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Nguyen Ha Bang
Forecast and Human Resource
Development Institute,
Vietnam

Recommendations for developing green bank in Vietnam

Nguyen Ha Bang

Abstract

Vietnam is considered one of the countries most affected by climate change. Sustainable development with green growth is becoming a common development trend of countries worldwide because green growth can simultaneously solve problems between growth and the environment - society, ensuring growth - an economy with environmental and social protection. By providing capital to the economy, the banking system plays an essential role in implementing green change with the mechanism to encourage investment in environmentally friendly projects green goods. This study refers to the concept of green banking and, at the same time, points out its importance in the process of implementing the National Strategy on Green Growth. Thus, the article also proposes recommendations to encourage and promote green banking activities in Vietnam.

Keywords: Finance, developing, green, bank, and Vietnam

Introduction

Currently, for countries in the world and Vietnam in particular, sustainable development has been setting stricter requirements for economic growth. Specifically, it requires each country, despite its economic growth, to have a harmonious connection with environmental and social protection. Following this right trend, in September 2020, the Prime Minister approved the National Strategy on Green Growth for 2020 - 2025 with a vision to 2050., which affirms: "Green growth is a sustainable economic development method, model transformation, and financial restructuring. The three main goals of the green growth strategy are reducing greenhouse gas emissions restructuring the economy towards in-depth development. Besides, reducing resource use and increasing ecological industries and environmental services, renewing technology, building a green lifestyle, and sustainable consumption (greening life). In considering solutions to implement green growth, many researchers and macroeconomic managers have pointed out that: The state budget will not be able to meet the capital requirements. Therefore, it is necessary to mobilize financial resources from the private sector. In which banks play the role of a significant economic resource. This factor is easy to understand because banks are the source of capital for large and small projects in many different fields. Moreover, from capital dependence, the state can, through the banking system, encourage investment in environmentally friendly projects and limit polluting and toxic projects. Participation in implementing green growth in this direction will turn banks from ordinary financial enterprises into green banks of the economy (Biswas 2011) ^[4]. Building a green banking system is necessary. But after two years of having the green growth strategy, what is the current state of Vietnam's green banking system? What solutions are needed to build and develop it? The study will focus discussion on clarifying these issues. Thus, the article also proposes recommendations to encourage and promote green banking activities in Vietnam.

Literature Review

Green banking concept

At the seminar "Green Finance and Banking" held on June 25, 2020, under the chair of the German Development Cooperation Organization (GIZ) in collaboration with the State Bank and the Ministry of Finance, representative of the Central Institute for Economic Management (CIEM) explained: "Green banking is the activities and operations of the banking system to encourage activities for the environment and reduce emissions."

Correspondence
Nguyen Ha Bang
Forecast and Human Resource
Development Institute,
Vietnam

This concept is still the most commonly used in research papers and articles on green banking (Goyal & Joshi 2011)^[7].

With this concept, a green bank had to actively carry out many activities to encourage customers to use green products and services. Apply environmental standards when approving loans; granting preferential credits for carbon reduction projects renewable energy projects (Kristin & Morten 2016)^[13].

The concept of "green banking" first appeared in 2019 in western countries intending to protect the environment and then used by many economists in their research. According to Kandavel (2013)^[11], green banking includes online banking activities, conducting transactions over the network instead of expanding the bank's branch chain. In the study of Hyoungkun & Jong (2020)^[10], green banks can approach in two directions, including: (1) focus on greening internal operations of the bank and (2) finance projects. Environmentally friendly projects, focusing on social and environmental factors in the loan appraisal process. A study by Lalon (2015)^[14, 15] suggested that green banking leans towards socio-economic activities and focuses on the environment through carbon reduction both inside and outside the bank (Aboelmaged & Gebba 2013)^[1].

Thus, green banks are like other banks, but with environmental and social factors in mind by reducing carbon emissions to encourage green credit activities and greening corporate governance activities banking job (Masood *et al.*, 2015)^[16].

Green banking development

Based on the concept, green banking activities have been divided into two main activities: green credit and green bank internal activities. Green commercial building construction, green car loan, green credit card, and green project financing (Lalon 2015)^[14, 15]. Green mortgages are loans with lower-than-market interest rates available to customers who buy green energy homes. For commercial building projects with lower energy consumption (about 15% - 25%), waste reduction, and less pollution than traditional buildings, the bank will design and offer attractive loan agreements with a green commercial building loan product (Khanifar 2012)^[12]. Besides, Environment Program Finance Initiative includes actions of green mortgage lending, lending green home appliances, lending (Masukujjaman *et al.*, 2015)^[18].

