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Green Credit Development at Vietnam Bank for Agriculture and Rural Development

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Abstract

To sustainably develop the economy, many countries around the world have been implementing strategies to promote green economy and green growth, in which green credit activities play a very important role in successful implementation. This strategy. In Vietnam, green credit is making positive changes, developing through projects such as renewable energy, wind power, green agriculture, and high-tech agriculture towards the goal of sustainable development. For the banking industry, green credit is considered a unique and meaningful financial tool in controlling the environment of businesses and preventing the uncontrolled development of businesses that cause pollution and danger. Harmful to the environment. In fact, the green credit trend has been developing for a long time in

the world with energy saving, renewable energy and clean technology projects aiming at the "dual" goal of economic growth associated with economic growth. Environmental protection. "Greening" credit is one of the top priority actions in the context of climate change taking place globally, especially when Vietnam is considered one of the countries with high levels of pollution. Although it cannot be done in a day, Vietnam must gradually follow the trend of green growth and green credit as an inevitable trend. The article studies the theory and characteristics of green credit, analyzes the current status of green credit activities and proposes solutions to develop green credit at the Vietnam Bank for Agriculture and Rural Development (Agribank) during the current period. Next time.

Keywords: Agribank, Benefit, Green Bank, Green Credit

1. Introduction

Green credit and green banking play a very important role in successfully implementing the National Strategy on Green Growth for the period 2021-2030, vision 2050. However, the development of green activities at organizations Vietnamese credit still has many difficulties and challenges. To implement green growth, a set of classification criteria is needed. This is an important foundation for mobilizing domestic and international resources.

Towards "greening" banking operations, Agribank focuses on developing products and services based on information technology systems, proactively applying solutions of the 4.0 industrial revolution to develop products. New products and services, gradually digitizing banking activities. To date, Agribank provides over 220 banking products and services with many outstanding utilities, fully meeting customer needs, speeding up the non-cash payment process, contributing to "greening" the banking industry. Customers through building environmentally friendly habits for customers in accessing and using banking products and services.

Determining the goal of building a green, circular, and environmentally friendly economy, Agribank has integrated green development in the bank's development strategy. The bank currently has nearly 70% of outstanding loans in the rural agricultural sector, so this is very important. Currently, Agribank is effectively implementing 7 policy credit and lending programs under 2 National Target programs in rural agriculture. This is also one of the important links in the chain of sustainable development and supporting emission reduction.

To carry out the green development process, Agribank always improves mechanisms and processes and has plans to access the green financial system such as lending through loan groups and lending in the form of mobile vehicles. Mobile transaction points are one of Agribank's new initiatives approved by the State Bank, contributing to bringing capital to remote areas. The bank has developed a set of ESG policies - environmental and social risk management policies in credit granting activities; Green finance framework and social finance framework, ESG policies in bank operations; Identify specific goals and develop a

short- and long-term implementation roadmap to create a favorable environment for developing green credit, green banking and attracting green and sustainable international capital sources; Complete the organizational model and functions and tasks of a number of relevant units in implementing ESG.

2. Research overview

What is green credit?

According to Aizawa and Yang (2010)^[1], green credit is one of the solutions that the financial industry applies to deal with the world's environmental and social challenges through financial tools.^[1] Green credit is an expression of sustainable finance aimed at sustainable development is the view of Jin and Mengqi (2011)^[2].

According to the Green Credit Principles issued in 2018 (referred to as GLP 2018) by the Credit Market Association and the Asia Pacific Loan Market Association (Asia Pacific Loan Market Association) then green credit is defined as any type of loan provided specifically to finance or refinance all or part of new and/or existing eligible green projects. Categories according to GLP 2018 include: Renewable energy; efficient use of energy; green transportation; products and production technologies that are environmentally friendly and/or adapted to the economy; sustainable water management and wastewater treatment; green buildings; sustainable agriculture and forestry; prevent and control pollution^[3].

