

SUSTAINABLE BANKING NETWORK (SBN)

COUNTRY PROGRESS REPORT

ADDENDUM TO SBN GLOBAL
PROGRESS REPORT

VIETNAM



Sustainable
Banking
Network

IFC | International
Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

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The global SBN program is supported by the government of China through the Ministry of Finance. IFC's regional environmental and social risk management (ESRM) program is supported by the government of Switzerland through the State Secretariat for Economic Affairs (SECO) and the government of Japan through the Ministry of Finance.



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From
the People of Japan

Table of Contents

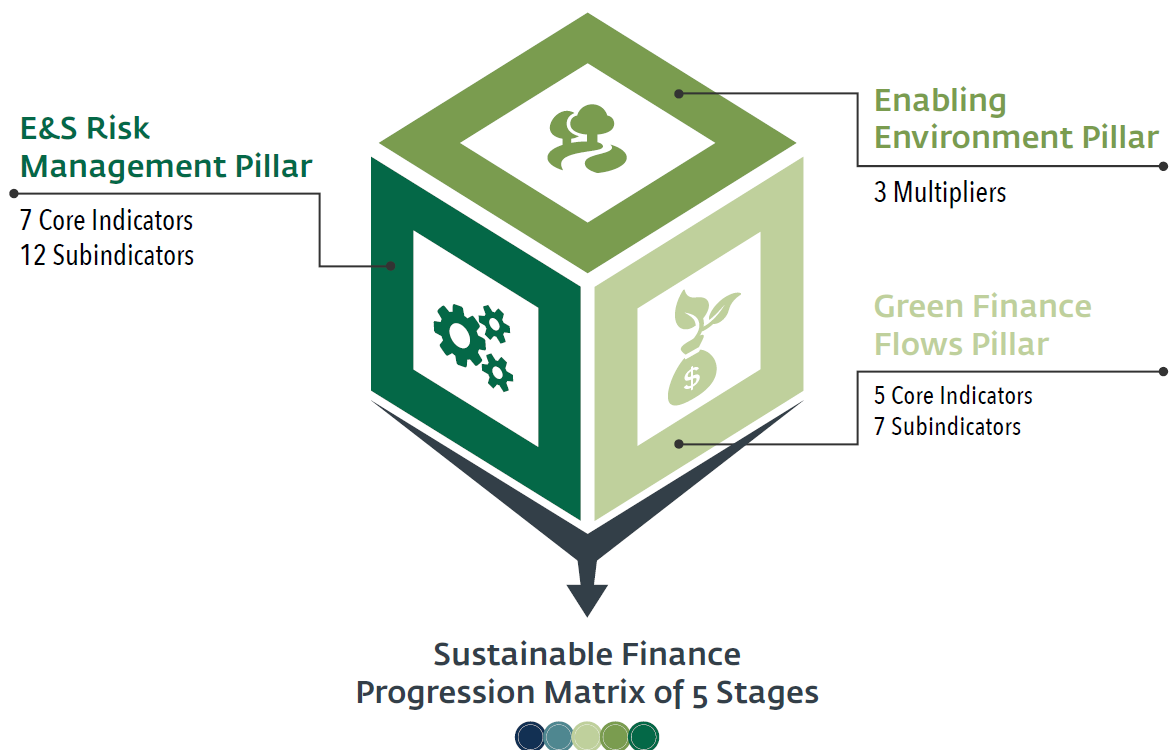
1. Introduction	1
2. Executive Summary	3
3. Enabling Environment	5
4. Environmental and Social Risk Management	7
5. Green Finance Flows	9



1. Introduction

Market-based sustainable finance initiatives led by members of the Sustainable Banking Network (SBN) have made significant progress in directing the financial sector toward sustainability. Established with International Finance Corporation's (IFC) support in 2012, SBN represents a community of financial sector regulators and banking associations from 34 emerging markets. SBN members now represent over US\$42.6 trillion in banking assets, accounting for more than 85 percent of the total banking assets in emerging markets.

