

Empirical Research on Green Credit Policies in Vietnam

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Abstract: Playing as one parts of green finance, green credit aims at diminishing pollution by redistributing credit among entitis of society. Green credit is defined as credit granted by financial institutions for consumption, investment, manufacturing, and business needs that do not harm the environment, thereby contributing to the overall ecosystem's protection. All nations should construct a system of green credit policies to conduct green credit effectively. Many regulations have been enacted to promote green financial activities in general, and green credit in particular, in the banking system – particularly commercial banks. By using the Joint Stock Commercial Bank for Investment and Development of Vietnam as a case study and interviewing with experts, the authors focus on the Vietnamese government's policy and direction. Based on findings, recommendations were proposed for improving regulations and promoting the growth of green credit activities in banking industry of emerging country such as Vietnam.

Key word: Green Credit, Green Credit Policy, Banking System, Vietnam.

1. Introduction

The results of climate change caused natural disasters all around the world. These kinds of bad situations have been becoming more dangerous and regular, such as the chronic earthquake in Haiti in 2010, the Tohoku tsunami in Japan in 2011, Super Typhoon Sandy in 2012 in the United States and Haiyan in 2013 in Southeast Asia, drought in Australia in 2018, and two major wildfires in California USA and Australia recently in the second half of 2020. In this situation, many countries throughout the world are working to develop a green, environmentally friendly economy that will benefit the economy, politics, society, and environment all at the same time. Therefore, one of the most important instruments is green credit, especially green credit policy from related agencies such as the government, banks... Hence, authors decided to research Green Credit Policies of Vietnam with Case of Joint Stock Commercial Bank for Investment and Development of Vietnam.

2. Theoretical basis

Jin (2010) approaches green finance from the perspective of its constituent components: (1) financing green enterprises and technologies; (2) development of green financial products and green investors; (3) consideration of environmental risks in lending decisions; (4) efficient operation of emission trading market. Green finance can be used in a variety of products and fields, including three categories: infrastructure financing, finance assistance for industries, businesses, and the financial market. From the perspective of capital beneficiaries, Ledger wood (2013) believes that green finance is also a financing activity for poverty alleviation and the long-term development of credit institutions, in addition to environmental issues. This viewpoint argues that credit institutions must pay attention to social issues; therefore they should be responsible for capital misallocation issues as well as emerging problems with vulnerable groups in society. Thus, green finance can be defined as a financial activity that comes from either the public or private sector, but must finance issues such as (1) environmental improvement, creating

new products or new livelihoods; (2) poverty; and (3) infrastructure improvement, but must be associated with environmental protection and social security.

As part of green finance, green credit should be approached in terms of: an item used to finance environmental problems or poverty alleviation or infrastructure improvements. In the past, government funds have frequently been used to fund green credit. However, because the state budget is often insufficient, assistance will be provided through commercial banks - i.e., in the current system frequently, the finance moves from the bank to the economy. The global definition of "green credit," according to Wang et al. (2019), is based on the "Equator Principles," which were established in October 2002 by the International Finance Corporation (IFC – part of the World Bank group) and the Bank of the Netherlands. The Equator Principles are also the first in the world to use environmental protection as a corporate finance requirement. As a result of the "Equator Principles," financial institutions are required to consider the environmental and social impacts of projects in addition to traditional solvency assessments, and banks are required to use financial leverage to promote projects that will actively contribute to energy conservation, emissions reduction, and societal stability. Green credit, as defined above, is credit granted by financial institutions for consumption, investment, manufacturing, and business needs that do not endanger the environment, thereby contributing to the protection of the overall ecosystem. Despite the importance of green credit in economic development, Tran Thi Thanh Tu and Nguyen Thi Phuong Dung (2017) found that: 91 percent of banks do not comprehend green credit and do not have a clear strategy on this issue – in fact, 35 percent have never heard of green finance or green credit. Furthermore, the Government's and the State Bank's regulations and policies are still insufficient to guide this activity in the banking system, particularly commercial banks.

However, some banks are actively engaged in green banking activities and green credit products, albeit to a limited extent because there is no incentive mechanism in place, and this activity remains "expensive" in comparison to traditional operations. As a result, the implementation of appropriate mechanisms, policies, and orientations will support in the promotion of this activity at commercial banks.