Green credit is a credit strategy of banks that does not support businesses that pollute the environment. Green credit adjusts the long-term and short-term credit ratio structure for enterprises, thereby affecting the investment structure and investment efficiency of heavily polluting enterprises (Wang *et al.*, 2019)^[4]. In the process of granting green credit, the bank takes information related to the project and the business applying for the loan as a check standard during the lending process, then makes a lending decision (Yao *et al.*, 2021)^[6]. In other words, green credit is understood as credits intended to support production and business projects that pose no/less risks to the environment, contribute to protecting the general ecology, and are a manifestation of the financial system. Main direction towards sustainable development.

In Vietnam, according to Article 149 of the Law on Environmental Protection 2020, effective from January 1, 2022, regulations on green credit are as follows: Green credit is credit granted to the following investment projects : (i) Effective use of natural resources; (ii) Responding to climate change; (iii) Waste management; (iv) Treating pollution and improving environmental quality; (v) Restoration of natural ecosystems; (vi) Conservation of nature and biodiversity; (vii) Create other environmental benefits.

Characteristics of green credit

Green credit is a credit granting activity by commercial banks in the form of currency with three distinct characteristics^[5]:

First, green credit is granted to production and business projects that do not cause environmental risks. However, not all projects with "green" elements are granted credit, banks also have certain criteria. For businesses, projects must demonstrate efficiency, information transparency, profitable business, have experience in the field of "green" technology

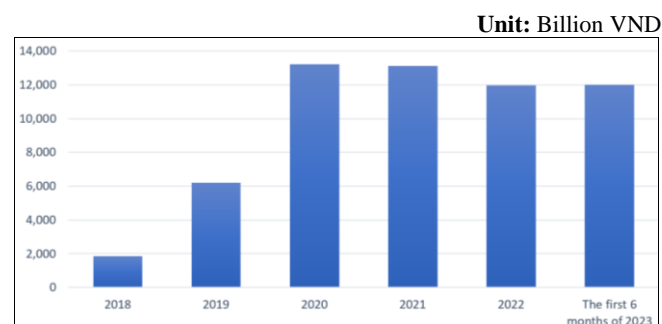
for at least one year, and especially must demonstrate investment. Output of the product. For individuals, must prove financial capacity, have a "clean" record, and have no bad debt at the bank.

Second, green credit lends mainly with capital mobilized from all sectors of society, not entirely capital mobilized by banks, and the capital source used to grant green credit is green capital. Banks can access green capital through entrusted contracts of the central bank or the State Bank, green credit support funds or directly issuing green bonds on the market.

Third, the bank's green credit activities involve many authorities. Therefore, to encourage investors, the Government supports through tax policies and stable output commitments for businesses to invest in priority projects aimed at protecting the environment and protecting the economy. Customers commit to providing long-term capital with preferential interest rates.

3. Current status of green credit activities at Agribank

Determining the goal of building a green, circular, and environmentally friendly economy, Agribank has been focusing on prioritizing capital sources and effectively expanding loans for development projects and programs. production and business in agricultural and rural areas, especially programs and projects that create added value, clean energy, and high-tech agriculture: (i) Actively participate in many projects related to environmental protection issues funded by the World Bank and financial institutions; (ii) Implementing a preferential credit program with a minimum scale of VND 50,000 billion and unlimited capital to serve "clean agricultural" production for public health from 2016. Target customers of the loan the program is for businesses, cooperatives, cooperative unions, farm owners, etc. to participate in the production chain of safe, large-scale agricultural products with loan interest rates reduced from 0.5%/year to 1.5%/year. Agribank's loan balance for green fields also has a steady growth each year.



Source: Agribank financial reports, 2018-first 6 months of 2023^[9]

Fig 1: Green credit balance in the period 2018-June 2023

In the period 2018-2020, green credit balance grew rapidly from 100-350%/year. After this period, due to the influence of macro factors such as the Covid-19 pandemic, escalating tensions between Russia - Ukraine and Western countries, the economic recession of major economies in the world affects the world. To Vietnam's economy. The growth rate of outstanding loans has decreased slightly, but is still quite stable in terms of loan value and number of customers. By June 30, 2023, outstanding loans to the green sector at Agribank reached nearly 12 trillion VND, of which outstanding loans to the sustainable forestry sector

