Experiences of green credit development — lessons learned to Vietnam

Do Thi Van Trang, *Department of Finance, Banking Academy, Hanoi, Vietnam*
trangdtv@hvnh.edu.vn

Abstract. The concept of green credit resembles that of sustainable finance in that both concepts highlight the potential of the financial sector to respond to environmental and social challenges of the world through financial instruments. This article studied the experiences of green credit development in some countries in over the world such as China, Korea, Bangladesh, and Germany. According to the difficulties in applied green credit in China, or the successes of green credit in other countries for examples the cases of Korea, Bangladesh and Germany, this study highlights several recommendations and suggests lessons learned from these countries to Vietnam. It would be especially stressed that raising awareness of consumers about using environmentally friendly products, and boycotting products that are not clean or polluting to environment is crucial. On the other hand, the support of the government could help enterprises reduce green production costs.
Keywords: green economy, green banking, and green credit.

Опыт развития «зеленого» кредитования: уроки важные для Вьетнама

До Тхи Ван Транг,
факультет финансов, Банковская Академия, Ханой, Вьетнам

Аннотация. Концепция «зеленого» кредитования является сходной с теорией устойчивых финансов, поскольку обе помогают финансовому сектору отвечать на экологические и социальные вызовы мира с помощью финансовых инструментов. В статье раскрывается практика применения «зеленого» кредитования в Китае, Корее, Бангладеш и Германии. С учетом проблем в применении «зеленого» кредитования в Китае, а также успешного его применения в Корее, Бангладеш и Германии, и уроков, извлеченных в этих странах, даются рекомендации для Вьетнама. В статье особо подчеркивается значение растущего осознания обществом пользы от экологически чистой продукции и важность бойкота «грязной» и загрязняющей окружающую среду продукции. Отмечается необходимость поддержки государством предприятий, что должно способствовать снижению издержек «зеленой» продукции.
Ключевые слова: «зеленая» экономика, «зеленое» банковское обслуживание, «зеленое» кредитование.

1. INTRODUCTION

In recent years, the concept of a green economy has become controversial issue that takes many attentions from not only the scholars but also the politicians. There are several definitions that involved in green economy; however, UNEP has already emphasized the definition of a green economy "as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities". The concept of green economy should been understood in accordance with broader concept of sustainable development. This concept has highlighted the inter-generational equity — economic, social and environmental. On order to implement the objectives of green economy, many countries have conducted different macroeconomic policies in their economic development strategy. One of the most effective issues that have been applied in many countries is green banking, which concentrates on green credit. Sahoo and Nayak (2008), Bihari (2010) indicated the importance of green banking, sites international experiences and addressed on important lessons for sustainable banking and development in India. Biswas (2011) paid attention on the major benefits, confronting challenges, strategic aspects of green banking. Commercial banks should become green and implement a pro-active role to take environmental and ecological issues as part of their lending principle, which tend to economy for environmental management purpose, use of green technologies and green management systems. Bahl (2012) and Kaeufer (2010) has mentioned that green banking is concerned in promoting environmental and social responsibility through providing banking services in order to maintain sustainable banking. Green banking is also taken into account of ethical banking that starts with the aim of protecting the environment. With the purposes of green economy, many countries have carried out various solutions to make amendment and advocacy for the environment protection and sustainable developing policies. Green credit, among those numerous measures, is getting vigorous attention and interest from both the Government and international institutions. Many commercial banks have started to put higher priority on the investment projects, which can improve the environment condition and community benefits. Green credit is a strategy to support economy to grow into a green, low-carbon and recycled model through business innovation, manage environmental and social (E&S) risks, improve banks' own E&S performances, and in doing so, optimize credit structure, improve services and contribute to the transformation of economic growth pattern.

