

## Law and Policy on Green Finance in Vietnamese Banking Sector

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### Abstract:

*As a nation survived multiple invasive wars and suffering environmental consequences of chemical weapons used by its past enemy, Vietnam was soon aware of the importance of aligning economic growth and environmental protection. That can be seen from Vietnam's continuous promulgation, amendment as well as perfection of the law and policy framework for environment and sustainable development. However, whether Vietnamese legal regulations well cover green finance in banking sector, this paper is to find the answer for that question by a consideration of Vietnamese law and policy on green finance and the current situation of green finance in Vietnam banks.*

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### 1. Introduction

The legal system on green finance in Vietnam has been concerned and developed since the Government issued Decision No. 403 / QD-TTg dated March 20, 2014 of the Prime Minister on the Action Plan. National green growth period 2014-2020. The Ministry of Finance has developed a green financial market development orientation under Decision No. 2183 / QD-BTC on the Financial Sector Action Plan to implement the National Strategy on Green Growth to 2020 in October 2015. (Decision 2183). On that basis, the specific legal provisions issued are Circular No. 155/2015 / TT-BTC, Decree 95/2018 / ND-CP.

Decision No. 2183 / QD-BTC is the cornerstone of green capital market development in Vietnam. The Ministry of Finance defines the responsibilities of state management agencies in the field of finance, including: (i) The Ministry of Finance continues to promote products of the green capital market, including: Green bonds (bonds) votes of green businesses, issued for green projects or green products); Government bonds and municipal bonds serve green objectives, programs and projects; Green indices, sustainability indices, carbon index; Certificates, green investment certificates issued by investment funds; (ii) The State Securities Commission (SSC), Stock Exchange research and develop a green financial framework for capital markets such as: issuing regulations and conditions when listing stocks (green listing), reporting (in sustainability reports) and in monitoring (according to green financial criteria).

Since then, the system of documents guiding the implementation has been built. Firstly, the green bond market in Vietnam is operating under Decree 95/2018 / ND-CP. In particular, the regulations on the organization of issuance, registration, deposit, listing and transaction of bonds were issued in detail. However, at present, green bonds in Vietnam have only been recognized as one type of Government bond. The Ministry of Finance is currently the focal point in developing the scheme of issuing green government bonds to the Prime Minister for approval. Great content includes purpose and volume of release; conditions and terms of bonds; The registration, depository, listing and transactions ... are being built for widespread deployment in the market. Secondly, in the stock market, the Circular No. 155/2015 / TT-BTC on information disclosure on the stock market stipulates that enterprises must disclose environmental and social information. This is the first mandatory document for businesses to publish sustainability information. Specifically, when businesses publish their Annual Report, they will have to announce their sustainable development goals (environmental, social and community) and key programs related to the short and medium term. Since then, gradually raising awareness of environmental protection, towards a green stock market. At the same time, the application of this Circular also provides an additional criterion for investors to consider when investing, thereby enabling green securities products to be easier to choose.

### 2. Legal framework on green finance in Vietnamese banking sector

#### 2.1. Agenda 21 (1992, 2002, 2015)

At the Earth Summit on Environment and Development held in Rio de Janeiro (Brazil) in 1992, 179 countries adopted the Agenda 21 on solutions to sustainable development for the whole world in the 21st

century. Agenda 21 was reaffirmed and modified by 166 countries at the World Summit on Sustainable Development held in Johannesburg (the Republic of South Africa) in 2002. Agenda 21 is a framework action plan for sustainable development that the UN, other multilateral organizations, and governments around the world can implement at global, regional, national and local levels. The Summits recommended that each country, based on its own conditions and characteristics, formulate and implement its own Agenda 21.

Having participated in both Summits, Vietnam issued its own Agenda 21 by the Decision No. 153/2004/QĐ-TTg dated August 17, 2004 of the Prime Minister promulgating the Strategy Orientations for Sustainable Development in Vietnam (Vietnam's Agenda 21). Vietnam's Agenda 21 comprises a review of actual situation of Vietnam in the years recent to its issue date, based on that, it identifies long-term goals, policies and measures for implementation of sustainable development in Vietnam in the 21st century, focusing on the following 03 priority areas:

***Economic area:***

- To maintain rapid and stable economic growth, while protecting the environment.
- To promote the development of eco-friendly production and consumption model that lessening the use of non-renewable natural resources and minimizing toxic and difficult-to-decay wastes.
- To implement “clean industrialization” which means that industrial development must be planned in the direction of prioritizing eco-friendly industries, actively preventing and treating pollution.
- To develop agriculture and rural areas parallel with conservation and development of the land, water, air and forest resources as well as the biological diversity.
- To implement the regional development strategy that gives priority to key economic regions which are able to develop rapidly and supports for disadvantaged, mountainous, or remote regions.

***Social area:***

- To concentrate on poverty reduction, job creation.
- To continuously reduce the population growth rate, lifting the pressure on job creation, healthcare, education and ensuring the ecological environment.
- To reasonably distribute population and labor force in regions, ensuring socio-economic development and environmental protection in both urban centers and rural areas.
- To improve the educational and vocational quality in order to provide a qualified labour force for the country's development.
- To develop healthcare services, improve working conditions and sanitation.

