacts – consistent with the nature of greenwashing identified by Delmas and Burbano (2011) [1]. Post-issuance impact reports, if not independently audited, become the market’s “blind spot”.



**Fig 1:** Financial greenwashing mechanisms along the green capital-raising lifecycle

#### 4.3 Causes and enabling conditions

The mechanisms above do not exist in isolation but stem from several systemic underlying conditions. First, information asymmetry between issuers and investors is the root condition: investors struggle to access and verify a project’s actual environmental data, creating room for the manipulation of disclosures (Shi *et al.*, 2023) [6]. Second, the lag and inconsistency of the green taxonomy: although Decision 21/2025/QD-TTg established the criteria, its adoption by credit institutions remains a matter of encouragement. Third, the limitations of the independent verification mechanism: when third-party certification is not mandatory and issuers lack an incentive to participate, its effectiveness in screening out greenwashing declines (Zhu *et al.*, 2024) [9]. Fourth, sanctions and post-monitoring capacity remain weak, particularly the absence of fund-tracing mechanisms and the auditing of post-issuance impact reports.

Notably, these conditions are self-reinforcing. When a loose classification framework (institutional level) meets the incentive to exploit preferential capital costs (organisational level), in an environment of weak supervision, greenwashing becomes a strategically “rational” choice – consistent with the multi-level analytical framework of Delmas and Burbano (2011) [1].

#### 4.4 Discussion: consequences for the capital market and ESG integrity

The consequences of financial greenwashing extend beyond individual transactions. At the market level, when investors cannot distinguish “genuinely green” bonds from “falsely green” ones, adverse selection may emerge, eroding the green premium and market trust, thereby impeding the very capital flows needed for the Net Zero target. At the level of ESG integrity, financial greenwashing is a manifestation of the rupture between commitment and practice – where the Governance factor, which ought to ensure the truthfulness of environmental disclosure, is neutralised. In other words, financial greenwashing is not merely a technical risk of a

capital instrument, but a test of the integrity of Vietnam’s entire ESG ecosystem.

### 5. Solutions to Control Financial Greenwashing Risk

On the basis of the four greenwashing mechanisms identified and their enabling conditions, the study proposes a control framework comprising four groups. The overarching principle is to tie each solution to the precise stage where the risk arises and to the precise responsible party, while shifting the control mechanism from “voluntary” to “conditionally mandatory” at key risk points.

#### 5.1 Institutional solutions

The focus is on completing and making mandatory the green taxonomy. Decision 21/2025/QD-TTg created an initial legal foundation, but it is necessary to move towards a roadmap of mandatory application for large-scale green bond issuances and green credit, rather than stopping at encouragement. In parallel, disclosure requirements should be standardised in line with the four pillars of the ICMA Green Bond Principles to create a consistent basis for comparison. Harmonising the green taxonomy with international standards is also a key recommendation for emerging markets in order to reduce the risk of misstating the use of proceeds (IFC, 2023) [4].

#### 5.2 Solutions for supervision and independent verification

To overcome the limitations of voluntary certification, incentives and conditions are needed for the third-party certification mechanism to genuinely take effect. Under the signalling game model, independent verification only prevents greenwashing when issuers have an incentive to participate and information is transmitted effectively (Zhu *et al.*, 2024) [9]. Solutions therefore include: (i) tying incentives to obtaining certified independent verification; (ii) establishing minimum standards for the competence and independence of verifying organisations; and (iii) building a mechanism for post-issuance monitoring of fund use together with a requirement for independent auditing of environmental impact reports.

#### 5.3 Solutions for sanctions and enforcement

The sanction framework must be sufficiently deterrent against mislabelling and fund misallocation, including financial penalties, public disclosure of violations, and a mechanism to claw back granted incentives. Under institutional theory, it is precisely the uncertainty and weakness of regulatory enforcement that is the foremost driver of greenwashing (Delmas & Burbano, 2011) [1]; accordingly, clearly specifying the legal consequences and ensuring consistent enforcement will alter issuers’ cost-benefit calculus.

#### 5.4 Solutions for market capacity

Finally, the capacity of three groups of actors should be enhanced: issuers (the capacity to build green bond frameworks and measure impact), investors (the capacity to appraise and monitor green information so as to reduce information asymmetry), and verifying organisations (professional competence and professional ethics). Developing a transparent, accessible environmental database is the infrastructural condition for the above solutions to operate effectively.

**Table 2:** Matrix of greenwashing mechanisms, risk points, responsible parties and proposed controls

Mechanism (by stage)	Key risk point	Responsible party	Proposed control
Project classification	Mislabelling; projects failing criteria	Regulator; issuer	Make green taxonomy mandatory; harmonise with international standards
Issuance & disbursement	Verification lacking independence and standards	Verifier; regulator	Tie incentives to certified verification; set minimum verifier requirements
Use of proceeds	Fund misallocation; no post-monitoring	Issuer; supervisor	Post-issuance monitoring and fund tracing; claw back incentives on breach
Information disclosure	Selective, exaggerated impact reporting	Issuer; independent auditor	Independent audit of impact reports; standardise disclosure per ICMA's four pillars

Table 2 shows the systemic logic of control: every risk point along the capital-raising lifecycle has a corresponding responsible party and control instrument, thereby closing the “supervisory gap” that is the source of financial greenwashing.

**6. Conclusion**

In a context where Vietnam’s green capital market is growing rapidly while supervisory capacity has not kept pace, financial greenwashing has become a present risk, threatening both the effectiveness of capital raising for the Net Zero target and integrity in ESG practice. Using a desk research method, the paper has achieved three main results. First, it clarifies the nature of financial greenwashing as a distinctive form of greenwashing that arises within the process of raising and allocating capital. Second, it systematises four mechanisms of greenwashing distributed along the green capital-raising lifecycle, together with their self-reinforcing underlying conditions. Third, it proposes a control framework that ties each risk point to a responsible party and a corresponding instrument, on the principle of shifting from voluntary to conditionally mandatory at key risk points.

As for contributions, theoretically the study connects the international theoretical framework on greenwashing with the institutional particularities of Vietnam’s green capital market, while framing financial greenwashing in relation to ESG integrity. Practically, the findings provide a reference for regulators in refining the green taxonomy, the independent verification mechanism, post-monitoring and sanctions.

The study also has some limitations. As it relies entirely on secondary data, the paper has not quantified the prevalence and actual impact of financial greenwashing in Vietnam, nor empirically tested the effectiveness of the proposed solutions with primary data. This points to directions for future research: conducting quantitative studies to measure the gap between pledges and actual environmental performance of issuances; analysing typical case studies of specific green bond transactions; and assessing the impact of

Decision 21/2025/QD-TTg after a period of real-world implementation.

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