The SBN Global Progress Report is based on a unique measurement framework, the first of its kind to assess sustainable finance initiatives across emerging markets. The SBN Global Progress Report for the first time presents a systematic view of progress on sustainable finance among emerging economies that are represented by SBN. A rigorous measurement framework was developed and agreed on by members. The SBN Measurement Framework draws on international best practice as well as SBN members' experiences and innovations. This framework will be continuously applied to measure progress annually.

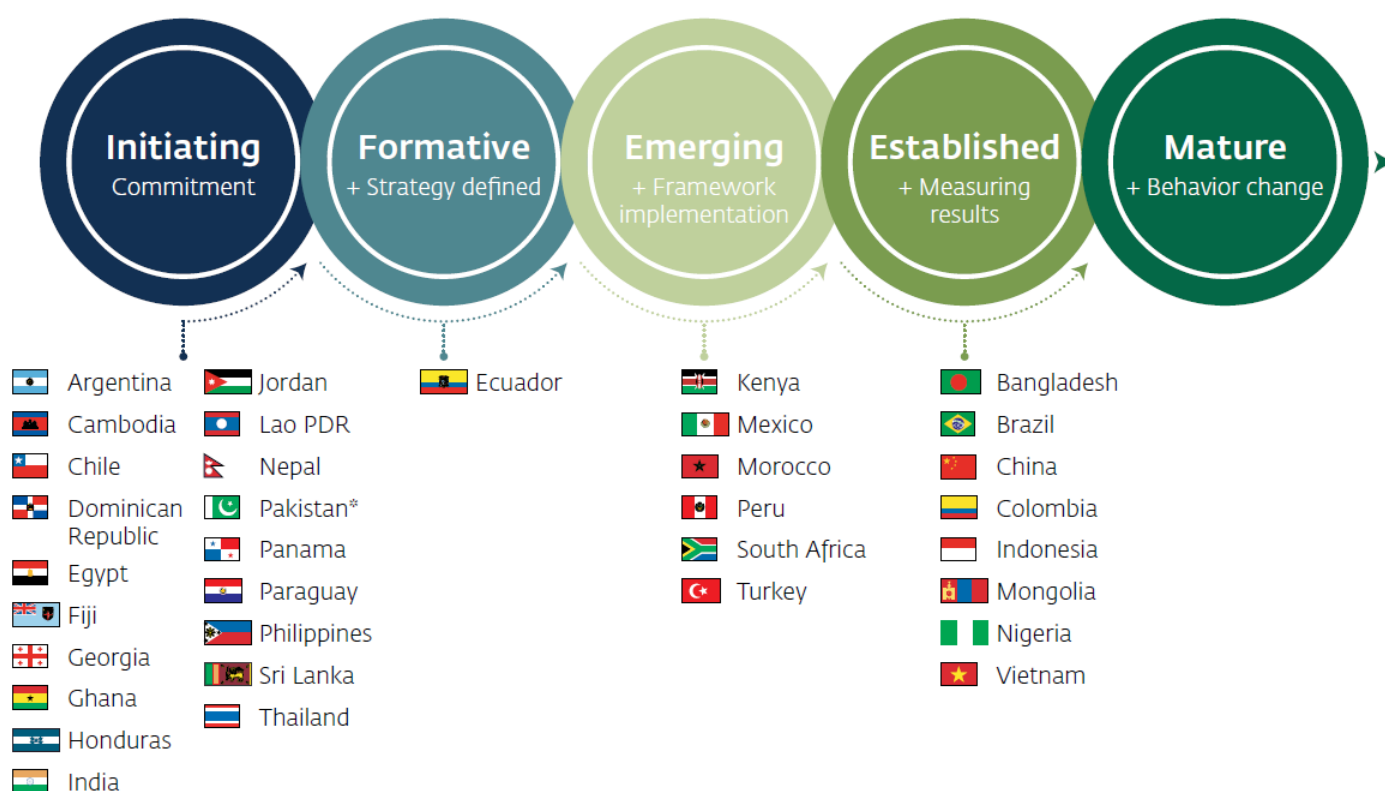


The Global Progress Report draws on the findings of **15 individual country progress reports prepared for members, including this report**. These 15 countries, with US\$38.3 trillion in banking assets, account for more than 76 percent of emerging market banking assets.