***Area of natural resources, environmental protection and pollution control:***

- To effectively use and protect the land resources.
- To protect the water environment and sustainably use of water resources.
- To reasonably exploit and thriftily use of mineral resources.
- To protect marine, coastal and island environments and develop marine resources.
- To protect and develop forests.
- To reduce air pollution in urban centers and industrial parks.
- To effectively manage solid and hazardous wastes.
- To conserve bio-diversity.
- To mitigate climate change and limit adversely impacts of climate change, contributing to natural disaster prevention.

By mentioning “Using financial tools for sustainable development”, “encourage financial organizations to provide financial assistance for national sustainable development” among measures for implementation of sustainable development, Agenda 21 not only is the first legal document on sustainable development in Vietnam, but also the first milestone for green finance in the country.

After the Summit 2002, there were several Summits for the purpose of implementation of the Agenda 21, notably the most recent Sustainable Development Summit held in New York in 2015 with its outcome called **Agenda 2030** which re- asserts the goals set by Agenda 21 plus 17 new goals. Then, on May 10, 2017, the Vietnamese Prime Minister issued the Decision No. 662/QĐ-TTg promulgating the National Action Plan on Implementation of Agenda 2030, which sets, among others, Goal No. 9.3 that the SBV shall take responsibility to “enhance the banks’ capacity in providing and enterprises; capacity in receiving green credit and green banking services”.

## **2.2. Constitution (1980, 1992, 2013)**

Article 36 of the 1980 Constitution marked the milestone that environmental protection was first recognized in the highest legal document of Vietnam – the Constitution. The 1992 Constitution also had one Article reaffirming the responsibility of all components of the economic system, State agencies, army, organizations and individuals to protect the environment. The newest Constitution passed in 2013 provides more than one Article about environment, by which everyone has not only the obligation to protect the environment but also the right to live in a clean environment. The State encourages all environmental protection and development activities, among them, use of new energy and renewable energy are highlighted in the 2013 Constitution.

## **2.3. Major relevant Laws**

Over two decades in pursuit of sustainable development, Vietnam has promulgated many laws related to environmental protection, namely:

### **- Law on Environment Protection (1993, 2005, 2014)**

- Law on Forestry (its former name is Law on Forest Protection and Development, 1991, 2004, 2017).
- Law on Land (1993, 2003, 2013)
- Law on Water Recourses (1998, 2012)
- Law on Fisheries (2003, 2017)
- Law on Biodiversity (2008)
- Law on Economical and Efficient Use of Energy (2010, amended 2017)
- Law on Natural Resources and Environment of Sea and Islands (2015)

Each of them provides certain regulations on environmental protection that investors of related projects must follow and banks can refer to when financing the projects. Within the scope of this thesis, the author only focuses on the Law on Environmental Protection – the most important national legal framework for environmental protection.

The Law on Environmental Protection emphasizes the environmental protection and improvement, and the ecological balance. According to the Law, the State’s policies are to develop environmental technology and science, prioritizing the high and eco-friendly technologies, and especially, to provide financial and land preferences and supports for the environmental protection activities, environment- friendly manufacturers and businesses. At the other side, investors of most projects shall get environmental protection license from relevant State authorities. There are 02 types of environmental protection license:

- Approval of Environmental Impact Assessment (“**EIA**”): Applied to projects subject to approval of the National Assembly, the Government, the Prime Minister; projects using land in special areas such as wildlife sanctuaries, national parks, historical – cultural monuments, world heritage sites; and

projects having negative impacts on environment in general. List of project types subject to EIA is provided under Appendix II of Decree 18/2015/ND-CP dated February 14, 2015 of the Government on environmental protection assessment, strategic environmental assessment, environmental impact assessment and environmental protection plans (“**Decree 18**”), totally 113 project types. Competent authorities for approval of EIA are, as the case may be, the Ministry of Natural Resources and Environment, Ministry of National Defense and the Ministry of Public Security, Department of Natural Resources and Environment, Provincial People’s Committees.

- Registration of environmental protection plan: Applied to projects neither subject to EIA nor in the List of 12 exempted project types under Appendix IV of Decree 18. Competent authorities for certification of environmental protection plan are, as the case may be, Provincial People’s Committees, District-level People’s Committee, Sub-District-level People’s Committee, local Management Units of Industrial Parks, Export-Processing Zones, and Economic Zones.

Based on provisions of the Law on Environmental Protection, banks can request loan applicants to provide environmental protection license appropriate to their projects.

### **3. Government’s Strategies and Action Plan**

#### **3.1. Vietnam Sustainable Development Strategy**

On April 12nd, 2012, the Prime Minister issued Decision No. 432/QĐ-TTg approving Vietnam Sustainable Development Strategy for the period of 2011-2020. The overall objective of the Strategy is to achieve sustainable and effective growth, coupled with social progress, social justice, protection of natural resources and the environment, and maintaining socio-political stability.

Specific objectives of the Strategy are: to ensure macroeconomic stability; to maintain food security, energy security, and financial security; to step by step implement green growth and low carbon economic development; to promote economical and efficient use of all resources; to minimizing the negative impacts of economic activities on the environment; to prevent, control and remedy environmental pollution as well as improving environmental quality; to protect and develop forest as well as conserving biodiversity.