The concept of green credit resembles that of sustainable finance in that both concepts highlight the potential of the financial sector to respond to environmental and social challenges of the world through financial instruments. Green credit activities are those that can bring about substantial benefits for economic growth, people's lives, environment protection as well as sustainable development. Green credit policies are the significant measures in the transition into green growth targets. Green credit products of the banking systems are often used in projects on energy savings, renewable energy and clean technology. These priority sectors are allocated in accordance with green credit policies in different countries. However, most of current funds for the green credit in commercial banks are still based on internationally financed projects/programs. This is due to the lack of confidence and assurance of banks regarding credit risks from these investment projects. Aizawa and Yang (2010) described a series of green policies that applied by China government, including green tax, green procurement, as well as green policies relevant to the financial sector, namely, green credit, insurance, and security policies. As consequently, green credit policy is the most advanced, with three agencies which shared the responsibility for implementation. Zhang, Yang and Bi (2011) examined the implementation of the green credit policy both at the national and provincial levels in China and proved that the green credit policy is not fully implemented in this country. Weiguang and Lihong (2011) showed a problem existed in China's green credit, which was some external obstacles constraint to the implementation of efficiency. These difficulties required generating the environmental risk management system in the commercial banking system.

The implementation of active solutions from the banking system to promote and mobilize credit funds to be invested in green and environment friendly projects may create many benefits, as follows:

- On the national aspect: the development of green credit — green banking will make progressive contributions to the balance and harmonization between environment, economic and social development, poverty reduction, people's lives improvement. In addition, it helps Vietnam to prevent social and environmental risks faced by many countries that did not take into consideration their environmental issues in their economic growth strategy. Furthermore, this can create great opportunities for international finance institution to invest in Vietnam.
- On the business aspect: Green credit offers a wide range of new environmental products to

their clients to earn more revenues and ensures the enterprises to go green. It means that if enterprises emphasize the fact that they are attempting to be environmentally friendly can gain the favor of like-minded consumers, save cost because of saving energy to enhance their reputation as well as competitive advantages in the fierce market. However, the most important is to increase consumer demand. As environmental consciousness grows, consumers are demanding more green products and services. Environmentally conscious consumers check labels for products and packaging made from recycled materials. Due to this growing consciousness, the market share for green products has continued to expand in a variety of industries. Enterprises can tap into this market by offering more green products and services.

- On the banking system: Green credit not only ensures the enterprises to go green, but also facilitate improvement the asset quality of banks in the future via feasible and efficient loans. Even in this global integration, firms are required higher standards to export products, such as a requirement on green label, ecological label, or green license. The regulation therefore become stricter and stricter on environment impact of the firms thus can result in legal risks for the borrowers if they cannot meet them. Therefore, it is wise for financial institutions to assess environmental impact of their borrower's project before lending, or advise clients to do so. Therefore, green credit can help protect the bank's asset portfolio quality by decreasing non-performing loans, thus increasing financial stability and maintain the bank's reputation. Being aware of those benefits, more and more banks have joined in the Equator Principles, which provides guidelines to facilitate banks to go green, with IFC initiative. Since 2006, banks have been selected annually for best practices in their environmental performance in the Sustainable Banking Awards, held by IFC, and results show that best green banks, like Dash (2008) about Triodos (2009), Itau Unibanco (2011), Standard Chartered (2012), Banco Santander (2013), proved to have increasingly better financial performance over time, even in years of financial crises.
- On the community and customers aspect: Green credit supports to protect the environment and human health while providing other social and economic benefits to communities. Moreover, the development of green credit will provide customers with many opportunities to use clean and environment friendly products and restrict the poisonous products. Furthermore, green credit indirectly contributes to improve living environment, maintain the natural resource benefits for the next generations. The role of green credit is also expressed in raising awareness of managers, enterprises and individuals about the significance of green investment for sustainable development.

2. EXPERIENCES OF GREEN CREDIT DEVELOPMENT IN SOME COUNTRIES IN THE WORLD

2.1. China

After many failures in controlling environmental risk, the Chinese Government aims to control pollution in firms via financial institution. The Circular of the People's Bank of China on the Implementation of Credit Policies and Strengthening Environmental Protection issued on February 6, 1995 was the first official document to link credit policies with environment protection. On July 12, 2007, State Environment Protection Administration (SEPA), the People's Bank of China, and China Banking Regulatory Commission (CBRC) jointly issued the Opinions on Implementing Environmental Protection Policies and Regulations to Prevent Credit Risks, emphasized the role of credit policies as tools of environmental protection, and to strength environmental monitoring and credit management of construction projects and enterprises. This is the basic framework of China's green credit policies. CBRC is responsible for supervision and administration of banks' green credit operations, and environmental risk management.

