



# Green banking in Agribank's development strategy

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In recent years, Vietnam has proactively taken actions in accordance with international commitments and agreements aiming to respond to climate change and heading towards green development. In particular, the Prime Minister made strong commitments at the 26<sup>th</sup> Conference of Parties to the United Nations Framework Convention on Climate Change (COP26) with the determination to achieve “net zero” by 2050. Accordingly, the implementation of green banking and sustainable development is an inevitable trend in the business strategies of many banks in the world and becoming mandatory criteria in methodology of leading international credit rating agencies. The State Bank of Vietnam (SBV) has issued many policies and guidelines to encourage credit institutions (CIs) in green transformation and environmental risk management in credit extension activities, which include: Green banking development project in Vietnam; Orientation for green banking development in the Banking Development Strategy to 2025, with a vision to 2030. As of June 30<sup>th</sup>, 2023, outstanding green loans reached nearly VND 528.3 trillion, accounting for approximately 4.2% of the total outstanding loans of the entire banking system. In that context, Agribank has played a pioneering role in the banking industry towards sustainable development and combating climate change. Recently, Agribank has implemented many action programs promoting “For the Green Future”, such as: Conducting “greening” credit, prioritizing clean agriculture and high-tech agriculture; implementing many social security activities across the country; issuing regulations on environmental risk management in credit extension activities. There is a strong need to have an appropriate roadmap, especially to integrate the green banking development strategy into Agribank's business strategy to ensure that all employees can implement consistently from policies to specific actions, thereby creating great strength to contribute to environmental protection.

Within the scope of this article, the author focuses on Agribank's role in promoting green banking, supporting sustainable growth and development, analyzing the SWOT model as a basis for integrating green banking strategy into Agribank's business development strategy.

## **1. Agribank's role in promoting green banking to support sustainable growth and development**

As a key role in providing capital and financial services in agricultural and rural areas, Agribank is determined to promote green credit growth and manage environmental and social risks in credit extension activities:

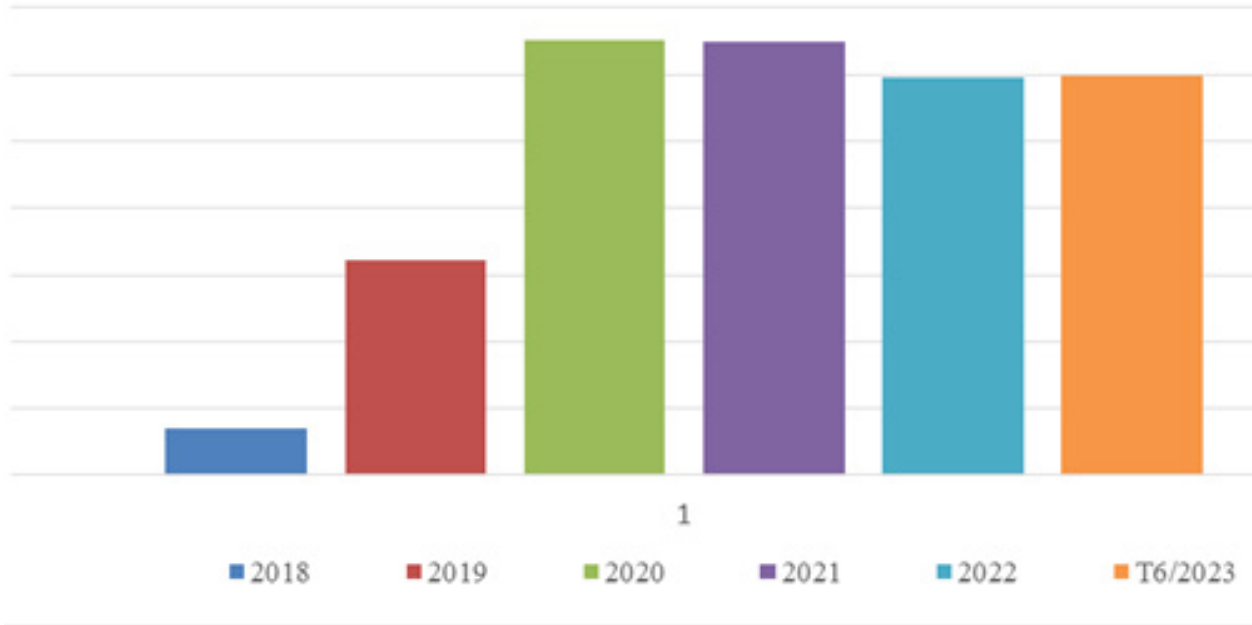
### **1.1. Effectively deploy seven policy credit programs and loans under two national target programs, specifically as follow:**

*Seven policy credit programs:* (1) Lending under credit policies for agricultural and rural development; (2) Lending to households and individuals through loan/affiliate groups; (3) Lending in the framework of support policy to assist in reducing agricultural losses; (4) Lending for cattle and poultry farming; (5) Lending for coffee replanting; (6) Lending according to fisheries development policies; (7) Preferential credit for “Clean Agriculture”.