The Strategy sets up the indicators for monitoring and evaluating Vietnam's sustainable development in the period 2011-2020 including: 03 general indicators (Green GDP, Human Development Index – HDI, Environmental Sustainability Index – ESI); 10 economic indicators (Incremental Capital Output Ratio – ICOR, Consumer Price Index – CPI, social labor productivity, State budget deficit, sovereign debt, Foreign debt, etc.); 10 social indicators (poverty rate, unemployment rate, Percentage of trained labour in the economy, etc.); and 07 indicators on natural resources and environment (forest cover rate, area of degraded land, rate of urban centers/industrial zones/export processing zones treating solid waste and waste water in conformity with related specifications or standards, etc.).

In order to achieve the above objectives, the Strategy offers 8 groups of solutions including:

1. Continue to improve the institutional system for sustainable development; improve the quality of national governance for sustainable development of the country;
2. Strengthen financial resources to implement sustainable development;
3. Propagate, educate and raise people’s awareness for sustainable development;
4. Strengthen management capacity and implement sustainable development;
5. Enhance the role, responsibility and participation of enterprises, socio- political organizations, social-professional organizations, non-governmental organizations and communities in implementation of sustainable development;
6. Develop human resource for implementation of sustainable development;
7. Strengthen the role and impact of science and technology; promote technological innovation in implementation of sustainable development;

8. Expand international cooperation.

In the 2<sup>nd</sup> solution group, the State determines to allocate the State budget and mobilize official development assistance (ODA) capital as well as funds from domestic and overseas organizations and individuals for implementation of sustainable development. The Strategy also mentions the development of mechanisms and policies to encourage financial institutions, enterprises of all economic sectors and individuals to provide funds and investment to implement the sustainable development targets.

**3.2. National Green Growth Strategy**

On September 25th, 2012, the Prime Minister issued Decision No. 1393/QĐ- TTg approving the National Green Growth Strategy for the period 2011-2020 with the vision to 2050.

The Strategy sets out three specific objectives. Firstly, restructuring and perfecting economic institutions towards greening existing industries and encouraging the development of economic sectors to effectively use energy and resources with high added value. Secondly, research and apply more and more advanced technology to more effectively use natural resources, reduce the intensity of greenhouse gas emissions, thereby contributing to effective response to climate change. Thirdly, improving people's lives and building environmentally friendly lifestyles.

In order to achieve these three goals, the National Green Growth Strategy presents 17 implementation solutions, including:

1. Propagating and raising people's awareness of green growth; giving technical support for expanding the models of saving, safe, nature-friendly production and consumption; encouraging and supporting communities to develop the models of ecological urban center, green countryside, green house, and waste sorting at source by the method of reducing - recycling – re-using (3R);
2. Improving the efficiency and effectiveness of energy use, reducing energy consumption in production, transport and trade activities;
3. Changing fuel structure in industry and transportation by reducing energy from fossil fuel and encouraging the use of new and renewable energy with less greenhouse gas emission;
4. Boosting effective exploitation of new and renewable energy resources and increasing the proportion of such resources in national energy production and consumption;
5. Reducing greenhouse gas emissions through sustainable organic agriculture development, improving the competitiveness of agricultural production;
6. Reviewing and adjusting the planning of production industries, gradually limiting economic sectors that generate large wastes, causing environmental pollution and degradation, and creating conditions for developing new green industries;
7. Facilitating economical and efficient use of natural resources by formulating and perfecting the Water Resources Law, Land Law, Mineral Law, Environmental Protection Law and relevant regulations, as well as strengthening the State's natural resources agencies in the Central and localities;
8. Promoting green industries to rapidly develop to create more jobs, raising income, enriching natural capital;
9. Sustainable infrastructure development mainly consists of: transport infrastructure, energy, irrigation and urban construction works;
10. Technological innovation, popular application of cleaner production;
11. Sustainable urbanization by improving urban planning, building green/eco urban centers and green works and prioritizing allocation of State owned land for public purposes to quickly increasing the green space and water surface in urban centers;
12. Building new rural areas with lifestyle harmonious with the environment;

13. Promoting sustainable consumption and building green lifestyle.

14. Mobilizing financial resources to implement green growth strategy;

15. Training and developing human resources with knowledge and skills in the green economy, green production industry;

16. Researching and developing science and technology; issuing a system of economic, technical standards and green growth data and information; and

17. Boosting international cooperation to enlist international support in implementation of Vietnam's green growth strategies, especially, international cooperation in scientific research, technology transfer, and human resource development.

Similar to the Vietnam Sustainable Development Strategy, this National Green Growth Strategy also set a solution group regarding financial resources (group number 14), where it is also detailed that the State shall prioritize and allocate funds from the Central budget and local budgets as well as mobilize external funding sources (i.e. foreign loans, ODA capital) to implement the green growth strategy. Moreover, the Government mentioned the promulgation of mechanisms and policies to encourage financial institutions, businesses, especially SMEs to implement production and business activities according to criteria for Green growth, while using financial, credit, and market instruments as one of the solutions to mobilize financial resources for the implementation of the National Green Growth Strategy. Hence, it can be said that the National Green Growth Strategy is the first legal document of Vietnam that officially mentioned green finance.