3. Research methods and research results

3.1. Research methodology

The study focuses on legal issues and policy frameworks on green credit in Vietnam's banking sector. Green credit is a relatively new concept in Vietnam, and few banks offer green products or finance for green projects due to the vast and sensitive legal and policy framework. For these reasons, the case study method is well suited to this study – and the authors chose Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV) as the case study in order to provide policy implications – because this bank has made significant progress in green banking development.

The research team used a combination of case study and qualitative methods in this study, conducting an in-depth interview to examine the green credit development stage, as well as the legal framework and policy on green credit in Vietnam, thereby serving as the foundation for green finance development. In-depth interviews were conducted with experts in some Vietnamese commercial banks and experts in some green projects. Specifically, face-to-face interview method was used to collect information from experts. In-depth interviews allowed the research team to collect detailed information on the difficulties faced by Vietnamese commercial banks in relation to the legal and regulatory framework for green banking. On the other hand, the in-depth interview with green project experts allows the study team to identify issues that need to be addressed in the current policy framework, which is impeding the growth of green credit in the Vietnamese Commercial Bank.

3.2. Result of the research

3.2.1. Legal basis for green credit in Vietnam's banking sector

The legal basis for green finance in general and green credit in Vietnam's banking sector includes the Government's Strategy and Action Plan, and the Guidelines of the State Bank.

Government's Strategy and Action Plan

a) Vietnam's sustainable development strategy

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

The specific objectives of the Strategy are: ensure macroeconomic stability, maintain food security, energy security and financial security; step by step implement green growth and develop low carbon economy; promote efficient and economical use of all resources; minimize the negative impact of economic activities on the environment; prevent, control and remedy environmental pollution as well as improve environmental quality; forest protection and development as well as biodiversity conservation.

b) National strategy on green growth

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

The strategy sets three specific goals: (i) Institutional restructuring and improvement towards greening existing industries and encouraging the development of economic sectors that use energy and resources efficiently with high added value; (ii) Research and apply advanced technologies more and more widely in order to more effectively use natural resources, reduce the intensity of greenhouse gas emissions, and contribute to an effective response to climate change; (iii) Improving people's living standards, developing environmentally friendly lifestyles through creating jobs from industries, agriculture, green services, investing in natural capital, developing green infrastructure.

c) National action plan on green growth

The national action plan on green growth for the period 2014-2020 was approved by the Prime Minister under Decision No. 403/QĐ-TTg dated 20/03/2014. The action plan includes 4 themes, 12 groups of activities and 66 specific activities for each Ministry, department, branch and local government. 4 themes include: (i) Setting up institutions and formulating green growth action plans at the local level; (ii) Reducing the intensity of GHG emissions and promoting the use of clean and renewable sources of energy; (iii) Greening production; (iv) Greening lifestyle and promoting sustainable consumption.

d) Plan for the 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 the implementation of the Paris Agreement on climate change, under which the State Bank, the Ministry of Finance, the Ministry of Planning and Investment, the State Capital and Investment Corporation are jointly responsible for promoting the development and application of financial instruments such as green credit, green bonds, green investment funds and a set of criteria for green projects.

Guidelines of the State Bank of Vietnam

a) Directive No. 03/CT-NHNN

One of the first steps of the State Bank to implement the National Green Growth Action Plan is to issue Directive No. 03/CT-NHNN dated March 2, 2015 on promoting green credit growth and environmental – social risks management in credit granting activities

The general objectives and tasks of the Directive are: (1) To implement the National Action Plan on green growth, as from 2015, credit granting activities of the banking sector should take into account of the issues of environmental protection, natural resources and energy efficiency improvement; environment quality

enhancement and human health protection, towards the sustainable development; (2) To review, adjust and upgrade credit regulations in accordance with green growth objectives; focus on credit granting to projects and production and business activities which are environmentally and socially friendly; contribute to the implementation of green growth targets of the business community, thereby, achieve the green growth and sustainable development goals.

b) Action plan of the banking sector on green growth

Also in 2015, to implement the National Green Growth Action Plan, the Governor of the State Bank issued Decision No. 1552/QĐ-NHNN dated August 6, 2015 on the action plan of the banking sector for implementation of the national strategy for green growth by 2020

c) Financing activities for green projects

On December 30, 2016, the SBV issued Circular No. 36/2016/TT-NHNN on lending transactions of credit institutions and/or foreign bank branches with customers, which includes the following article 4 "Lending and borrowing rules": "Lending transactions between a credit institution and a customer shall be performed according to an arrangement between that credit institution and customer and in conformity with regulations laid down herein and other relevant laws, including the legislation on environmental protection." This is the first time that environmental protection requirements have been incorporated into a Circular on commercial bank credit activity.