accounted for 54.7% of the total outstanding green credit debt, continuing The field of renewable energy and clean energy accounts for 22.6% of the total green credit balance; The third is the green agricultural sector, accounting for 16.4% of the total green credit balance. Regarding the number of customers, by the end of 2022, Agribank will continue to remain the credit institution with the largest number of green customers, of which the sustainable forestry sector accounts for the highest proportion with 99.3% of the total number. Customers (44,620 customers), an increase of 0.27% compared to 2021 and 7.3% compared to 2020. By the end of 2022, Agribank's loan turnover since the start of the program has reached over 30,000 customers. Billion VND, outstanding debt reached over 5,000 billion VND, with nearly 4,000 customers. Along with that, a number of projects that Agribank has invested in with large capital scale have brought practical results such as the project of a vegetable, fruit and food processing factory, and agricultural products for export in An Giang and Vinh Long (with a joint venture company). loan amount of more than 4,100 billion VND); Projects on raising shrimp breeds, shrimp for meat, and raising dairy cows in Ninh Thuan (with loan revenue of more than 3,700 billion VND); clean animal feed production project in Ha Nam (with loan sales of nearly 5,000 billion VND). By 2023, the customer portfolio will not change much, the sustainable agriculture sector will still maintain a ratio of 99.3% compared to total customers, an increase of 0.38% compared to 2022. Credit products Specific green applications have been deployed by Agribank: loans for hydroelectric construction investment projects, loans for rubber development investment trust, rural finance RDF I, II, III, loans for agricultural projects rural areas, tourism services, projects to improve the quality and safety of agricultural products and develop the biogas program (QSEAP), water supply, waste and wastewater management and treatment activities. In addition, Agribank has participated in many projects related to environmental protection issues sponsored by the World Bank and financial institutions such as: Coastal resources project for sustainable development; Low carbon agriculture support project; The project puts credit capital into the fight against drought and saltwater intrusion in the Mekong Delta and the Central Highlands... In addition, Agribank is the bank serving the Project to modernize the Forestry sector and enhance resistance. Coastal tolerance (FMCR).

In particular, Agribank also improves mechanisms and processes and has plans to access the green financial system such as: lending through loan groups, lending in the form of mobile vehicles. Mobile transaction points are one of Agribank's new initiatives approved by the State Bank to bring capital to remote areas. Agribank has developed a set of ESG policies (Environmental and social risk management policy in credit granting activities; Green finance framework and social finance framework, ESG policies in the bank's operations); Identify specific goals and develop a short- and long-term implementation roadmap to create a favorable environment for developing green credit, green banking and attracting green, sustainable international capital sources;

Complete the organizational model and functions and tasks of a number of relevant units in implementing ESG. Determining that applying ESG standards is one of the top goals in the bank's development strategy for the period 2023 - 2025, Agribank has established a Steering Committee and Working Group to develop a comprehensive ESG implementation project. At Agribank in the short and long term. The establishment of the Steering Committee and Supporting Team with senior personnel shows Agribank's determination to synchronously and effectively deploy the application of ESG throughout the Agribank system. In addition, Agribank focuses on perfecting internal mechanisms and policies to promote green credit growth and manage environmental and social risks in credit granting activities. Agribank has issued internal documents on promoting green credit growth, guidance on environmental risk management in credit granting activities, and an action program to implement the Banking Industry Action Plan to implement the Strategy. National strategy on green growth for the period 2021-2030. In the credit operations process, Agribank's credit handbook always associates project appraisal and loan plans with environmental issues, projects must have an environmental impact assessment report. Approved by competent authorities in accordance with the law, resolutely excluding credit for projects that have the potential to have major and serious impacts on the environment, society, etc.

Over the past many years, Agribank has also actively participated in many environmental protection projects sponsored by the World Bank and financial organizations such as improving the quality and safety of agricultural products and developing programs. Biogas; Coastal resources project for sustainable development; Natural disaster risk management; Support low carbon agriculture; Clean water supply and rural sanitation in the Red River Delta; Wind electricity; Putting credit capital into the fight against drought and saltwater intrusion in the Mekong Delta and the Central Highlands provinces... At the same time, implementing a preferential credit program with a minimum scale of 50,000 billion VND and no restrictions on capital sources. Serving "clean agricultural" production for public health since 2016 with preferential interest rates from 0.5-1.5%/year.