### ***3.3. Clean Technology Use Strategy***

On December 30th, 2013, the Prime Minister issued Decision No. 2612/QĐ- TTg approving the strategy of using clean technology in the period up to 2020 and vision to 2030. The general objectives of the Strategy are to use clean, environmental friendly technologies, to increase the efficiency of energy and resources use, and to lower emissions in industrial production in order to promote green growth, reducing climate change and improving the community life.

Specific objectives are as follows:

**Upton 2020:** Focus on developing and applying technical standards and specifications on clean technologies into industries that use a lot of energy or potentially causing serious pollution to the environment, such as weaving dye, production of fertilizers and pesticides, steel making, mining and processing of minerals, thermoelectric, production of paper, cement or sugar. By 2020, 100% of new investment projects in the above industries must meet the standards and technical regulations on clean technologies; 60-70% of existing plants in the above industries shall have completed the technological renovation roadmap towards using clean technology.

**Upton 2030:** Complete the system of legal documents, technical standards and specifications on clean technologies, step by step implement technological innovations towards using clean technologies throughout the industry. By 2030, 100% of manufacturing establishments throughout the industry shall apply technical standards and specifications on clean technology.

In order to achieve the above objectives, the Strategy offers 6 groups of solutions, including:

1. Management solutions;
2. Scientific and technological solutions;
3. International cooperation solutions;
4. Financial and investment solutions;
5. Market solutions; and
6. Information and communication solutions.

In the group of financial and investment solutions, clean-tech investment projects are prioritized to borrow from banks and funds (Science and Technology Development Fund, Environmental Protection Fund, National Technology Innovation Fund) in accordance with current legal regulations. Thus, under the perspective that investment projects using clean technology are prioritized to borrow from banks, this can be considered as the first legal document implicating green finance and credit in Vietnam.

### ***3.4. National Action Plan On Green Growth***

The National Action Plan On Green Growth in period 2014-2020 was approved by the Prime Minister under the Decision No. 403/QĐ-TTg dated March 20th, 2014. The action plan consists of 4 topics, 12 working groups and 66 specific tasks for each ministry, department, branch and local government. Four topics include: (i) Developing institutional mechanism, together with setting up green growth plans in localities; (ii) Reducing the intensity of greenhouse gas emissions and promoting the use of clean and renewable energy; (iii) Implementing production greening; and (iv) Implementation of lifestyles greening and sustainable consumption.

The SBV is assigned with the task to perfect institutional mechanism and to strengthen the capacity of commercial banks and financial institutions in providing finance and credit in order to serve green growth, specifically:

1. Review, revise and complete financial and credit institutional mechanism to match the green growth objectives;
2. Organize training courses to strengthen the capacity of commercial banks and financial institutions in green finance - credit activities; and
3. Build up and develop financial and banking services to support the enterprises implementing green growth.

Thus, the National Action Plan On Green Growth in the period of 2014 - 2020 is considered to be first legal document mention green finance and credit and also the highest legal basis for implementing green banking activities in Vietnam, under which later on the State Banks of Vietnam builds up the Banking Sector Action Plan and issues directions and guidelines for promoting green credit growth and managing E&S risks in credit activities.

### ***3.5. Plan For Implementation of the Paris Agreement on Climate Change***

On October 28, 2016, the Prime Minister issued Decision No. 2053/QĐ-TTg approving the Plan for Implementation of the Paris Agreement on Climate Change, by which, the SBV, MOT, MPI, and SCIC are jointly responsible for accelerating development and application of financial instruments such as green credit, green bonds, and green investment funds, and a set of criteria for green projects.

## **4. State Bank's Guidelines**

### ***4.1. Directive No. 03/CT-NHNN***

One of the first steps of the State Bank to implement the National Action Plan On Green Growth is the Directive No. 03/CT-NHNN dated March 2th, 2015 on promoting green credit and E&S risk management in credit granting operations.

General objectives and tasks of the Directive are: (1) to implement the National Action Plan On Green Growth right from 2015, specifically, credit activities of commercial banks must focus on environmental protection, improve the capacity to use resources economically, improve the environment quality and protect human health towards sustainable development; and (2) to review, adjust and complete legal regulations on credit to facilitate green growth objectives, focus on providing credit for environment-social-friendly projects, supporting businesses to implement green growth, thereby achieving green growth targets and sustainable development.

The Directive assigns SBV units with specific assignments of the SBV set out in the National Green Growth Strategy and the National Action Plan On Green Growth. As for the credit institution, the Directive stipulates the following responsibilities:

1. Pursuant to the National Green Growth Strategy and action plans of the ministries and provincial authorities, credit institutions shall actively deploy green credit programs aiming at gradually increase the proportion of green credit in its credit portfolio. Specifically:

- Develop green credit products;
  - Deploy credit programs offering incentives for projects and business which are green growth-oriented;
  - Improve service quality and create favourable conditions for green credit growth, target to fund projects and business which are green growth-oriented.
  - Prioritize green credit for projects that conserve, develop and efficiently use of natural resources.

2. Research, develop and implement solutions to manage E&S risks in credit granting activities. Specifically:

- Develop E&S risks management system for the credit granting activities.
  - Integrating environmental protection requirements into internal policies and regulations on credit activities.
  - Conduct frequent and periodic supervision of E&S risk management in credit activities.