*Two national target programs:* (1) New Rural Construction; (2) Sustainable Poverty Reduction.

### **1.2. Prioritize credit for green projects**

With the goal of building a green, circular and environmentally friendly economy, Agribank has been focusing on prioritizing funding sources and effectively expanding lending to projects and programs to develop production and business in agricultural and rural areas, especially on clean energy, high-tech agriculture or added value creation programs and projects, such as: (1) Projects related to environmental protection issues funded by the World Bank and other financial institutions; (2) Preferential credit program with minimum scale of VND 50,000 billion and unlimited fundings to facilitate “clean agricultural” production for public health since 2016. Target customers of these programs are businesses, cooperatives, cooperative unions, farm owners... who participate in one or more stages in the production chain of safe agricultural products. The scale of these programs is large with loan interest rates reduced from 0.5%/year to 1.5%/year.



▲ Figure 1. Green loan balance in the period 2018 to June 2023, unit: Billion VND  
(Source: Report on green credit situation and summary from the author)

Agribank’s outstanding loans for green sectors also have a steady growth from year to year. In the period of 2018 - 2020, green loan balance grew rapidly from 100 - 350%/year. After this period, due to the impact of macro factors such as the Covid-19 pandemic, escalating tensions between Russia - Ukraine and Western countries, the recession of major economies in the world..., which affect Vietnam’s economy, the growth rate of outstanding loans has slightly decreased, but is still quite stable in terms of loan amount and number of customers. As of June 30<sup>th</sup>, 2023, outstanding loans to the green sectors at Agribank reached nearly VND 12 trillion, of which outstanding loans to the sustainable forestry sector accounted for the highest proportion with 54.7% of the total outstanding green loans, the second highest is renewable energy and clean energy with a proportion of 22.6% and the third highest is the green agricultural sector with a proportion of 16.4%. Regarding the number of customers, by the end of 2022, Agribank has maintained 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 of customers (44,620 customers), an increase of 0.27% compared to 2021 and 7.3% compared to 2020. In 2023, the customer portfolio does not change significantly, the sustainable forestry sector still maintains a proportion of 99, 3% of total customers, an increase of 0.38% compared to 2022. However, the large-scale funded projects are mainly related to renewable energy and clean energy, including loans to develop large-scale wind power and solar power plants.

From Agribank’s fundings, many large-scale high technology agricultural production models have been formed throughout all regions of Vietnam, creating a chain of agricultural production links with high-quality and high-value agricultural products, for examples: growing vegetables, flowers, and fruits (Lam Dong), large sample fields (Can Tho), livestock farming (Bac Ninh, Lao Cai, Ha Nam), investment in agricultural machinery and equipment (Tien Giang, Long An), growing corn (Son La), safe fruits and vegetables in the Central Highlands provinces (Dak Nong, Kon Tum), dragon fruit under VietGap standards (Binh Thuan)...

**1.3. Regularly improve lending procedures and methods to facilitate financial services and credit services to people in rural areas, promoting financial inclusion**

Accordingly, Agribank has researched and implemented two unique and specific models in Vietnam:

*Lending model through loan groups:* Agribank has signed a cooperation agreement with socio-political organizations such as the Women’s Union, Farmers’ Association, Veterans Association... in rural areas to transfer funds, promptly meet people is needs for financial and banking services, reduce difficulties, and solve problems in accessing bank capital. This



is an important initiative of Agribank to open the flow of credit sources investing in “Tam Nong”, improve the quality of people’s lives; bring benefits to both customers and Agribank. As of June 30<sup>th</sup>, 2023, Agribank had lent to 63,615 loan groups with more than 1.21 million customers, outstanding loans reached VND 195,712 billion.