However, there was no detailed guideline for the Green Credit policy until 2012 when CBRC issued Green Credit Guidelines. That is why this policy was not considered to be effective and efficient during these 5 years absence of guidelines. The guidelines plan to establish an environmental system, which covers tax, credit and insurance policies to control and treat the environment pollution by use of market forces. Under the policies, enterprises that has been punished by environmental protection authorities will not be able to obtain further credit from financial institutions and will have to repay their borrowed loans too.

According to Environmental Records of Chinese Banks (Green Watershed, 2010) very few of listed banks made strides towards green credit. One of the reasons is their lack of disclosure of environmental information. Disclosure of environmental information is the basis for the assessment of the banks' performance in implementing environmental policies and fulfilling their environmental and social responsibilities. But, there is no detailed guideline for disclosure of environment information because this is only voluntary. Consequently, banks still participate in environmentally controversial projects, especially overseas projects, and ignore criticism from society. This research suggests a compulsory regulation to financial institutions on disclosure of environmental information.

Another research in 2014 conducted by an international environmental NGO, E3G (Third Generation Environmentalism), reported that financial innovation can be led by financial institution championing green finance, like China Industrial Bank and Shanghai Development Bank, which pioneer the use of non-credit instruments such as equity, guarantees and insurance for green investments. The report also suggested creating a platform for Low Carbon Finance and Investment between the Government, financial institutions and regulatory authorities on green banking pathway, with more integrated thinking and policy dialogue. Public finance alone in China has not always satisfied investment need, so the report recommended that China should try new financing models such as public-private-partnership (PPP) together with a thorough financial reform to support a larger impact. Due to emphasis on environment policies, China surpassed many developed countries to become the world's largest green investment country (IFC, 2011). Nevertheless, only one financial institution is the member of Equator Principles and 6 joined UNEP FI (updated until August 2014), a very small number for a large country like China.

2.2. Korea

Korea is proved successful in promoting green credit, but their experience is quite different from other countries. Besides banks that practice green operations, there is a government non-profit credit guarantee institution founded in 1989, called Korea Technology Finance Corporation (KOTEC). This institution acts as a credit guarantee system to solve the problem of lack of financial resources due to banks' prevalent collateral-based lending practice. It enables businesses with competitive and environmental friendly technology, innovation and other knowledge-based business contents at all growth stages. The mission of KOTEC is to take a lead in converting Korean economy to be creative and innovative. KOTEC is also the only financial institution to assess and grant "green" license to businesses. Until 2013, 65% of green businesses have received support from KOTEC. From 2011 to 2013, KOTEC granted guarantee for green investment of up to 10,000 billion Won (equivalent to US$9.24 billion). Each firm who received the green license can apply for the guarantee of up to 7 million Won (US$6.49 million). Firms who received excellent green license can obtain special support from KOTEC, such as an increase in guarantee amount on number of green-tech experts (Won 30 million for each expert), age of experts, support for R&D expenses and copyright registration fee.

2.3. Bangladesh

Bangladesh is a country with the level of economic development similar to Vietnam. Bangladesh Bank, the central bank of Bangladesh, requires commercial banks to comply with Environment Conservation Act to control environmental pollution before obtaining finance for projects. Bangladesh Bank later also issued a Guideline on Corporate Social Responsibility (CSR). It also published annual review of CSR practices by scheduled banks to keep track of country's green credit. However, all the guidelines have no directions to quantify environmental risk in credit risk management. Banks, nevertheless, under many policies and guided by the central bank, offer a wide range of green credit products, such as solar home system, solar irrigation pumping station, bio-gas plant, effluent treatment plant, green credit card, efficient waste management, etc. BRAC, a Bangladeshi bank, even was awarded Best Sustainable Bank in Emerging Markets of the year 2010 by IFC, and is a founder member of Global Alliance for

Banking on Values (GABV) — a network of the world's leading sustainable banks. Despite recent good results on green credit promotion, only one bank is the signatory of the Equator Principles. In order to better following the guidelines, there is an urgent need to quantify all the environmental risk assessment in lending.