3. Actively disseminate the information about social and environmental risk management and green credit policy to raise consensus and support of public opinion on green credit growth of the banking sector in general and of credit institutions in particular.

In summary, the Directive orientates and encourages the credit institutions to grant credit to green projects. However, while requiring credit institution to improve their capacity to provide green credit (such as development of green credit products, E&S risks management system, etc.), the Directive sets neither environmental criteria nor requirements for the projects to comply with, nor the conditions and commitments that customers must follow when applying for loans from the banks. In addition, the compulsory and coercive nature of Directive ranked least in the hierarchy of legal documents, hence, it can be said that, law in this period (2015- 2017) did not have any rule or guidelines for banks to weigh E&S risks before granting credit.

#### **4.2. Banking Sector Action Plan On Green Growth**

Also in 2015, in order to implement the National Action Plan On Green Growth, the Governor of the SBV issued Decision No. 1552/QĐ-NHNN dated August 06, 2015 promulgating the Action Plan of the Banking Sector to implement the National Action Plan On Green Growth towards 2020 (the “**Banking Sector Action Plan**”).

The Banking Sector Action Plan provides 8 specific activities, including:

1. Formulate the orientation of green banking development, such as:

- Review and supplement green banking and credit contents to the current Banking Sector Development Strategy towards 2020;
- Build up the master plan on development of green banking in Vietnam.

2. Complete the mechanisms and policy to ensure consistency and contribute to realizing green growth targets, such as:

- Review and integrate environmental protection requirements into regulations and policies on



credit activities by credit institutions with their customers;

- Review, research, and develop regulations and guidelines for credit institutions to perform social and environmental risks assessment in credit activities.

3. Organize training courses, workshops, seminars, study tours and other supports for credit institutions and individuals involving in development and implementation of green banking – green credit policies, mechanism, programs, products and services.

4. Mobilize financial resources from international financial organizations and bilateral/multilateral donors to improve financial capacity for credit institutions implementing green credit.

5. Develop and implement credit programs to promote green economic sectors (such as green industries, green agriculture, green energy; use of environmental friendly equipment and technology; environmental pollution prevention and treatment).

6. Establishing solutions and policies to support and encourage credit institutions to finance green economic sectors.

7. Develop modern banking services, encourage cashless payment and high and environment-friendly technologies.

8. Organize propaganda and dissemination of green banking - credit activities.

Overall, the Banking Sector Action Plan is set with two key points. One is to promote the banking industry to truly become "green bank" through training, educating and improving awareness of the banks' personnel, and developing modern banking services with high and environment-friendly technologies. Another is to institutionalize the requirements on green growth, environmental protection, use of clean technologies in regulations and policies on credit activities.

In other words, the Banking Sector Action Plan has formed the legal basis for implementation of green banking activities in Vietnam, from the use of high technology for banking products and services as well as for greening the banks' activities themselves, to the application of requirements of environmental protection in evaluation and appraisal steps of credit-granting procedures to ensure that the financed project meets the requirements of a green project. However, with the nature of an action plan, obviously it lacks specific guidelines for commercial banks to apply environmental protection requirements in project evaluation.

#### **4.3. Circular 39/2016/TT-NHNN**

On December 30, 2016, the SBV issued Circular 39/2016/TT-NHNN on lending transactions between credit institutions and/or foreign bank branches with their customers, of which, Article 4 provides the principle that the above-mention transactions must be "*in conformity with regulations stipulated herein and other relevant laws, including the legislation on environmental protection*". This is the first time environmental protection requirements is included in a Circular specialized for credit operation of commercial banks.

#### ***Green Projects Catalogue***

The task to build a set of criteria for green projects was assigned to the SBV in the Decision No. 2053/QD-TTg in 2016. With the support from the GIZ, in 2017, the SBV introduced the Green Project Catalogue under the Official Letter No.237/BQLDA3 dated April 24, 2017. The Green Project Catalogue consists of 6 categories, 21 economic sectors and details to 44 sub-sectors. Among them, 6 categories include: renewable energy, energy saving and energy efficiency, land use conversion and management, sustainable forestry, sustainable waste management and green agriculture.

In is stated in the Official Letter No.237/BQLDA3 that the Catalogue is "for the reference of the banks in credit grant activities", besides, the Official Letter was not sent all banks but only sent to credit institutions participating in the JICA SMEs Financing Project, hence, the current Portfolio is of a pilot nature

and expected to be upgraded soon. However, in the context that there had been no specific regulations on green sectors and green projects that need priority support, the Catalogue helps banks understand the Government's perspective on that matter, and thereby, encouraging banks to finance those projects more actively and aggressively.

### *Scheme on Green Bank Development in Vietnam*

Implementing the first activity set out in the Banking Sector Action Plan, on August 7, 2018, the Governor of the SBV issued Decision No.1640/QD-NHNN approving the Scheme on Green Bank Development in Vietnam.

General objectives of the Scheme are to improve the awareness and social responsibility of banking sector in environmental protection and climate change response, directing credit funds into eco-friendly projects, boosting green production, services and consumption, and promoting clean and renewable energy.