Green project financing for corporate clients, carried out by the bank by creating groups dedicated to considering large-scale clean energy, renewable energy, and renewable energy projects, debt item committed to fully or partially finance the project. Similarly, banks applied preferential interest rates when lending to buy green home appliances (electrical or thermal renewable energy technology equipment) or loans to purchase green cars - cars with an intensity of greenhouse gases low or high fuel economy (Hossain *et al.*, 2016)^[9]. In addition, environmental and social risks such as child labor, climate change, etc., will be essential factors for banks to consider when making loans and project financing his judgment (Morteza *et al.*, 2011)^[19].

The article showed the advantage of natural light. Green internal operations operate within the bank, related to

network expansion, automation of tasks, and other daily activities. Besides, the banks that expand their green banking network will use energy and resource-saving buildings and offices - finally, limiting the use of air conditioners (Nath *et al.*, 2014)^[20].

Green goods will also focus on reducing carbon emissions and conserving natural resources, such as using a solar ATM system encouraging modern communication, communication, and storage tools to limit processing large volumes of printed documents (Masukujjaman & Aktar 2014)^[17].

Meaning of green banking

With its role of providing capital to actors in the economy, the banking and financial system will create indirect impacts on the environment. When banks strengthen environmental risk management in lending activities, it will create incentives for businesses to improve production efficiency in a cleaner direction (Chua & Oh 2011)^[5]. Thus, green banking activities will contribute to raising the awareness of actors in the economy on environmental and social issues, promoting them to carry out environmentally friendly business activities, supporting the community. Another undeniable benefit of green banks for customers is enjoying preferential interest rates during the funding period. In addition, the implementation of technology-based services such as internet banking, SMS banking, etc., helps customers save time and money (Ghosh *et al.*, 2018).

Considering environmental criteria in lending decisions will help banks limit credit risk, reputation risk, and legal risk from a bank's perspective (Afshan & Sharif 2016)^[2]. At the same time, the continuous implementation and development of e-banking activities not only contribute to limiting the use of resources but also meets the increasing demands of customers. Increasing the number of customers' ability to attract customers creates many sources of revenue for the bank (Alwahaishi & Snasel 2013)^[3].

Methods of Research

The research on green banking development is illuminated from the knowledge of system theory, control theory, management theory, and dialectical and historical materialism principles. The article studies the concept of green banking development as a system of activities, objectively existing. They are implemented depending on the development conditions of each stage of socio-economic development managed, controlled, developed from low to high, closely related to socio-economic activities in Vietnam. The research and development of green banks cannot be a phenomenon, and it is studied in the overall development of green banks. Green bank development is part of the overall investment efficiency in the study area. Green bank development is the whole work. It begins to promulgate policies and guidelines for investment and development of green banks to plan that investment and organize development investment implementation green bank with high determination. Investment in green banking development involves many people, from policy decision-makers to investors and beneficiaries, related fields, and people directly involved in green bank development activities (Hair *et al.*, 2021)^[8].

This study used a combination of the following methods

System analysis method

It was used to analyze the factors affecting the development of green banks, the system of activities belonging to investment and development of green banks, examining the relationship between investment and development of green banks with other activities, investment in industrial, agricultural, and forestry development as well as investment in infrastructure development and investment in human development in Vietnam.

Statistical analysis method

This method is used to analyze the current status of green banking development and investment in green banking development to Vietnam's current economic development status. At the same time, it is also used to list and evaluate green banks' investment and development policies in recent years in Vietnam.

Forecasting method

This method is used to forecast the demand for investment and development of green banks, to forecast the results and effectiveness of the acquisition and development of green banks. At the same time, to predict the conditions to ensure effective development investment, including directional evaluation of green bank development investment and what the government will have to do (Hair *et al.*, 2021)^[8].

Comparative Method

It compares research issues between years and periods and other research objects, accurately perceiving the research object. For example, it was reaching the efficiency of investment in developing green banks with the development of different fields or comparing the efficiency of investment and development in green banks over the years.

Expert method (or method using experts)

In conducting research, the author directly communicates with scientists and managers to get more information for his research and exchanges with experts to poll their opinions to confirm their proposals. The author used to get more information during the research process and validate the author's comments and suggestions in the research paper. The author surveyed 100 experts in banking management, and 85 managers responded with valid and complete information. This result is the data included in the descriptive statistics (Hair *et al.*, 2021)^[8].

Research Results

Current status of green banking activities in Vietnam

Green credit activities have only been initially interested in deploying by some commercial banks because the benefits of becoming a green bank are not clear. A survey on the awareness of Vietnamese commercial banks on social and environmental risk management. Conducted in 2019 showed that up to 80% of retail banks do not know any guiding documents or criteria on ecological and social risk management in the financial industry. Up to 93% of commercial banks showed that the State Bank should have guidelines on environmental risk management.