d) Green project Catalogue

The task of developing a set of criteria for green projects has been assigned to the State Bank in Decision No. 2053/QĐ-TTg 2016. With the support of GIZ, in 2017, the State Bank introduced the Green Project Catalogue. The green project catalogue includes 6 catalogs, 21 economic sectors and details for 44 sub-sectors. Among them, there are 6 types including: renewable energy, energy saving and energy efficiency, land use conversion and management, sustainable forestry, sustainable waste management and green agriculture.

e) Green bank development project in Vietnam

Implementing the first activity outlined in the Action Plan of the banking sector, on August 7, 2018, the Governor of the State Bank issued Decision No. 1640/QĐ-NHNN approving the Scheme on the green bank development in Vietnam

The overall goal of the Scheme is to accelerate the awareness and corporate responsibility of the banking sector about the environmental protection, the climate change response, directing credit resources into eco-friendly projects/programs, boosting green production, services, as well as clean and renewable energy, in order to contribute to the promotion of the green and sustainable growth

f) Environmental and social risk assessment handbook

At the Conference on Green Banking towards Sustainability held by the State Bank on August 7, 2018, the Environmental and Social Risk Assessment handbook was introduced as a reference for the banks use in credit appraisal. The handbook currently sets criteria for 10 economic sectors, including agriculture, chemicals, construction, infrastructure, energy, food processing, textiles, oil, and mining of mineral and non-metallic products, waste treatment. The handbook recommends commercial banks to set up their own environmental and social risk management systems, including: (1) Environmental and social policy approved by the top management of the bank; (2) Environmental and social risk management processes to ensure compliance with environmental and social policies; (3) External communication mechanism so that the bank can receive third-party feedback on the activities of the projects financed by the bank, and declare the implementation of management and supervision environmental and social risks to its credit portfolio and (4) the environmental and social capabilities including the organizational structure, human and financial resources necessary to implement environmental and social policies and procedures.

3.2.2. Legal basis for green credit in the banking sector in Vietnam – a case study from BIDV

In order to effectively implement the guidance of the State Bank, BIDV has urgently studied and approached international practices and recommendations including Safeguard Policy Statement and Gender and Development Policy as well as the requirements on environmental and social protection of the IFC (WB) to issue its own Social and Environmental Risk Management Framework (S&E).

The following are the main features of the framework indicated above:

First and foremost, BIDV seeks to ensure a strong and transparent commitment to sustainable development, environmental protection, and social protection. Accordingly, the Bank pledges to promoting effective environmental and social risk management practices in all of its activities, particularly by financing only projects and business plans that are designed and operated in compliance with environmental and social protection requirements.

Secondly, strictly implement the E&S risk assessment process concurrently with the credit extension process in three main steps: (i) evaluating of business plans/projects; (ii) E&S risk classification; (iii) detailed E&S risk assessment to classify business plans/projects into appropriate groups. For this reason, BIDV has released a different handbook that is more detailed and easier to apply in the implementation process, based on the Social and Environmental Risk Assessment Handbook I launched by the State Bank in August 2018. All employees and SME customer relationship managers are required to follow this process.

Thirdly, the Bank demands that all branches include environmental and social protection regulations in their credit agreements or an environmental and social protection agreement (which is an appendix to the Credit Agreement). Accordingly, customers must commit at least the following contents: (i) comply with Vietnamese laws and international social and environmental standards; (ii) take measures or actions to remedy the negative impacts caused by the project/business plan on the environment and society within the agreed period; (iii) commit to notify BIDV as soon as there is any incident or accident causing serious impacts on the environment and society and develop an action plan to remedy the incident/accident there; (iv) commit to provide BIDV with licenses and evidence to demonstrate compliance with its social and environmental commitments. These commitments must be made fully and consistently within the credit period. Customers will also face penalties if they fail to meet their environmental and social commitments.

Fourthly, BIDV will report and monitor the customer's compliance with environmental and social terms and conditions after the loan is approved.