The most remarkable specific objectives of the Scheme are: (1) gradually increasing the ratio of lending to priority green industries and sectors as defined by the SBV in the Green Project Catalogue, (2) striving for the target that by 2025, 100% of banks will have completed their internal regulations on E&S risk management in lending activities, 100% of banks will have been conducting E&S risk assessment in lending activities, at least 10-12 banks have established department/division specialized for E&S risk management, and 60% of banks will have accessed green capital resources and have been providing green credits.

In order to realize the above objectives, the Scheme points out tasks for both SBV and commercial banks. For the SBV, the top priority task is formulation and promulgation of guidelines on green bank development, specifically, SBV will (1) issue instructions on green banking operations and green credit, (2) complete the Handbook on Social and Environmental Risk Assessment, and (3) periodically update the Green Project Catalogue. Some other notable tasks are prioritizing capital resources for green credit development through refinancing/re-discount by SBV, and giving priority for banks with high ratio of green credit to access concessional loans from international organizations.

As for the commercial banks, the Scheme identifies the following tasks:

1. Focus on formulating their strategy frameworks on green bank development where banks develop in 5-Level model introduced by Keauffer (2010).
2. Establish a comprehensive system of social and environmental risk management, which should include internal instructions and organizational structure for the management/assessment of social and environmental risks, power delegation and reporting lines for social and environmental risk management, and programs to improve the banks' institutional capacity in social and environmental risk management.
3. Comply with the SBV's guidelines on social and environmental risk assessment; integrate social and environmental risk assessment into credit risk assessment procedures.
4. Establish department/division specialized for social and environmental risk management.
5. Formulate specific credit policies for the environmentally sensitive sectors such as agriculture, leather, renewable energy, textiles; strictly supervise and reduce the lending to projects that may harm the environment.
6. Coordinate with SBV in formulation, implementation, evaluation and report on the implementation progress of the banks' green bank/green credit strategies and action plans.
7. Greening their own banking operations, modernizing infrastructure and IT to reduce adverse effects to environment, issuing internal instruction on "green office", i.e. saving water, electricity, papers, etc.
8. Organize training courses to enhance employees' awareness of sustainable development, green growth, green bank, green credit and the importance of social and environmental risk management; Organize

propaganda and introduction of green banking products and services to clients.

Overall, the Scheme marks a significant progress in the on-going efforts of the SBV to boost green credit as it comprises of concrete assignments for both SBV and commercial banks for that purpose, especially the assignment involving Handbook on Social and Environmental Risk Assessment, which are supposed to be most helpful for banks as the Scheme requires that all banks shall comply with the SBV's guidelines on social and environmental risk assessment. However, it is necessary to look into the Handbook to find out whether they are helpful enough for commercial banks.

#### **4.4. Handbook on Social and Environmental Risk Assessment**

At the Conference on Green Banking towards Sustainability hosted by the SBV on August 7, 2018, the Handbook on Environmental and Social Risk Assessment was introduced as a reference book for banks to apply in credit appraisals. The Handbook currently sets criteria for 10 economic sectors, including agriculture, chemicals, construction, infrastructure, energy, food processing, textiles, petroleum, mining and non-metallic mineral products exploitation, and waste treatment.

The Handbook suggests commercial banks to establish their own social and environmental risk management system which includes: (1) E&S policy to be approved by the top management of the bank, (2) E&S risk management procedures (including procedures for assessing (high – medium – low risks), making decision and monitoring E&S risks) in order to ensure compliance with the E&S policy and related legal regulations, (3) an external communication mechanism so that the bank can receive and respond to opinions of third parties about the activities of the projects financed by the bank, as well proclaim the implementation of its E&S risk management and monitoring towards its credit portfolio, and (4) E&S capacity including institutional mechanism, human and financial resources necessary for implementation of its E&S policy and procedures.

The Handbook provides templates for assessing social and environmental risks of the projects, including 3 Parts:

Part A contains information on the businesses and projects applying for loans. In this part, banks shall collect information about customers' compliance with environmental, labour and social regulations as well as their capacity in E&S risk management.

Part B focuses on environmental and social impact of the projects. This section includes specific criteria to consider the potential and existing risks and impact of the projects on the environment (air, water, land, hazardous waste, raw materials and energy consumption), on the workforce (working conditions, occupational safety and health), on health and the safety of people living around the project area, and on biodiversity and cultural heritage.

Part C consists of assessments on E&S risks of the projects, measures that the businesses have been applying and what measures they should apply for mitigation of such risks.

The Handbook has just covered 10 out of 21 economic sectors, hence, a full version of this Handbook with guidelines for the remaining 11 ones is expected.

### **5. Current situation of green finance in Vietnamese banking sector**

Practical implementation of legal regulations on green finance in commercial banks can be reflected in three main aspects: (1) Awareness and understanding of bank managers on green banking/green finance, (2) Green finance services being offered in Vietnam, and (3) Green credit in Vietnamese banking sector.

#### ***Awareness and understanding of bank managers on green finance***

A survey of the SBV (2013) showed that about 91% of commercial banks did not develop a green growth policy, and about 35% of them had never known the concept of “*social and environmental issues*”.