In the commercial banking system, the two earliest commercial banks with environmental and social risk

management systems are Techcombank and Sacombank. Techcombank uses the International Finance Corporation (IFC) set of standards on the social environment, while Sacombank builds its management policy based on IFC's standards.

Sacombank built the environmental and social management system (ESMS) with the consulting support of PricewaterhouseCoopers (PwC), based on standards according to international practices such as the Financial Initiative of the United Nations Environment Program, Equator Principles, and IFC Performance Standards for all project financing activities. The ESMS includes: (i) Environmental and social policy; (ii) Process of assessing environmental and social impacts; (iii) Toolkit for assessing environmental and social impacts. Based on the questions of the appraisal toolkit, credit officers will assess and classify environmental and social risks arising from customers' business activities that Sacombank intends to sponsor, making an essential contribution to before making a credit decision.

Unlike Sacombank, Techcombank deploys green credit activities based on cooperation projects with international organizations. For example, Techcombank has signed a credit cooperation contract with IFC to finance clean production and energy-saving projects of small and medium enterprises in Vietnam. Accordingly, Techcombank and IFC will invest capital for businesses to change equipment, upgrade technology and systems to improve energy-saving efficiency, expand production, cut costs, and reduce gas emissions, waste. In addition, businesses are also evaluated by technical experts of IFC on energy efficiency and advised on how to improve and replace machinery and lines for high energy efficiency. And consult the appropriate equipment suppliers. In addition, Techcombank and ACB, VIB also support financial appraisal and provide credit at the Green Credit Trust Fund established by the Swiss Federal Bureau of Economic Affairs (SECO). The fund's operational purpose is to provide financial support for clean technology investment projects of domestic enterprises and, at the same time, to encourage customers to develop investment products that bring environmental benefits to the community copper.

Lien Viet Post Office, Sacombank. If green credit activities are only at the beginning, green internal activities have been focused on developing by banks in the past period. If in 2019, the rate of banks implementing e-banking services was only at 92%, by 2020, the total rate was 100%. This result helps banks limit many resources, such as paper, water, and air conditioning equipment. Besides, some banks also implement specialized programs on green banking, such as banks. Specifically, in 2019, Lien Viet Post Bank implemented the Green Bank program to turn environmental protection activities into long-term activities towards sustainable development. The program includes three main activities: (1) building green offices - launching emulation to save electricity stationery, saving public assets such as water, toilet paper, creating a clean and beautiful green space; (2) exchange paper for trees to reuse paper; (3) building green counters because customers' smiles bring a friendly and cheerful bank image.

In 2020, Sacombank introduced a policy on minimizing the impact on the environment by strictly controlling operating

costs and effectively using available resources with measures such as using energy-saving light bulbs, office equipment with energy-saving or carbon emission labels, water-saving faucets, using modern communication tools to limit movement. In 2020, Sacombank introduced a policy on minimizing the impact on the environment by strictly controlling operating costs and effectively using available resources with measures such as using energy-saving light bulbs, office equipment with energy-saving or carbon

emission labels, water-saving faucets, using modern communication tools to limit movement. As a result, this bank has reduced 12% of electricity, 14% of petrol, and nearly 30% of transportation costs compared to the set plan at the beginning of the year to create clean and beautiful green space. (2) Exchange paper for trees to reuse paper. (3) Building green counters because customers' smiles bring a friendly and cheerful bank image.

Table 1: Descriptive statistics from surveying 85 managers related to green banking development

Contents	References	N	Min	Max	Mean	Std. Deviation (SD)
Q1: There should be policies to attract investment in green fields	(Goyal & Joshi 2011) ^[7]	85	1.00	5.00	3.4235	0.89145
Q2: There are regulations to improve the social responsibility of businesses and the community	(Hossain <i>et al.</i> , 2016) ^[9]	85	1.00	5.00	3.4824	0.90779
Q3: Propaganda to increase investor awareness about green investment	(Ghosh <i>et al.</i> , 2018) ^[6]	85	1.00	5.00	3.4706	0.89427
Q4: The state needs to concretize preferential policies on taxes, fees, charges, and land for businesses	(Wang & Zhia 2016) ^[22]	85	1.00	5.00	3.4235	0.89145
Q5: The state should have a subsidy policy for products that do not pollute the environment	(Sahoo & Nayak 2007) ^[21]	85	1.00	4.00	2.9176	1.10423

Source: Data processed by SPSS 20.0

Table 1 shows that the test results are very good with a sample of 100 managers related to commercial banks, but 85 samples were processed. These results indicated Mean and Std. Deviation (SD) is essential, and they agree with the five recommendations below.

Achievements

The government and regulatory agencies have issued specific legal documents and guidelines to promote green growth, including green banking. This result encourages commercial banks to pay more attention to green banking activities in both green credit and internal green. In particular, some banks have implemented green credit activities and achieved some initial results, such as Sacombank with its environmental risk management system or Techcombank sponsored many savings projects. Green internal activities have been focused on by banks with the application of science and technology to reduce paper use and use of energy-saving devices such as lighting, air conditioning, and printers, building green space.

