VNU Journal of Science: Economics and Business, Vol. 32, No. 2 (2016) 69-76

INFORMATION

Experiences of Green Credit Development Lessons Learned for Vietnam

Do Thi Van Trang*

VNU University of Economics and Business,
144 Xuan Thuy Str., Cau Giay Dist., Hanoi, Vietnam

Abstract

This article studies the experiences of green credit development in some countries in the world such as China, Korea, and Germany. From the difficulties in applying green credit in China, or the successes of applying green credit in Korea and Germany, this study highlights several recommendations and suggests lessons learned from these countries for Vietnam.

Received 23 December 2015, revised 9 June 2016, accepted 28 June 2016
Keywords: Green economy, green banking, green credit.

1. Introduction

In recent years, the concept of a green economy has become a controversial issue that attracts attention not only from scholars but also politicians. There have been several definitions of the green economy; however, the United Nations Environment Programme (UNEP) has already emphasized a definition of a green economy as being “one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities”. The concept of a green economy should be understood in accordance with a broader concept of sustainable development. This concept has highlighted inter-generational equity-economics, both social and environmental. In order to implement the objectives of a green economy, many countries have followed different macroeconomic policies in their economic development strategy. One of the most effective issues that has been applied in many countries is green banking, which concentrates on green credit. Sahoo and Nayak (2008) [1] and Bihari (2010) [2] indicated the importance of green banking in international experience and addressed important lessons for sustainable banking and development in India. Biswas (2011) [3] paid attention to the major benefits, confronting challenges and strategic aspects of green banking. Commercial banks should become green and implement a pro-active role to take on environmental and ecological issues as part of their lending principle. Commercial banks should structure their economics for environmental management purposes and the use of green technologies and green management systems. Bahl (2012) [4] and Kaeufer (2010) [5] mentioned that green banking should be concerned in promoting environmental and social responsibility through providing banking services in order to maintain sustainable banking. Green banking is also

* Tel.: 84-915505445
E-mail: trangdtv@hvnh.edu.vn

taken into account with ethical banking that starts with the aim of protecting the environment. With the purpose of promoting a green economy, many countries have carried out various solutions to make amendments and advocacy for environment protection and sustainable development policies. Green credit, among those numerous measures, is getting vigorous attention and interest from both government and international institutions. Many commercial banks have started to put a higher priority on investment projects to improve environmental conditions and community benefits. Green credit is a strategy to support the economy to grow into a green, low-carbon and recycling model through business innovation, management over environmental and social (E&S) risks, and improvement of banks' own E&S performances, and in doing so, optimization of the credit structure, improvement of services and contribution to the transformation of the 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, and environment protection as well as sustainable development. Green credit policies are significant measures in the transition into green growth targets. Green credit products of the banking systems are often used in projects on energy saving, renewable energy and clean technology. These priority sectors are allocated in accordance with green credit policies in different countries. However, most of the current funds for 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) [6] described a series of green policies applied by the government of China, including green tax and green procurement, as well as green policies relevant to the financial sector, namely, green credit, insurance, and security policies. As a consequence, green credit policy is the most advanced with three agencies sharing the responsibility for implementation. Zhang, Yang and Bi (2011) [7] examined the implementation of the green credit policy both at the national and provincial levels in China and proved that green credit policy is not fully implemented in that country. Weiguang and Lihong (2011) [8] showed there were problems existing in China's green credit, which were some external obstacles to its efficient implementation. These difficulties required an environmental risk management system in the commercial banking system.

2. Experiences of green credit development in some countries in the world

2.1. China

After many failures in controlling environmental risks, the Chinese Government aims to control pollution in firms via financial institutions. A 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, the State Environment Protection Administration (SEPA), the People's Bank of China, and the China Banking Regulatory Commission (CBRC) jointly issued the Opinions on Implementing Environmental Protection Policies and Regulations to Prevent Credit Risks to emphasize credit policies as tools for environmental protection, and to strengthen 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 the supervision and administration of the banks' green credit operations, and environmental risk management.

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

According to the Environmental Records of Chinese Banks (Green Watershed, 2010) on listed banks, very few banks have 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' performances in implementing environmental policies and fulfilling their environmental and social responsibilities. However, there is no detailed guideline for disclosure of environment information as this is only voluntary. Consequently, banks still participate in environmentally controversial projects, especially overseas projects, and ignore criticism from society. This research suggests the compulsory regulation of financial institutions on the disclosure of environmental information.