Another survey of the SBV (2017) and Tran Thi Thanh Tu et al (2017, p. 117- 118), which using the 5-level development of green banking model of Kaeufer K. to assess the awareness of green banking/green

finance of 151 bank managers from 32 commercial banks, shows that about 63% of bank managers understood green banking at Level 1 – as the banks provide internet banking, SMS banking, mobile banking and other natural resources saving services, or the banks provides finance for community activities. About 23% of bank managers categorized green banking/green finance at Level 2 - banks separate green banking activities from their conventional banking activities. Only about 4% of interviewees regarded green banking/green finance at Level 3, 4, 5 – the highest levels of Kaeufer’s model.

It is worth noting that 88% of banking groups believe that green finance is a very potential business, but only 68% of them think that the bank needs to develop a plan to expand green finance in medium and long-term financing activities, and the proportion of banks that implement this activity is much lower.

The SBV has not published any further survey result of the same topic. Hence, it can be assumed that recent awareness of bank managers about green finance is still not high, and that green banking, green finance and green credit are still new and vague concepts in the banking system.

### ***Green financial services provided by commercial banks in Vietnam***

Basically, according to Tran Thi Thanh Tu et al (2017, pg.120), most banks in Vietnam are at Level 1 of green finance, i.e. providing services via the internet to increase utility for customers, thereby encouraging activities that save natural resources such as paper and electricity; while reducing emissions to the environment. Some banks have reached Level 2, including:

- **BIDV:** BIDV has implemented Rural Finance Projects 1, followed by Rural Finance Projects 2 and 3 funded by World Bank, and proceeds to Rural Finance Project 4 with a total value of about USD 620 million. These projects strictly adhere to environmental issues at three levels: wholesale banks, participating banks and sub-projects. BIDV also participated in lending programs to renew energy resources with a value of about USD 200 million from 2010 to present. In addition, BIDV has also financed a solid waste treatment complex with a commitment of USD 148 million. With BIDV’s experiences in green finance and the fact that there has been no bank at Level 3 and upwards in Vietnam, the author selects BIDV as a case study for this research (see Section 4.3).

- **Lienviet Post Bank:** Lienviet Post Bank has been implementing green banking program and green credit from the beginning of 2013 towards improvement of both internal and external environments. Specifically, the bank has built green offices – using green materials for construction, practicing initiatives to save electricity, water, paper, etc. For external environment, the bank organizes activities at its own costs aimed at community development. For banking operations, the bank focuses on green banking products, such as e-banking, and prioritizing capital for businesses with green growth targets.

Besides, most commercial banks have implemented activities towards green finance such as lending activities for groups of high-tech projects to produce eco- friendly materials, implementing programs aimed at poverty reduction through rural development loans, financing wind or solar power projects. In addition, there have been recent reports with environmental impact assessment in credit documents. These are important initial steps for building green banks in Vietnam.

However, most commercial banks have not developed products related to green finance as diverse as related to other business operations (Tran Thi Thanh Tu et al., 2017). In most banks, green-finance-related activities just take very small part in the overall services provided to individuals and businesses. The group of specific products for projects or enterprises focusing on green growth is still very modest because banks suppose that high risks are associated.

Moreover, financing activities for agriculture and rural areas are not focused by banks - except for such banks with agriculture lending origin as Agribank. In addition, poor and near-poor households are not likely to be funded by banks - except for Vietnam Bank for Social Policies (which is not a commercial bank).

In summary, at this time, there is an increasing trend in both awareness and product diversity of green finance in Vietnam banking system, however this trend is still very limited and further improvement is needed in the coming time.

### *Green credit in Vietnamese banking sector*

According to the report of GIZ about green financial sector reform in Vietnam (2016, p.4-5), Vietnamese economy is a credit economy. Banking credit accounts for 70% of total external corporate financing. Total outstanding credit loans accounted for 94.7% GDP in 2015. SBV implements the monetary policy and is also responsible for refinancing State credit programmes such as credit programmes for Mekong Delta, social housing programmes, offshore ship construction programmes, etc, and coordinating with commercial banks participating in the programmes.

Credit for environment-friendly projects – green credit is one of the goals of Vietnam Green Growth Strategy and is of great interest to credit institutions. However funding for green projects remains small. In the past, virtually no domestic banks had preferential credit policy for energy-saving, emission-reducing and environmentally friendly projects. However, green credit has become an indispensable part of commercial banks' business activities in recent years.

As the Central Bank, in parallel with the implementation of its legislative tasks in relation to green credit such as issuance of Directive No. 03/CT-NHNN and other guidance documents from 2015 up to now, SBV has been leading many credit programmes aiming to promote green credit, such as:

- The pilot green credit programme for SMEs with the total amount of 2000 billion VND (approximately 100 million USD), three biggest State commercial banks of Vietnam (Vietcombank, BIDV and Agribank) and one private commercial banks (Sacombank, which was the only bank having green credit policy and green credit project management guidelines as at the date of the report), participate in the pilot programme. There are 26 projects in the programme on renewable energy, waste management and organic agriculture. The interests rates which are applied to SMEs will be 1-3% lower than the market interest rates. Banks participating in the programme will be refinanced from SBV at interest rates 1% lower than usual.

- An energy-saving credit programs for small and medium-sized enterprises (SMEs) valued at several hundred million US dollars run by SBV in coordination with IFC from 2015.

- A green credit programme aims to integrate green standards from the Green Project Catalogue introduced by SBV in April 2017 into the on-going projects (former JICA revolving fund programme for SMEs). The total credit volume of the programme is about 5,000 billion USD).