However, as required by the Green Banking Development Project in Vietnam, BIDV has yet to establish a specialized department for E&S risk management. Currently, E&S risk management is assigned to a group of 4-5 people in the Credit Risk Management Department at Head Office. As a result, BIDV's senior leaders should decentralize risk management departments at the branch according to a certain credit limit to avoid overload in the event that the group has to personally assess E&S risks of all projects. If the loan amount exceeds the credit limit, the expert team in the credit risk management department at the Head Office will be in charge of the E&S risk assessment.

3.2.3. In-depth interview results

Banks' difficulties in financing green projects:

From the bank:

- Green projects frequently require new/advanced technology, resulting in a big total investment capital, extended repayment time, numerous potential risks, and high production costs, while the output market is selective due to the higher than normal price. Therefore, green projects are often unattractive to banks.

- Banks face challenges in assessing environmental and social impacts, as well as technological and technical aspects of projects, particularly renewable energy projects (wind energy, solar energy, etc.) because these fields are relatively new and have not been widely deployed in Vietnam.

- Currently, Vietnam lacks a consistent legal framework and policy on green credit (including standards for banks in managing environmental risks and a credit-monetary policy instrument to enhance bank financing). As a result of the difficulties in managing environmental risks, banks are not interested in green initiatives.

- Project owners are not properly and fully aware of the importance of environmental protection and the impact of social and environmental activities on their production and business activities. Consumers are not fully aware, and they are not accustomed to selecting environmentally friendly products due to their consumption habits.

From the project owner's: Green projects will remain new to both the authorities and banks in Vietnam. Green projects will have difficulty obtaining an investment license as well as accessing bank funding, as opposed to normal projects.

Evaluation of the legal framework and policies to support banks in implementing green credit

From the bank:

- Currently, the Government has guided and directed the National Action Plan on Green Growth for the period 2014-2020 (Decision No. 403/2014/QĐ-TTg dated March 20, 2014) and Directive No. 03 /CT-NHNN dated March 24, 2015, of the State Bank of Vietnam on promoting green credit growth and environmental – social risks management in credit granting activities, which shown a positive shift on a national scale in implementation of the green growth plan of the whole economic sector. Specifically, according to Directive No. 03/CT-NHNN, the identified green credit sector includes: (i) conservation, development and efficient use of natural resources; (ii) application of advanced scientific and technological achievements; (iii) economical and efficient use of energy; develop clean energy, renewable energy; (iv) use environmentally friendly technology and equipment, produce environmentally friendly products. In early 2017, the State Bank of Vietnam issued Directive No. 01/2017 which continued to emphasize the implementation of the banking sector's action plan to implement the national strategy on green growth to 2020.

- Particularly for wind power projects, the Government issued Decision No. 39/2018/QĐ-TTg dated September 10, 2018 amending and supplementing a number of articles of Decision No. 37/2011/QĐ-TTg June 29, 2011 on the mechanism supporting the development of wind power project in Vietnam Accordingly, the buyer shall purchase the whole electricity output generated by the wind power project at the purchase price at the delivery point as follows: (i) With regard to onshore wind power projects: The purchase price at the delivery point is VND 1,928 per kWh; (ii) With regard to offshore wind power projects: The purchase price at the delivery point is VND 2,223 per kWh. At the same time, promulgate both a mechanism to support both businesses and banks in increasing project investment efficiency and providing credit for wind power projects.

- However, regarding the Bank's supportive policies, Directive No. 03/CT-NHNN of the State Bank only recommends banks to actively develop green credit programs and policies in order to raise green credit proportion in its credit portfolio, research, develop and implement measures to manage E&S risks in credit granting activities, without any official financial support for banks to facilitate preferential credit for these projects while banks operate on a commercial model. Furthermore, because the E&S risk management solution in credit extension has not been implemented in all banking systems, banks that are leading research and development of the E&S risk management framework face numerous challenges in reaching customers.

From the project owner's: Decision No. 39/2018/QĐ-TTg increases the purchase price for wind power projects, which is expected to have a similar increase for other renewable energy projects.