Country-specific progress reports were prepared for 15 SBN members with sustainable finance initiatives. These reports contain a thorough analysis of the country's policy or principles in relation to the environmental and social (E&S) risk management and to the green finance flows, as well as a contextual analysis of the local policy landscape and the enabling environment. Country reports detail each country's good practice and highlight areas of focus in order to support and encourage members to further accelerate sustainable finance.

All SBN member countries are advancing sustainable finance at differing stages of development. Countries are mapped to five different stages development, from initiating to mature.

SBN Progression Matrix with Assessment Results, based on progress up to and as of June 2017



* Pakistan launched its policy in October 2017, after the cut off date of June 2017 for the report

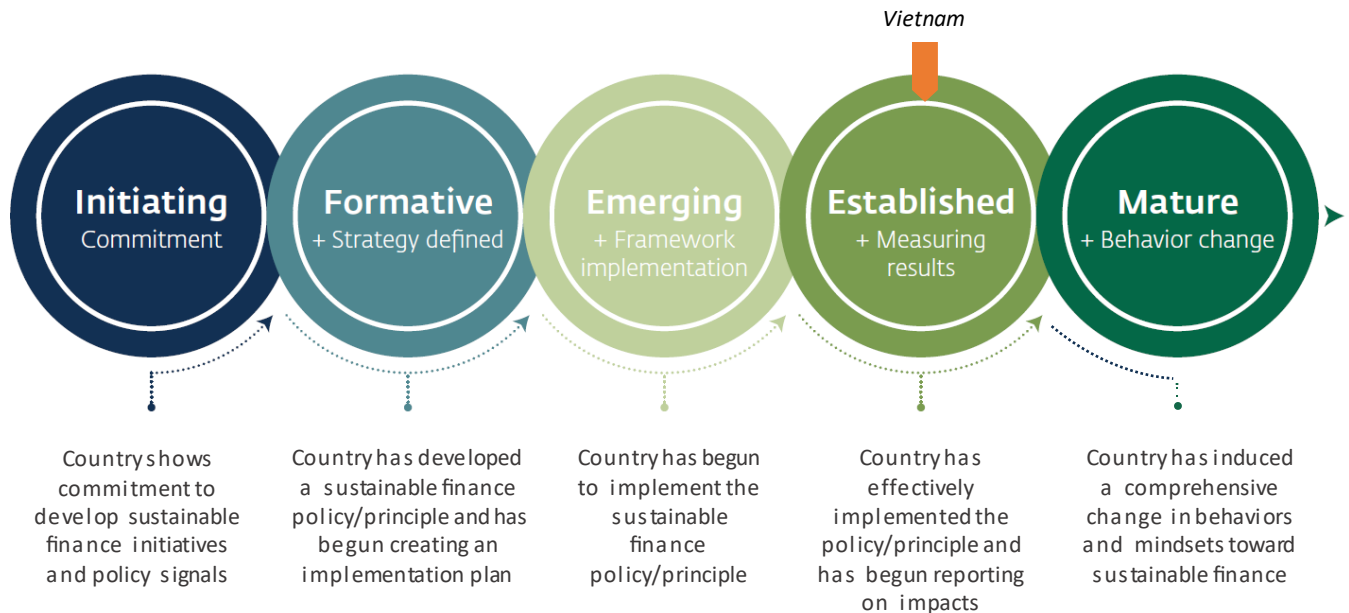
2. Executive Summary

In response to the National Green Growth Strategy and the National Action Plan on Green Growth, Vietnam's sustainable banking journey began in 2015 with the issuance of the **Directive on Promoting Green Credit Growth and Environmental and Social Risks Management in Credit Granting Activities** (the Directive) by the State Bank of Vietnam (SBV). The Directive seeks to promote green economy and encourages all credit institutions to incorporate environmental and social (E&S) risks into their transactions. It includes a reporting template that requires credit institutions to quarterly report quantitative data to the SBV. This reporting covers both E&S risk management of lending activities and green finance flows.