2.4. Germany

In the transition into a green economy, green banking plays a crucial role in providing fund for green activities of the private sector because the banking system is such a blood vessel of the whole economy. Germany is a country that has been successfully implementing its green credit policies. The German state-owned KfW Group — the national development bank — supports Germany's development policy, international development cooperation and sustainability strategy. Sustainability is one of KfW's primary business targets with responsibility to promote environmental and climate protection worldwide. Moreover, KfW is also committed to social responsibility and participating in dialogues with its stakeholders. Good corporate governance plays an important role in the banking development.

Germany has universal banking system. The private customer mostly has to choose between three kinds of banks (German "three pillar system"):

(A) Private banks (including direct banks):

The largest ones are Deutsche Bank, Postbank (acquired by Deutsche Bank), Unicredit Bank AG (HypoVereinsbank), Commerzbank and Dresdner Bank (which was acquired by Commerzbank in 2008) — they cooperate together as the Cash Group.

(B) Cooperative banks:

Co-operative banks make up about two thirds of all German retail banks, and have a broad customer base consisting of individuals and small businesses. However, their small size means they only account for about 11% of total bank's assets. Nevertheless, co-operative banks are a very important part of the German economy. They are significant lenders to the small and medium-size enterprises, many of them also co-ops, which are the bedrock of the German economy.

Co-operative banks (e. g. GLS bank) are owned by their members, who broadly are their customers — depositors and borrowers — although most of the banks accept non-member customers as well. Each member has one vote, regardless of their contribution to the cooperative bank. Co-operative principles apply not only within individual banks but also across the sector as a whole, with stronger banks supporting weaker ones. This means co-operative banks could stay small and local, and prevented them from taking excessive risks. Because of this, the German co-op banking sector required no public funds in the recent financial crisis: few bank failures were been handled within the sector itself. Co-operative banks continued to provide finance throughout the crisis period — in fact increasing lending in 2008–9. The speedy recovery and subsequent robust performance of the German economy is, to a considerable extent, due to the stability and resilience of the co-operative banking sector.

(C) Public savings banks:

Savings banks in Germany work as commercial banks in a decentralized structure. Each savings bank is independent, locally managed and concentrates its business activities on customers in the region it is located. In general, savings banks are not profit oriented. Shareholders of the savings banks are usually single cities or numerous cities in an administrative district.

They intended to develop solutions for people with low income to save small sums of money and to support business start-ups. Fulfilling public interests is still one of the most significant characteristics of public banks in general and the savings banks in particular. Savings banks are universal banks and provide the whole spectrum of banking services for private and commercial medium-sized customers.

In Germany, there is not a green banking strategy. Actually, the demand for green banking has increased after the financial crisis, because green banking. Especially green banks were not been severely affected by the financial crisis. Almost every bank in Germany offers green investment products, but only four green banks have fully integrated sustainability into their business models, including GLS, UmweltBank, Triodos and EthikBank. These are the small and medium sized banks, possibly commercial banks, savings banks or cooperative banks. The operating target of these banks is to mobilize funds from their members and depositors who have good awareness and willingness to achieve low depositing interest rate with aim to invest in meaningful and environment protection social activities. Meanwhile, borrowers will have to obtain high lending interest rate because their environment protection products would be sold at very high price in the market. Especially, customers are willing to buy these expensive products as long as they can assure those products come from green investment companies. Investment sectors are clean energy, renewable energy, energy savings, environment protection, organic production, and housing for the poor, education and support for the disables.

Among the above-mentioned banks, GLS was been voted as 'bank of the year' in Germany for the five consecutive years (2010–2014), and has been got the prize namely 'the most sustainable enterprise' in 2012. In GLS, depositors will have right to choose specific sectors in which they like their money to be invested. In addition, to ensure the transparency in financing activities information, GLS also make public to the depositors all the lists of their loans divided into specific sectors.

Likewise, the establishment of environment protection units to implement green credit policies plays a critical role in Germany. During the process of implementing green credit policies in Germany, these units will have to ensure the price reduction policies to support the projects in environment protection and energy savings.