- A green credit programme, calling for a loan and grant of 50 million USD from Green Climate Fund (GCF) through a Multilateral Implementing Entity (MIE). The purpose of this programme is to implement a green credit programme with a total credit volume of 339 million USD over a time period of 30 years (until 2047). Besides the component of revolving loan of 40 million USD, this programme foresees a component of 10 million USD grant to reduce a maximum 3% of the credit interest rates of green projects, therefore increasing the programme credit volume by 75 million USD and providing technical assistance for SBV in transforming Vietnamese banks into green banks and in green projects. If funded by GCF, this programme will help to treat 3000 tons of waste per day, generate a capacity of 500 MW of renewable energy and 500 billion Kcal of biomass energy.

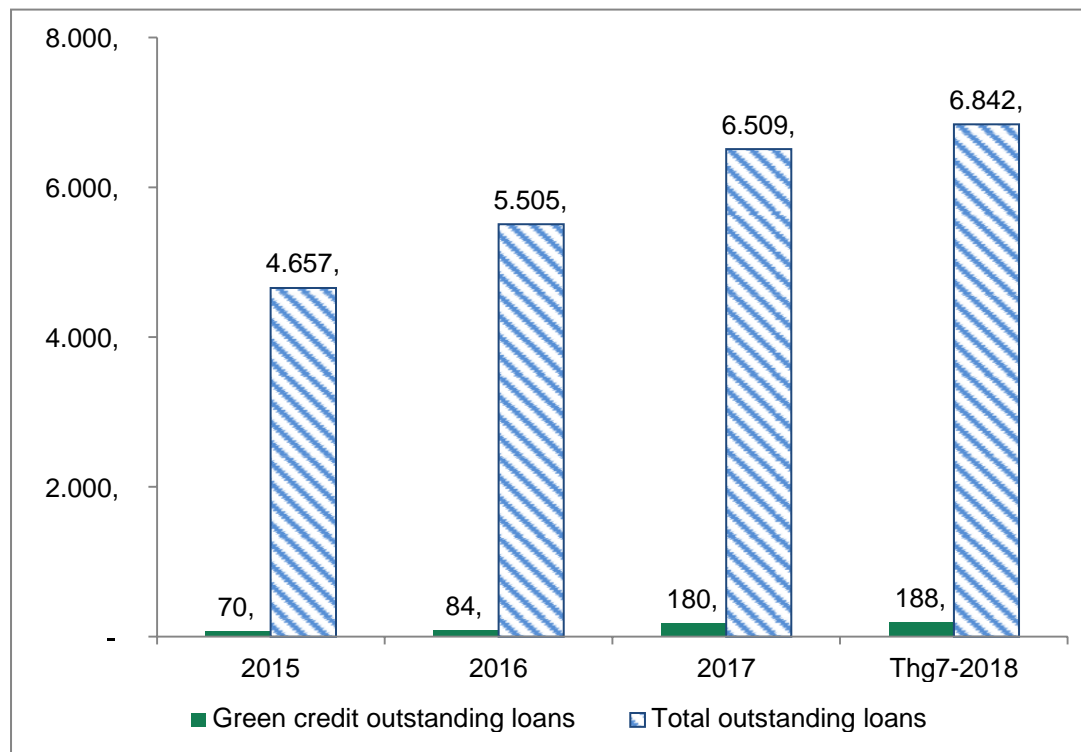
SBV is also drafting the concept for large-scale green credit programmes, taking into consideration green energy and industry, bio-agriculture and forestation. According to experts' calculation, these programmes have a credit need of up to 348,000 billion VND, among which the credit amount for green energy and industry takes up about 15 billion USD. At that scale green credit programmes will account for approximately 8-10% of total loan outstanding of Vietnam.

In order to refinance for large-scale green credit programmes as well as other State credit programme, SBV is doing research and drafting the concept to establish a Green Credit Finance Fund with the purpose to separate the functions of implementing the monetary policy and refinancing State credit programmes. The Fund will be chartered from state budget and use various financial instruments and resources from SBV's refinancing, ODA funding, preferential loans from international FIs including GCF and green bond issuance.

The result of the actions of the SBV in particular and the banking sector in general in promoting green credit in recent years can be seen in the below Figure.

**Figure 1: Green credit outstanding loans vs Total outstanding loans**

Unit: VND billion



(Source: SBV, 2019)

The chart shows that, in two years 2016 and 2017, green credit outstanding loans increased more than 1.5-fold, from VND 70.8 billion to VND 180.1 billion. This may thank to the issue of SBV's guidelines in that period, such as the Directive 03/CT-NHNN – as the first guidance in relation to green credit, the Banking Sector Action Plan, the Green Projects Catalogue, as well as the implementation of the above-mentioned credit programmes. Specially, the total outstanding green credit amount was VND 188.1 billion in July 2018 but it sharply increased to VND 235.7 billion in September 2018 (SBV, 2019) – after the issuance of Scheme on Green Bank Development. Hence, it can be said that, the SBV's law and policy have positive effects on the upward trend of green credit. However, the proportion of green credit to total outstanding loans is still low, the SBV and banks should take more aggressive actions to improve that ratio.

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