As Vietnam's banking sector is still emerging, the country could further promote its sustainable finance agenda by developing more practical guidance and encouraging local banks to learn from international good practices with regard to E&S risk management.

The SBV has been actively developing many initiatives to support green finance flows, including financial incentives, a catalogue of green assets or products, and green credit reporting guidelines.

Overall Results



Good Practice

- The sustainable finance policies including the Directive as well as the Green Growth Action Plan of the banking sector, contributing to the achievement of a nationwide green growth strategy (2014-2020).
- The Directive targets all credit institutions (such as commercial banks, cooperative banks, nonbank credit institutions, microfinance institutions, peoples' credit funds, and foreign bank branches) and assigns related accountabilities to the State Bank of Vietnam, and State Bank branches throughout Vietnam.
- The Directive paves the way for international collaboration by encouraging credit institutions to take further initiative in this area. Units of the State Bank of Vietnam and State Bank branches also have an advisory role and are accountable for organizing related training and awareness raising activities.
- Further initiatives are in progress to encourage green financial flows, including financial incentives, guidance on green definitions, and reporting guidelines.

Areas for Improvement

- The SBV could provide more practical guidance to credit institutions to help them implement the sustainable finance policies. This guidance could reference to international best practices as well as good practices observed and shared among SBN members.
- The supervision mechanism for sustainable finance policies needs to be defined to enable the SBV to enforce implementation among FIs.
- The current sustainable finance policies primarily cover banking activities, but could be extended to other financial industry activities, such as insurance and asset management.

CONTEXT:

3. Enabling Environment

Country Profile

Economic and political reforms launched in 1986 have allowed Vietnam to make the transition from one of the world's poorest nations to a lower middle-income country. During this transition, major progress has been achieved in providing basic services (such as education and health) and access to basic infrastructure (such as electricity and sanitation facilities).

Transitioning to a market-based economy has led to an average annual urbanization rate of 3.4 percent. Vietnam has been pursuing reforms and investments to promote sustainable and green growth, as well as cope with its vulnerability to climate-related risks, such as resource depletion, air pollution, biodiversity destruction, and deforestation and forest degradation. The country ratified the Paris Agreement on Climate Change in 2016 and committed to increase its forest cover to 45 percent of the country's surface area. It has also committed to achieving an 8 percent reduction in greenhouse gas emissions by 2030, compared to business as usual (BAU). Vietnam has also adopted a **2011-2020 National Green Growth Strategy**, which covers carbon emissions reduction targets, monitoring, evaluation and reporting on carbon emissions, and a progressive move to an emission trading system. Lastly, the **2014-2020 National Action Plan for Vietnam Green Growth** encourages clean and renewable energy.

Commercial banks have traditionally been the main funding supplier in Vietnam. Recent years have been characterized by substantial credit growth. This trend is likely to continue, as only 69 percent of the population have a bank account and access to finance will continue to grow.¹

¹ <https://www.sbv.gov.vn>

Background and Strategy of the Sustainable Banking Framework

The Vietnamese banking and financial system is still emerging. In 2015, Vietnam's government issued a set of sustainable finance policies and guidelines designed to contribute to the implementation of the 2014-2020 National Action Plan for Vietnamese Green Growth. Three green finance regulations, endorsed by the SBV are currently being enforced:

- In 2015, to implement the National Green Growth Strategy and National Action Plan on Green Growth for the period 2014 – 2020, the SBV Governor promulgated the **Directive on Promoting Green Credit Growth and Environmental and Social Risks Management in Credit Granting Activities** (no. 03/CT-NHNN) and the **Action Plan of the banking sector to implement the National Green Growth Strategy until 2020** (Decision no. 1552/QĐ-NHNN). The Directive requires credit granting activities to take into account “*the issues of environmental protection, natural resources and energy efficiency improvement; [and] environment quality enhancement and human health protection.*” All credit institutions (that is, commercial banks, cooperative banks, nonbank credit institutions, microfinance institutions, people's credit funds, and foreign bank branches) must implement an environmental and social risk management (ESRM) system and report to the SBV, on a quarterly basis. A reporting template is provided to track E&S evaluations and green transactions.
- The 2016 **Circular prescribing lending transactions of credit institutions or foreign bank branches with customers** (No. 39/2016/TT-NHNN) provides for general borrowing and lending rules. It sets as one of the main lending principles for customers and transactions to comply with environmental laws and regulations.
- In 2017, the SBV introduced complementary initiatives, including a **Green Project Catalogue** (defining green projects or sectors) in April 2017 under the Request No.237/BQLDA3; the **Guidelines and Requirements of Statistics on Green Credit applied for Credit Institutions under the Request No. 9050/NHNN-TD**; and a **Master Credit Program** (financial incentives, in terms of interest rates and terms, for green projects), to be developed in the coming months.

Support from Regulators

With the charge to implement the 2014-2020 National Action Plan for Vietnamese Green Growth in the financial industry, the regulator took the lead in the design of the Vietnamese Sustainable Banking Framework. The SBV and its units are responsible for monitoring the implementation of the 2015 Directive and the 2016 Circular. However, the supervision mechanism has not yet been defined to enable the effective enforcement.

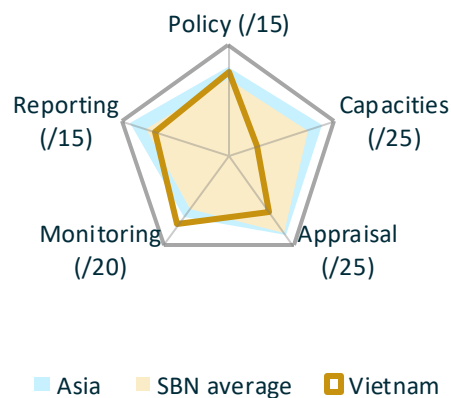
The SBV units, pursuant to their tasks and functions, are accountable for “*organizing training courses to strengthen capacity for green credit and E&S risk management*” and “*guiding credit institutions to develop and implement an E&S risk management system.*” In the meantime, SBV will assign its provincial branches to “*actively communicate and improve awareness of credit institutions on green growth and ESG risk management in credit activities.*”

RISK:

4. Environmental and Social Risk Management

The 2015 Directive encourages all credit institutions, including commercial banks, finance companies, financial leasing companies, cooperative banks, and foreign bank branches operating in Vietnam to “research and develop environmental and social risk management systems for the credit granting activities” and “conduct frequent and periodic monitoring and supervision of environmental and social risk management of clients receiving loans.”

It provides broad requirements to drive positive changes in the practices of its banking sector and paves the way for further improvements. To further promote behavior change at the financial institution (FI) level, greater efforts could be made by SBV to provide practical guidance, capacity building, and references to international industries’ best practices to the sector.



Subpillars	Comments on good practice and areas for improvement
Policy	<ul style="list-style-type: none"> - The 2015 Directive and the 2016 Circular require all credit institutions to formalize their E&S risk management policies but it could be further enhanced with guidance on how credit institutions should design their policies. - The 2015 Directive covers the banking sector. Going further, such policies could be replicated to other financial activities, including asset management, private equity, or insurance. - The 2015 Directive mentions climate change as one of the environmental risks that need to be reviewed and assessed. It could also require the development of climate strategies in the near future. - Vietnam's regulators in the future might consider referring to international industries' best practices and encouraging FIs to join international initiatives.
Capacities	<ul style="list-style-type: none"> - The Directive assigns the SBV the task of organizing technical training for credit institutions and also requires credit institutions to build relevant organizational structures and capacities needed to implement E&S risk assessments within credit institutions. SBV has implemented a set of sector-specific E&S checklists and an intensive training program for ESRM and E&S due diligence in order to support FIs with the implementation of Directive.
Appraisal	<ul style="list-style-type: none"> - The Directive requires credit institutions to assess the E&S risk of clients receiving loans, but does not yet specify this procedure or how to categorize projects by level of E&S risk. There is no requirement to incorporate them into legal documents.
Monitoring	<ul style="list-style-type: none"> - The Directive indicates that credit institutions are required to <i>"conduct frequent and periodic monitoring and supervision of E&S risks management of clients receiving loans."</i> However, this requirement is not detailed at the project level and does not specify measures such as annual reporting or site visits. - FIs could be required to monitor their climate risk exposure at the portfolio level.
Reporting	<ul style="list-style-type: none"> - The Directive provides a reporting template and requires credit institutions to disclose information on a quarterly basis regarding their E&S risk processes (before and after commitment) to SBV. - Going further, reporting requirements could be strengthened through public disclosure, in line with international industries' best practices. - At this stage, no grievance mechanisms are required.