*Model of mobile transaction points using specialized cars:* Since the end of 2017, Agribank has pioneered the implementation of mobile transaction points using specialized cars to expand credit and provide banking services to production households, individuals in rural and remote areas, contributing to the development of commodity production, improving people’s income and living standards. As of June 30<sup>th</sup>, 2023, operations of 68 mobile transaction points were deployed in 486 communes with 26,552 working sessions and 2,458,103 transactions. In addition, mobile transaction points have performed other operations, such as: Payment of remittances, accounts opening, cards issuing, paying to the state budget, insurance...

#### **1.4. Focus on implementing the ESG standards in the entire system**

In fact, Environmental - Social - Governance (ESG) standards set is still a new concept in Vietnam. Vietnam’s legal framework on ESG is still a work in process; as the definitions/concepts, standards, conditions for green banking as well as assessment indicators for sustainable development are not yet clear. However, the Agribank Board of Directors is deeply aware of the importance of developing the Bank in a green and sustainable direction. Therefore, the Board has determined that applying the ESG standards at Agribank is one of the top goals in the Banking Development Strategy in 2023 - 2025, vision to 2030. Accordingly, Agribank has set up a Steering Committee and Supporting Team to develop a comprehensive ESG implementation project at Agribank in both the short and long term. It shows Agribank’s determination to deploy the application of ESG synchronously and effectively throughout the Agribank system. Additionally, Agribank focuses on perfecting internal mechanisms and policies to promote green credit growth and manage environmental and social risks in credit extension activities. Agribank has issued internal documents on promoting green credit growth, guidance on envi-

ronmental risk management in credit extension activities, and an action program to implement the Banking sector’s Action Plan for implementing the National Green Growth Strategy in the period of 2021 - 2030. In the process of lending operations, Agribank’s handbook for credit extension activities always engages project appraisal and capital utilization plan with environmental issues, requires an environmental impact assessment report approved by competent authorities in accordance with the Law and resolutely not lending to projects that have the potential to greatly and seriously impact the environment and society.

**1.5. Proactively communicate internally and externally on the policy of providing green financing to replicate safe agricultural production models and change consumer’s perception of the Vietnamese agricultural products’ quality and safety,** with the aim to develop sustainable agricultural production, maintain the domestic consumer market and sustain a role in the global value chain, Agribank supports the reality TV show “Clean Agriculture - for Vietnamese people, for the world” that has been broadcasted on VTV1 channel - Vietnam Television to introduce to domestic and foreign audiences about the Vietnamese agricultural products and typical agricultural areas, promote the development of clean agricultural production chains nationwide.

#### **1.6. Modernize information technology, digital transformation; improve quality and service for customers**

Agribank has focused on developing products and services on the basis of information technology systems, proactively applying solutions of the 4.0 Industrial Revolution to develop new products and services, gradually digitizing banking activities, improving the quality and safety of E-Banking services such as: Expanding the deployment of automatic capital mobilization products on E-banking, online deposits on E-Mobile Banking; promote online payment solutions, online payment accounts opening with eKYC to meet customers’ online transaction needs, reduce pressure on over-the-counter transactions and reduce the large amount of paper used (more than 90% of payment transactions are made via online electronic channels); developing and diversifying products and services and deploying Agribank Digital banking services; effectively deploy card services in rural markets.

## 2. Agribank's Green Banking Development Strategy

### 2.1. SWOT analysis of green banking at Agribank

S Strengths	W Weaknesses	O Opportunities	T Threats
<ul style="list-style-type: none"> <li>- Receive support from the Government and the SBV.</li> <li>- Nearly 70% of outstanding loans are in agriculture, rural areas and for individual customers.</li> <li>- Execute many activities for the community and financial inclusion development.</li> <li>- Issued regulations on environmental risk management in credit extension activities.</li> <li>- Included ESG as an objective in business strategy.</li> </ul>	<ul style="list-style-type: none"> <li>- A large number of employees and customers, awareness of green banking is not uniform.</li> <li>- Incomplete database and information technology system on green banking.</li> <li>- Investing in green banking transformation will increase operation costs.</li> </ul>	<ul style="list-style-type: none"> <li>- Support from international organizations for green banking and sustainable development.</li> <li>- Inevitable trend, hence receiving attention and direction from the Government, Ministries, branches and the SBV.</li> </ul>	<ul style="list-style-type: none"> <li>- Standards on ESG and sustainable development, green banking is increasingly complex and advanced.</li> <li>- The Government and SBV's regulations on green banking are not complete and consistent.</li> <li>- The application of social criteria is not a mandatory requirement; hence some businesses haven't paid enough attention.</li> </ul>