Legal and policy recommendations for green credit in the banking sector

From the bank:

- It is necessary to develop specific environmental standards for industries and sectors so that banks have a sufficient basis to appraise and assess the impact of E&S on projects in accordance with regulations on risk assessment.
- To stimulate the participation of commercial banks, it is necessary to provide instruments such as: (i) reducing the required reserve ratio or have incentives for banks with high green credit balance; (ii) adjust the conversion ratio of green credit balances lower than other credits when calculating risky assets; (iii) increase the allowed bad debt ratio of green credit promotion banks to encourage commercial banks to provide loans for green plans/projects...
- The government seeks and devises a strategy to develop financial resources to support green projects in addition to bank credit such as green growth funds from international financial institutions (WB, ADB, etc.), establish the State's green credit fund to support interest rates and guarantee green projects, mobilize capital to support green projects through the issuance of green bonds.
- A reasonable mechanism for purchasing electricity from renewable energy projects (solar energy, wind energy, geothermal energy, etc....) should be created to assure attractive earnings for investors while also ensuring stable output prices for renewable energy projects for many years.
- It is necessary to actively propagate to businesses/people to realize the importance of production and business associated with environmental protection and the use of environmentally friendly products;
- Coordinate with international organizations to train businesses on project implementation experience, effective planning/project development, and to train banks on green project appraisal, risk control, and risk management methods.

From the project owner's: It is necessary to issue preferential tax policies for green projects.

4. Conclusion

The legal framework for green credit in Vietnam is only in its early stages. The number of legal documents relating to green credit is extremely limited. In 2015, the State Bank released the first guideline on green credit – Directive No. 03/CT-NHNN – in addition to the primary legal documents such as the Environmental Law and related guiding documents. However, as a Directive, which is the lowest-ranking document in Vietnam's legal system, it is not enforceable but can be used as an incentive instrument.

However, banks must play a central role in implementing green credit. Although in 2017, the Governor of the State Bank continued to issue Directive No. 01/CT-NHNN emphasizing the implementation of the Action Plan of the banking sector to implement the National Action Plan on green growth. to 2020 and the Paris Agreement Implementation Plan on climate change, this guidance is insufficient because there is a lack of consistency in the circulars regulating lending activities during sponsored project implementation (including provisions on mandatory assessment of environmental and social risks in the credit appraisal and approval process, or regulations on mandatory terms in the credit contract related to environmental protection commitments). Furthermore, the promotion of green credit policy has not been done on a regular and methodical basis. After issuing Directive 03 on green financing in 2015, the State Bank only once held a sector-wide training course.

Even though, there is no effective coordination mechanism for environmental management between banks and state management agencies in the implementation of green credit programs. This mechanism should also be regulated to ensure the effective implementation of the Government of Vietnam's green credit strategies and programs.

Finally, the State Bank is not really open in sharing documents and data related to green credit. Although the Environmental and Social Risk Assessment Handbook was introduced at the State Bank's Conference on August 7, 2018, it is only available in the printed copy, with no press release on the SBV's website. To further integrate Vietnam's economy into the global economy, particularly to access capital from international financial institutions, the legal framework for green credit and credit for environmental protection and society must be consolidated,

perfected, and updated in accordance with international practices.

Therefore, the following recommendations were proposed included:

Firstly, The State Bank of Vietnam needs to complete the legal framework on green credit by issuing legal documents such as Circular or Decision such as: Issuing guidelines on green banking and green credit, clearly defining the definition of green credit, green banking and criteria for a green bank; Completing the environmental and social risk assessment handbook; Updating green project catalogue annually.

Secondly, The State Bank of Vietnam and the Vietnam Banks Association need to raise awareness among banks about the benefits of green credit, responsible credit and environmentally friendly credit programs. In addition, the State Bank and the Vietnam Banks Association should quickly establish specialized teams (such as the China Green Finance Task Force) to conduct research and collect opinions from commercial banks, develop a specific set of principles, the Principles for Responsible Banking base on environmental Program– a United Nations financial initiative, which requires banks to sign on to the principles and take responsibility for their implementation.

Thirdly, in addition to the Central bank's role, the Ministry of Natural Resources and Environment must research and issue specific guidelines and sets of standards, minimizing sub-licenses in projects that license the use of natural resources such as land, water, ground, water surface, and other environmental projects. Environmental agencies must assist and support green projects in order for them to be appraised, approved quickly, and coordinate with banks in credit appraisal. Expand the catalogue of the green project and prioritize support for green projects through close coordination with the Credit Guarantee Fund of Small and Medium Enterprises, the Environmental Protection Fund.

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