In addition, the bank continues to maintain the proportion of outstanding loans for agriculture and rural areas from 65-70% of total outstanding loans; Research and deploy green credit products, have preferential policies, encourage lending to effective, environmentally friendly projects and business plans,... in accordance with business orientation and segments customers, target markets as well as Agribank's capabilities and strengths.

With a key role in providing capital and financial services to agricultural and rural areas, Agribank is determined to take the lead in implementing the Government's policies and directions on promoting green credit growth and managing environmental and social risks in credit granting activities, with the desire to build a safe and sustainable agriculture.

Table 1: SWOT analysis of green credit at Agribank

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> - Receive support from the Government and State Bank. - Nearly 70% of outstanding loans are in the fields of agriculture, rural areas and individual customers. - There are many activities for the community, comprehensive financial development; - Regulations on environmental risk management in credit granting activities have been issued; - Included ESG as a content in business strategy 	<ul style="list-style-type: none"> - The number of workers and customers is large, awareness of green credit is not uniform. - Database and information technology system serving green credit operations are incomplete; - Implementing green credit will increase resource costs. 	<ul style="list-style-type: none"> - There is support from international organizations and state banks - It is an inevitable trend, receiving attention and development from the Government, ministries, branches and the State Bank. 	<ul style="list-style-type: none"> - Compliance with ESG standards, sustainable development, and green credit are increasingly demanding. - Regulations of the Government and State Bank on green credit are not complete and consistent. - Applying criteria to meet green credit is not a mandatory requirement, so some businesses are not interested.

Source: Author's compilation

4. Green credit development solutions at Agribank

Agribank is determined to effectively implement solutions to promote green credit, green banking, and support sustainable development, needing to implement key solutions:

First, implement comprehensive and effective ESG application in the Agribank system; including building a set of ESG policies; Identify specific goals and develop a short- and long-term implementation roadmap to create a favorable environment for green credit development and attract green and sustainable international capital sources; Complete the organizational model and functions and tasks of a number of relevant units in implementing ESG.

Second, prioritize the supply of capital and financial services to serve the development of agriculture, rural areas, and farmers; continue to maintain the proportion of outstanding loans for agriculture and rural areas from 65-70% of total outstanding loans.

Third, research and deploy green credit products, have preferential policies, encourage lending to projects, effective and environmentally friendly business plans, etc. in accordance with business orientation., customer segments, target markets as well as Agribank's capabilities and strengths.

Fourth, proactively seek and access green international capital through key ministries, branches or financial institutions, non-governmental organizations, green credit trust funds, etc. to increase capital support. Support for green projects. Preparing to issue green bonds to increase capital.

Fifth, promote the development of financial products and services to serve agricultural and rural production and business, small and medium-sized enterprises, cooperatives, and production and business households. Continue to develop a variety of modern and convenient financial-banking products and services based on digital technology applications, promote non-cash payments in the economy, contributing to "greening" the industry banking, through building environmentally friendly habits for customers in accessing and using banking products and services.

Sixth, develop and deploy comprehensive measures to strengthen the capacity of officials and employees in implementing green credit; Organize training, propaganda and dissemination to raise awareness for officials and employees about green banking - green credit activities; Raise awareness of efficient use and saving of energy, natural resources and environmental protection; Improve the professional level of appraisal of social and environmental risks of projects.

5. Conclusion

Currently, the implementation of green credit by Agribank in particular and commercial banks in general still faces some difficulties such as regulations and definitions of green industries, fields, and green projects are not synchronized and unified. Most importantly, it makes it difficult to select, evaluate, and monitor the green credit granting process. Besides, the evaluation criteria and list of green projects are not complete and specific enough to mobilize capital from international financial institutions and green credit funds. Therefore, many opportunities to receive investments may be missed. In addition, commercial banks also encounter difficulties in developing policies and products to promote credit growth. Faced with these difficulties, Agribank has proposed solutions for the Government and relevant ministries to have policies to support and promote projects, industries and fields that have met the conditions. Green credit conditions, supporting commercial banks in accessing more financial funds and green credit financing packages from international organizations.

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