Another research in 2014 by an international environmental non-governmental organization, E3G (Third Generation Environmentalism), reported that financial innovation can be led by financial institutions championing green finance, like the China Industrial Bank and the Shanghai Development Bank, which are pioneers in using 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 the green banking pathway, with more integrated thinking and policy dialogue. Public finance alone in China has not always satisfied investment needs, so the report recommended that China should try new financing models such as public-private-partnerships (PPP) together with a thorough financial reform to support a larger impact. Due to the 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 a 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 has proved to be 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 the Korea Technology Finance Corporation (KOTEC). This institution acts as a credit guarantee system to solve the problem of lack of financial resources due to the banks' prevalent collateral-based lending practice. It enables businesses with competitive and environmental friendly technology, innovation and other knowledge-based business content at all growth stages. The mission of KOTEC is to take a lead in converting the Korean economy to be creative and innovative. KOTEC is also the only financial institution to assess and grant "green" licenses to businesses. Until 2013, 65 per cent of green businesses have received support from KOTEC. From 2011 to 2013, KOTEC granted guarantees for green investment of up to 10,000 billion Won (equivalent to US$9.24 billion). Each firm who received a green license can apply for the guarantee of up to 7 billion Won (US$6.49 million). Firms who received excellent green licenses can obtain special support from KOTEC, such as an increase in the guarantee amount based on the number of green-tech experts (30 million Won for each expert), the age of the experts, and support for research and development expenses and copyright registration fees.

2.3. Germany

In the transition into a green economy, green banking plays a crucial role in providing funds for the green activities of the private sector because the banking system is such a blood vessel for the whole economy. Germany 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, being responsible for promoting environmental and climate protection worldwide. Moreover, KfW is also committed to social responsibility and participating in dialogue with its stakeholders. Good corporate governance plays an important role in the banking development.

Germany has universal banking. Private customers mostly have 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 made up of individuals and small businesses. However, their small size means they only account for about 11 per cent of total bank assets. Nevertheless, co-operative banks are a very important part of the German economy. They are significant lenders to 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 can stay small and local, and prevents 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 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 where 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 are 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 in the year 2009, because green banking, especially green banks, were not 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 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 rates with the aim of investing in meaningful and environment protection social activities. Meanwhile, borrowers will have to obtain a high lending interest rate because their environment protection products will be sold at a 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 disabled.

Among the above-mentioned banks, GLS was voted as 'the bank of the year' in Germany for five consecutive years (2010-2014) and got the prize namely 'the most sustainable enterprise' in 2012. In GLS, depositors will have the right to choose specific sectors in which they like their money to be invested. In addition, to ensure transparency in financing activities information, GLS also makes 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 price reduction policies to support the projects in environment protection and energy savings.

3. Recommendations - Lessons learned from other countries for Vietnam

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:

- From 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, and the improvement of people's lives. In addition, it would help Vietnam to prevent the social and environmental risks faced by many countries that did not take into consideration their environment issues in their economic growth strategy. Furthermore, this can create great opportunities for international finance institutions to invest in Vietnam.

- From the business aspect: Green credit offers a wide range of new environmental products to their clients to earn more revenue and ensures the enterprises go green. It means that if enterprises emphasize the fact that they are attempting to be environmentally friendly they will gain the favor of like-minded consumers, save cost because of saving energy, and enhance their reputation as well as competitive advantages in the fierce market. However, the most important objective is to increase consumer demand. As environmental consciousness grows, consumers are demanding more green products and services. Environmentally conscious consumers check labels to learn if products and packages are made of 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.

- From the banking system aspect: Green credit not only ensures that enterprises go green, but also facilitates in improving the asset quality of banks in the future via feasible and efficient loans. Even in this global integration, firms are required to reach higher standards to export products, such as the requirement for a green label, an ecological label, or a green license. The regulation therefore become stricter and stricter on the environment impact of firms, and thus can result in legal risks for the borrowers if they cannot meet them. Therefore, it is wise for financial institutions to assess the 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 maintaining the bank's reputation. Being aware of those benefits, more and more banks have joined in the Equator Principles, which provide guidelines to facilitate banks on how to go green, with the IFC initiative. Since 2006, banks have been selected annually for best practice in their environmental performance in the Sustainable Banking Awards, held by IFC, and results show that the best green banks, like Dash (2008) [9] Triodos (2009) [10], Itau Unibanco (2011), Standard Chartered (2012), Banco Santander (2013), have proved to have increasingly better financial performance over time, even in years of financial crises.