OPPORTUNITY:

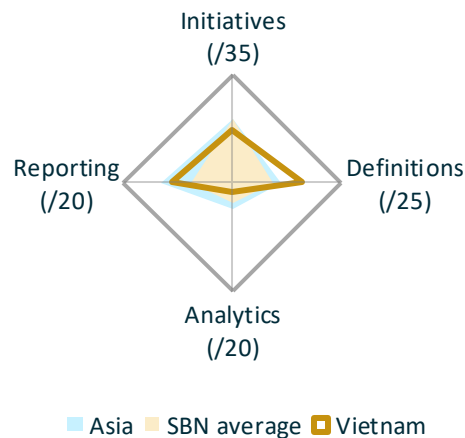
5. Green Finance Flows

The Directive encourages credit institutions to “give funding priority to projects in the economic sectors which conserve, develop and utilize natural resources efficiently,” and to also “research and develop green credit products, develop credit programs offering incentives for projects, production and business which are green growth-oriented.”

Vietnam is one of the few SBN members to require credit institutions to report on green credit or loan transactions. Furthermore, the State Securities Commission of Vietnam (SSC) has published a Guide on E&S reporting that requires listed FIs to report annually on two specific indicators: (1) initiatives and programs related to green financing; and (2) the percentage of total investments that are considered green financing.

Vietnam recently released a Green Project Catalogue which defines green sectors. The country is also developing guidelines which will help FIs to set up their statistical reporting on green finance, and financial incentives may be developed (via a grant program) for green lending.

Other improvements that could be developed in years to come include requiring FI reporting to be audited, or providing additional guidance to FIs on how to report environmental impacts.



Subpillars	Comments on good practice and areas for improvement
Initiatives	<ul style="list-style-type: none"> - The Directive aims to promote green credit by reviewing and upgrading credit regulations in accordance with green growth objectives. It encourages credit institutions to offer incentives for green projects. - The SBV is currently considering developing financing schemes via a Master Credit Program. These schemes would focus on organic agriculture, waste management, energy efficiency, and renewable energy. Other areas for improvement could include the creation of green awards to promote the best banks in terms of green finance.
Definitions	<ul style="list-style-type: none"> - The SBV has recently released its Green Project Catalogue in which six green project categories are prioritized: renewable energy, energy saving and energy efficiency, land use conversion and management, sustainable forestry, sustainable waste management, and green agriculture. - Going forward, other green sectors and products (such as green bonds) could be further defined.
Analytics	<ul style="list-style-type: none"> - There are currently no tools available to calculate environmental benefits at the project level.
Reporting	<ul style="list-style-type: none"> - The Directive includes a reporting template that requires the quantities and values of green transactions (credit and loans) to be tracked. When the Guidelines and Requirements of Statistics on Green Credit Applied for Credit Institutions go into effect, FIs will be required to report on their green lending portfolio in a more detailed manner. - In parallel, the State Securities Commission has released an E&S Disclosure Guide that requires FIs listed on capital markets to disclose data on green financing. - The SBV could also consider requiring FIs to have their reporting verified by auditors, or ask FIs to report on impacts (environmental or socioeconomic).