Some limitations of

Although specific results have been achieved, the implementation of green banking in Vietnamese commercial banks is still limited. Although some guiding documents have been issued, the regulations are still general, unclear, and specific. Few banks still implement green banking activities, and no bank is oriented towards the green banking model. The reason is that banks think that they will lose a large amount of profit because credit appraisal will be tightened when considering social and environmental factors. Green banking products and services in Vietnam are not specific and have not been implemented regularly. The products that have been deployed are only short-term programs to demonstrate the bank's social responsibility. Green credit products in the world such as loans to buy greenhouses.

Conclusions & Policy Implications

Conclusions

Implementing green banking is an essential task of the economy in promoting the Green Growth Strategy. It

contributes to limiting environmental and social risks such as limiting pollution, preventing the greenhouse effect, eradicating hunger, and reducing poverty. Vietnam's green banking system is currently in the early stages of construction. The Government and the State Bank need to coordinate implementing many solutions to form and take effect. The most important is issuing credit appraisal guidelines and environmental and social risk assessment standards. This management system will be the basis for commercial banks to participate in the green growth strategy as green banks.

Policy implications

To develop green banking in Vietnam in the coming time, the Government and the State Bank need to cooperate with international organizations and experienced countries to establish a standard environmental policy to help build a green banking system. Commercial banks have a basis to gradually become more environmentally friendly, creating conditions for the emergence of green banks in Vietnam. After having specific instructions from the regulatory authority, commercial banks themselves can implement some stage roadmap to deploy green banking:

(1) There should be policies to attract investment in green fields: developing a banking development strategy green bank, establishing a specialized department for green banking, focused on managing environmental and social risks in its activities, initially implementing green internal activities. Prioritize government investment and spending in areas that stimulate the greening of economic sectors to attract private sector investment in the green economy, thereby increasing the demand for green finance, contributing to part in promoting the development of green banking. Specifically, they are investments to encourage the development and use of new energy, renewable energy, raw materials, fuels, and materials to replace traditional resources.

(2) There are regulations to improve the social responsibility of businesses and the community: concretizes green banking policy in each field, develops green products and services towards the goal of a comprehensive green bank, and reports to the State Bank. Because green banking products

and services are still relatively new in the Vietnamese market, banks should focus on marketing these new products and diversifying products and services. This ideal is not only to promote products but also to raise people's awareness of environmental protection in choosing products, goods, and services. Corporate social responsibility is no longer a new concept for the Vietnamese business community. However, social responsibility activities at most businesses are only understood as charitable contributions, community sharing, or voluntary social work of enterprises. Many companies do not fully understand the critical role and benefits of implementing social responsibility, so they have not taken their social responsibility seriously.

(3) Propaganda to increase investor awareness about green investment: green banking has only been initially implemented in Vietnam. To actively contribute to the implementation of green growth, the Vietnamese commercial banking system needs more specific instructions from the regulatory agency. At the same time, it is necessary to devise a green banking development strategy proactively to promote the deployment of green banking products and services to the public. Encourage investors to put environmental factors into analysis when making investment decisions. At the same time, financial institutions and businesses will pay more attention to environmental factors and scrutinize them than green investment projects. The development goal of the enterprise in the coming time will include not only the profit factor but also the combination of factors.

(4) The state needs to concretize preferential policies on taxes, fees, charges, and land for businesses. The banks concretize green banking policy in each field. They were developing green products and services towards the goal of a comprehensive green bank and reports to the State Bank. Because green banking products and services are still relatively new in the Vietnamese market, banks should focus on marketing these new products and diversifying products and services. This result is not only to promote products but also to raise people's awareness of environmental protection in choosing products, goods, and services. The banks encourage enterprises to invest in technological innovation in green technology and green jobs to create competitive strengths in the market. Besides, this factor is necessary because the costs of building and handling systems to reduce environmental pollution or clean production are often quite large, making it difficult for businesses who want to deploy these systems. These tiny and medium enterprises make up the majority of the Vietnamese economy.

(5) To actively contribute to the implementation of green growth, the Vietnamese commercial banking system needs more specific instructions from the regulatory agency. At the same time, it is necessary to devise a green banking development strategy proactively to promote the deployment of green banking products and services to the public. The state should have a subsidy policy for products that do not pollute the environment: green banking has only been initially implemented in Vietnam - encouraging enterprises to provide and produce "green" services and goods. However, price subsidies also need to be reviewed and evaluated to limit violations of international commitments and avoid being bullied by other countries.

Countries/territories and organizations had listed as subject to anti-dumping duties in international trade activities.

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