

Newsletter:

Procedures for Foreign Direct Investment (FDI) in the Energy and Waste Management Sectors in Vietnam



Author
Nguyen Thi Hoa
Managing Partner
(+84) 974 682 139
hoanguyen@cdlaf.vn

In Brief

Amid global efforts toward sustainable development and minimizing environmental impact, Vietnam has emerged as a promising destination for foreign investors. With rapid urbanization, increasing energy demands, and growing pressure on waste management, Vietnam is opening its doors to foreign direct investment (FDI) projects in these two critical sectors. Vietnam's transformation is not only demonstrated by its strong commitment to sustainable development goals but also through attractive legal reforms and incentive policies. However, to seize this opportunity, investors must understand the complex legal procedures and prerequisites for project implementation in Vietnam.

This article provides a comprehensive overview of the procedures for FDI in Vietnam's energy and waste management sectors, from planning and licensing to project operation management. It also highlights potential legal challenges and offers solutions to help investors optimize business opportunities in this emerging market.

Key Takeaways

1. Analysis of Investment Sectors in the Energy Field

1.1 Installation of Electrical Systems

A franchising is a business model in which one party owns a brand or business model (franchisor) that allows another person or organization (franchisee) to use the brand, products, business processes, and other related elements to do business under agreed terms. This is a popular form of trade cooperation, especially in industries such as food, retail, and services.

The electrical system installation industry holds strong growth potential in Vietnam due to swift urbanization and industrialization. Services in this sector include installing wiring systems, electrical equipment, lighting systems, fire alarms, and anti-theft systems, all of which are for both residential and industrial projects. According to WTO commitments, 100% foreign-owned enterprises are allowed to provide services only to foreign-invested enterprises or projects during the first 2 years of market entry. This presents opportunities but also challenges, requiring investors to clearly understand market access conditions to develop appropriate strategies. Compliance with technical and legal standards is a prerequisite for operating in this sector.

1.2. Maintenance and Repair of Electrical Equipment

The maintenance and repair of electrical equipment play a crucial role in ensuring the stable operation of the energy system. This sector includes servicing transformers, electric motors, batteries, and other industrial electrical devices. WTO commitments allow joint ventures with a maximum foreign capital contribution of 49% upon entry, increasing to 51% after 3 years, and permitting 100% foreign ownership after 5 years. This provides a clear roadmap for investors aiming to enter the market step by step. However, the high technical requirements and strict maintenance regulations necessitate a well-prepared workforce and robust operational processes.

1.3. Electricity Distribution and Transmission

Electricity distribution and transmission form the backbone of the national energy system, connecting power sources from producers to consumers. As a conditional business sector under the Investment Law, foreign investors must comply with stringent legal requirements such as obtaining permits for transmission, distribution, wholesale, and retail electricity operations. WTO commitments do not restrict market access for this sector, creating significant opportunities for foreign enterprises. However, investors should be aware of the complex licensing procedures and the high cost of infrastructure investment required for long-term and effective operations.

1.4. Relevant Architectural and Technical Consultancy Activities

Technical consultancy activities play an essential supporting role in the design and implementation of energy projects. These services include planning, technical evaluation, and project supervision. According to WTO commitments, during the first 2 years of market entry, 100% foreign-owned enterprises are permitted to provide services only to foreign-invested enterprises in Vietnam. This condition requires investors to choose suitable partners to expand the market during the initial phase. Additionally, meeting specific licensing requirements based on the scope of activities is a critical factor in ensuring legal compliance and building a foundation for sustainable growth.

2. Procedures and Processes for Investment

2.1. Preparing Investment Registration Dossier

Investors must prepare a comprehensive set of documents, including an Investment project proposal (objectives, scale, location, and the need for land use); Detailed financial plan (funding sources, estimated cost, and financing capacity); Legal documentation (license to operate, financial capacity reports, technical competency, or project management experience). Careful preparation of these documents helps minimize risks and expedite the approval process.

2.2. Appraisal and Issuance of Investment Registration Certificate

The dossier will be submitted to the local Department of Planning and Investment or the Ministry of Industry and Trade for large-scale or inter-provincial projects. The appraisal process focuses on assessing the project's legality, feasibility, and economic-social impacts. The appraisal period typically ranges from 15 to 45 days, depending on the project's nature and scale. Upon approval, investors will receive the Investment Registration Certificate – a crucial legal document for project implementation.

2.3. Obtaining Sub-Licenses and Environmental Compliance Certificates

Investors in the waste management sector must have their Environmental Impact Assessment (EIA) approved. Additional sub-licenses include construction permits, trial operation permits, and certifications confirming that waste treatment technologies meet environmental standards. Compliance with these requirements ensures the safety and sustainability of the project while also fostering trust with authorities and local communities.

Conclusion

With robust government support and commitments to international integration, Vietnam is becoming an attractive destination for foreign investment in the energy and waste management sectors. However, the success of investors hinges on their ability to comply with legal regulations and develop sustainable strategies. Mastery of investment procedures will be the key to unlocking long-term business opportunities in these two promising fields.

The article contains general information, which is of reference value, in case you want to receive legal opinions on issues you need clarification on, please get in touch with our Lawyer at info@cdlaf.vn.