3. RECOMMENDATIONS — LESSONS LEARNED FROM OTHER COUNTRIES TO VIETNAM

The lessons learned from the Green Credit Policy of China is very useful for Vietnam. One of the greatest difficulties of implementing green credit policy in China, but Vietnam may consider is the lack of a reliable evaluation system for the polluting trades and sectors as a basis for banks to classify the project, especially as many polluting industries is also expected to produce high profits for many locals. If Vietnam banking sector goes down this path, this will probably be also the biggest challenge, and may become a reason for banks to delay and evade credit reductions for polluting industry, which affects livelihoods but brings more profits for businesses and banks.

At the same time, the introduction of the regulations and detailed guidelines on green credit policy is very important for enterprises and banks to operate. This also requires close coordination between relevant ministries to expedite the complex administrative procedures. That causes a significant impact on the promulgation of policies in order to improve the legal framework for promoting green credit operations in Vietnam.

From the experience of South Korea, Vietnam may consider to establish a governmental credit guarantee institution. This institution will support banks and financial organizations, who of lack of funds, to grant credit for enterprises, which use friendly environmental technologies. Furthermore, one needs to draw lessons for Vietnam is to have the involvement of senior political system to solve the problems related to the transition and institutional reforms, as well as the proactive intervention of the Government for legal and institutional framework of green credit growth. Government intervention can maximize the power and influence of the market on green credit growth, as well as an incentive system to encourage the involvement of the private sector. The harmonious and efficient combination from the top down and bottom up of the political system is the key for the success of green credit growth strategy. Comprehensive solution from above will provide the vision and clarify the medium to long-term target of credit growth in green. This may consult and cooperate, persuade stakeholders and promote effectively the coordination in the banking system and businesses. The active engagement of the community from the ground up creates a sustainable platform for growth of green credit. Therefore, policies should include the participation of community, increase the sense of community about green credit growth as well as offer measures to change the behavior of the community. Raising green credit communication is very necessary in locals and rural areas across the country. The next step is to mobilize global cooperation when the backing of senior political system, the participation of the Government and the community has been available.

Lessons from Germany: Enterprises who invest in green technology mostly meet advantages, because products with the green label favored by consumers despite high prices. Therefore, raising awareness of consumers about using environmentally friendly products, and boycotting products that are not clean or polluting to environment is crucial. On the other hand, the support of the government could help enterprises reduce green production costs.

The second success lesson from Germany is the transparency of information, when banks expose their loan portfolio. Meanwhile, former opposite lesson of China, there is no requirement of disclosing information, so banks hide their loans for business that caused environmental pollution and ignored public opinion. Therefore, it is necessary for Vietnam to set up rules that banks are required to report information on the environmental performance of its loan to the relevant authorities and the public.

In addition, Vietnam also considers experience from developing countries such as Bangladesh, under which central banks will play an important role in the promulgation of policies and guidelines to support businesses develop green credit products. For example, solar energy research: solar housing system, water-pumping stations for irrigation used solar energy. Vietnam is an agriculture country so this model will be very effective; Green credit card, efficient waste management.

4. CONCLUSION

This article has highlighted some definitions that concerned on green economy, green banking and green credit. Furthermore, this study has taken into account the experiences of green credit development in some countries over the world, for instant, China, Korea, Bangladesh, and Germany. Based on the difficulties in application of green credit in China, or the success of green credit in other countries, for example, in Korea, Bangladesh and Germany, this study emphasize several recommendations and suggests lessons learned from these countries to Vietnam. Firstly, Vietnam have to consider about the reliable evaluation system for the polluting trades and sectors as a basis for banks to classify the project, especially as many polluting industries is also expected to produce high profits for many locals. Secondly, the communication about the regulations and detailed guidelines on green credit policy is very important for enterprises and banks to operate. Thirdly, establishing a governmental credit guarantee institution to support banks and financial organizations, which of lack of funds, to grant credit for enterprises, which use environmental friendly technologies? Finally, setting up rules that banks are required to report information on the environmental performance of its loan to the relevant authorities and the public should to been considered in Vietnam banking system.

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