- From 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 poisonous products. Furthermore, green credit indirectly contributes to improving the living environment and maintain natural resource benefits for the next generations. The role of green credit is also expressed in raising the awareness of managers, enterprises and individuals about the significance of green investment for sustainable development.

The lessons learned from the Green Credit Policy of China is very useful for Vietnam. One of the greatest difficulties in implementing green credit policy in China, that 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 are also expected to produce high profits for many locals. If the Vietnam banking sector goes down this path, this will also probably be the biggest challenge, and may become a reason for banks to delay and evade credit reductions for polluting industries, which will affect livelihoods, but bring more profits for businesses and banks.

At the same time, the introduction of 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. This will cause 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 lack funds, to grant credit for those enterprises which use friendly environmental technologies. Furthermore, one needs to draw lessons for Vietnam of the need for the involvement of he senior political system to solve problems related to transition and institutional reforms, as well as the proactive intervention of the Government for the 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 a green credit growth strategy. Comprehensive solutions as mentioned above will provide the vision and clarify the medium to long-term target of green credit growth. These solutions mean consultation and cooperation to persuade stakeholders and promote effectively coordination in the banking system and businesses. The active engagement of the community from the ground up creates a sustainable platform for the growth of green credit. Therefore, policies should include the participation of the community and increase the sense of community about green credit growth as well as offering measures to change the behavior of the community. Raising green credit communication is very necessary in local and rural areas across the country. The next step is to mobilize global cooperation when the backing of the senior political system, the participation of the Government, and the community have become available.

Lessons learnt from Germany: Enterprises that invest in green technology mostly meet advantages, because products with the green label are favored by consumers despite high prices. Therefore, raising awareness of consumers about using environmentally friendly products, and boycotting products that are not clean or environmentally polluted 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, in contrast is the opposite lesson of China, where there was no requirement of disclosing information, so banks hid their loans for businesses 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 play an important role in the promulgation of policies and guidelines to support businesses in developing green credit products. For example, solar energy research: solar housing systems and water-pumping stations for irrigation using solar energy. Vietnam is an agricultural country so this model is believed greatly effective.

4. Conclusion

This article has highlighted some definitions of green economy, green banking and green credit. Furthermore, this study has taken into account the experiences of green credit development in some countries all over the world, for instance, China, South Korea, Bangladesh, and Germany. Based on the difficulties in applying green credit in China, or the successes of green credit in other countries like South Korea, Bangladesh and Germany, this study has emphasized several recommendations and suggests lessons learned for Vietnam. Firstly, Vietnam has to consider a reliable evaluation system for the polluting trades and sectors as a basis for banks to classify a project, especially as many polluting industries are 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 have a lack of funds to grant credit for enterprises, which use friendly environmental 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 be considered in the Vietnamese banking system.

References

[1] Sahoo, P., & Nayak, B. P., Green banking in India, Institute of Economic Growth, 2008.

[2] Bihari, S. C., "Green banking-towards socially responsible banking in India", International Journal of Business Insights & Transformation, 4 (2010).

[3] Biswas, N., "Sustainable Green Banking Approach: The Need of the Hour", Business Spectrum, 1 (2011) 1, 32-38.

[4] Bahl, S., "Green banking - The new strategic imperative", Asian Journal of Research in Business Economics and Management, 2 (2012) 2, 176-185.

[5] Kaeufer, K., Banking as a Vehicle for Socio-economic Development and Change: Case Studies

of Socially Responsible and Green Banks, Cambridge, MA: Presencing Institute, 2010.

[6] Aizawa, M., & Yang, C., "Green credit, green stimulus, green revolution? China's mobilization of banks for environmental cleanup", The Journal of Environment & Development, 19 (2010) 2, 119-144.

[7] Zhang, B., Yang, Y., & Bi, J., "Tracking the implementation of green credit policy in China: Top-down perspective and bottom-up reform", Journal of environmental management, 92 (2011) 4, 1321-1327.

[8] Weiguang, C., & Lihong, L., "The External Obstacles of Green Credit Development and the Construction of Environmental Risk Management Framework in Chinese Commercial Banks [J]", Journal of Guangdong University of Finance, 3 (2011), 007.

[9] Dash, R. N., Sustainable 'Green' Banking: The Story of Triodos Bank, Cab Calling, 2008, 26-29.

[10] https://www.triodos.com/downloads/about-triodos-bank/annual-reports/annual-report-2009-triodos-bank.pdf