### 2.2. Agribank Green Banking Development Strategy

On the basis of Vietnam's National Strategy on Green Growth for the period of 2021 - 2030, vision to 2050, National Action Plan for Green Growth for the period of 2021 - 2030, green banking development project in Vietnam and SWOT model analysis, the author proposes solutions to integrate green banking strategy in Agribank's development strategy as follows:

*Firstly, completing mechanisms, policies, and organizational structures to effectively deploy green banking:* Apply ESG comprehensively and effectively within Agribank, including: identifying specific goals and building roadmap in the short-term and long-term to create a favorable environment for green banking development and attract green and sustainable funding from foreign sources; developing a set of ESG policies (Sustainable development policy; Green finance framework and social finance framework, disclosing information on commitment to ESG...); complete the organizational model, functions and tasks of related units and establishing a department responsible for sustainable development.

*Secondly, deploying green credit activities towards international standards:* Develop and publicize the exclusion/restriction list on credit extension activities; synchronously deploy environmental and social risk management in credit extension activities; collect information and database for deployment ESG throughout the Agribank networks; continue to prioritize providing capital and financial services to support the development of agriculture, rural areas, farmers, financial inclusion, high technology and clean agriculture; maintain the proportion of outstanding loans for rural from 65 - 70% of total outstanding loans as well as maintaining the mobile transaction points and lending through loan groups models.

*Thirdly, completing the information technology system for green banking:* Establish a comprehensive environmental and social risk management system including in-

ternal guidance on social risk management in credit extension activities; monitor and routinely report on the execution results of the sustainable development policy; quantify and evaluate energy saving results of electricity, water, paper, vehicles...

*Fourthly, developing products and services that meet green standards and sustainable development:* Research and deploy green banking products, preferential policies, encourage lending to effective and environmentally friendly projects and business plans... in accordance with Agribank's business orientation, customer segments, target markets as well as capabilities and strengths; promote the development of financial products and services to serve agricultural production and business, rural, small and medium enterprises owned by women, cooperatives, production and business households; continue to develop modern financial products and services, digital technology applications based convenient banking, promote non-cash payments in the economy, contribute to "greening" the banking industry, create environmentally friendly habits.

*Fifthly, strengthening international integration and cooperation:* Frequently update Vietnam's international commitments related to green, sustainable growth, climate change responsive actions and apply international experiences on green banking standards and conditions to improve the legal framework and internal mechanism; proactively apply conditions to issue green bonds and attract green funding from foreign sources... to increase funding support for green projects.



*Sixthly, completing Agribank's social criteria:* Continue to fully implement legal and fair policies for employees, propagate and encourage the employees to participate in community activities and support the poor and disadvantaged groups; protect the legitimate rights and benefits of consumers.

*Seventhly, regularly conducting in-depth propaganda and internal training to Agribank customers on sustainable development:* Organize propagandas, trainings to improve awareness of the employees about green banking, the importance of environmental and social risk management; organize events for customers to better understand green banking products and services; introduce products that are environmentally friendly or do not cause negative impacts on the environment; carry out capital construction investments, equipment procurement to promote green banking.

*Eighthly, creating an independent report on sustainable development, ESG and having ESG report audited:* Consulted to guide in building a system of policies on ESG, ESG reporting and auditing reports to disclose information according to international standards by consulting organizations.

### 3. Recommendations and suggestions

To facilitate the implementation of Agribank's green banking strategy, the author strongly proposes the recommendations as follows:

*Firstly,* the Ministry of Natural Resources and Environment and other agencies timely develop and issue a set of environmental criteria and defining criteria for lending to green projects so that CIs have a basis on legal and technical aspects in determining projects that meet green credit conditions.

*Secondly,* the Government and the Ministry of Natural Resources and Environment issue policies to promote the development of carbon credit market such as: regulations on carbon credit management, activities of exchanging greenhouse gas emission quotas and credits; regulations for operating the carbon credit exchange; deploy activities to strengthen capacity and improve awareness about carbon market development... to accelerate the operation of the carbon credit exchange in Vietnam.

*Thirdly,* the Government continues to communicate to public the need for sustainable development, green banking, and sectors that meet green credit criteria to encourage green lifestyles and consumption in harmony with nature and Vietnamese traditional cultural values; support domestic CIs to increasingly access financial funds and green financing packages from international organizations.

*Fourthly,* build and form a data system on compliance and violations of environmental requirements of enterprises, create a basis for CIs to appraise and determine the level of environmental risks when assessing customers, thereby limiting/reducing loans for environmentally harmful activities ■

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