POLICY BRIEF

TOWARD SUSTAINABLE FINANCE

ENVIRONMENTAL – SOCIAL – GOVERNANCE (ESG) COMMITMENTS IN THE BANKING SECTOR:

Overview and Case Studies of 11 Vietnamese Commercial Banks in 2022

FairFinance Vietnam

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FairFinance
Vietnam

The assessment report on the ESG policies of 10 Vietnamese commercial banks in 2020 showed that these banks had just taken the initial steps towards publicly disclosed ESG policy commitments. If this is thought of as a "race to the top", they had just started the climb.

The 2022 report, analysing for the second time the ESG policy commitments of 11 Vietnamese commercial banks, including 10 from the first analysis and one new bank, shows that Vietnamese commercial banks are changing with new progress in the 'race to the top'. This change is not taking place at the same pace in all the banks assessed. There are differences across themes and in the magnitude of change in each institution.

INTRODUCTION


Photo: Nguyen Duc Hieu / Oxfam

In the fields of finance, banking, and investment, adopting Environmental, Social, and Governance (ESG) criteria has become a popular trend and is gradually becoming the "norm" in the region and the world.[1] This represents one of the ways in which financial institutions[2] can contribute to reducing negative environmental impacts; preventing hunger, poverty, and inequality; and promoting a sustainable economy which, in turn, can lead to the realisation of the Sustainable Development Goals (SDGs). Many more financial institutions and investors have been paying increasing attention to and considering these non-financial criteria in their risk assessment process when they make investment decisions and demonstrate responsible business goals for sustainable development. Globally, many agencies and organisations act as independent third parties to evaluate ESG adoption and audit the sustainability reports of companies and banks. Customers, investors, fund managers, and other interested parties often refer to such independent reports to benchmark companies, assess risks, and make investment and service use decisions.

In Vietnam, in the past two years, ESG has been increasingly stipulated in legal regulations instead of in guiding documents as before. National policies, regulations, and laws serve as an important ground to set out favourable conditions and requirements for banks to implement ESG policy commitments. In reality, a number of Vietnamese commercial banks have been engaging in or adopting international initiatives on ESG such as Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD), International Finance Corporation (IFC)'s Performance Standards on Environmental and Social Sustainability.

To provide further information about ESG commitments in the domestic finance-banking sector, help Vietnamese commercial banks fulfill their environmental and social responsibilities, heighten their position in Southeast Asia (ASEAN) and in the global market, as well as attract more capital from responsible investors and investment funds worldwide, Fair Finance Vietnam (FFV) adopted the Fair Finance Guide (FFG) methodology, jointly developed by Profundo and Fair Finance International (FFI), to conduct an analysis on the alignment of policies widely disclosed by Vietnamese commercial banks with international ESG standards for two years (2020 and 2022).

[1] Chris Stokel-Walker (2022) How sustainable investing will become the norm, at the World Economic Forum https://www.weforum.org/agenda/2022/02/sustainable-investing-esg-finance-future-norm/ , accessed November 202

[2] In the context of this report, financial institution or financial organisation represents a broad meaning, including credit institutions. According to Investopedia, a financial institution is a company engaged in the business of dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Financial institutions include banks, financial companies, financial intermediaries, and brokerage companies. Source: https://www.investopedia.com/terms/f/financialinstitution.asp. According to Article 4 of the Law on Credit Institutions 2010, "a credit institution is an enterprise engaged in one, several, or all banking activities". Credit institutions under Directive No. 03/CT-NHNN include commercial banks, financial companies, finance leasing companies, cooperative banks, and foreign bank branches operating in Vietnam.

METHODOLOGY

FFG methodology has been used to analyse the policies of financial institutions in Bangladesh, Japan, India, Thailand, Indonesia, the Philippines, and Vietnam. Ihe methodology only focuses on publicly available information posted by the banks themselves in comparison to international standards.

In the second implementation (2022), the FFG 2021 toolkit was used. Ten banks in the first assessment (2020) continued to be analysed, and one was added - HDBank - a bank doing business in the renewable energy industry. Data collected for analysis is published by the bank themselves on their websites. Data was collected until 31 December 2022 for analysis. Regarding information in press releases, the data must be updated no sooner than 12 months before the deadline for scoring (2021). In Vietnam, FFV analyses 12 themes of 3 pillars Environmental, Social and Governance to present the commitments of commercial banks on ESG. A theme score will be adapted to a 0-10 scale, in which 10 is the highest score. During the process, FFV sent the second detailed analysis of each bank to them for their feedback before the publication of final results. Moreover, an extensive consultation with the participation of 11 commercial banks was held on 23 November 2022 to introduce the analysis methodology and findings, thanks to the collaboration and coordination of the Vietnam Banks Association.

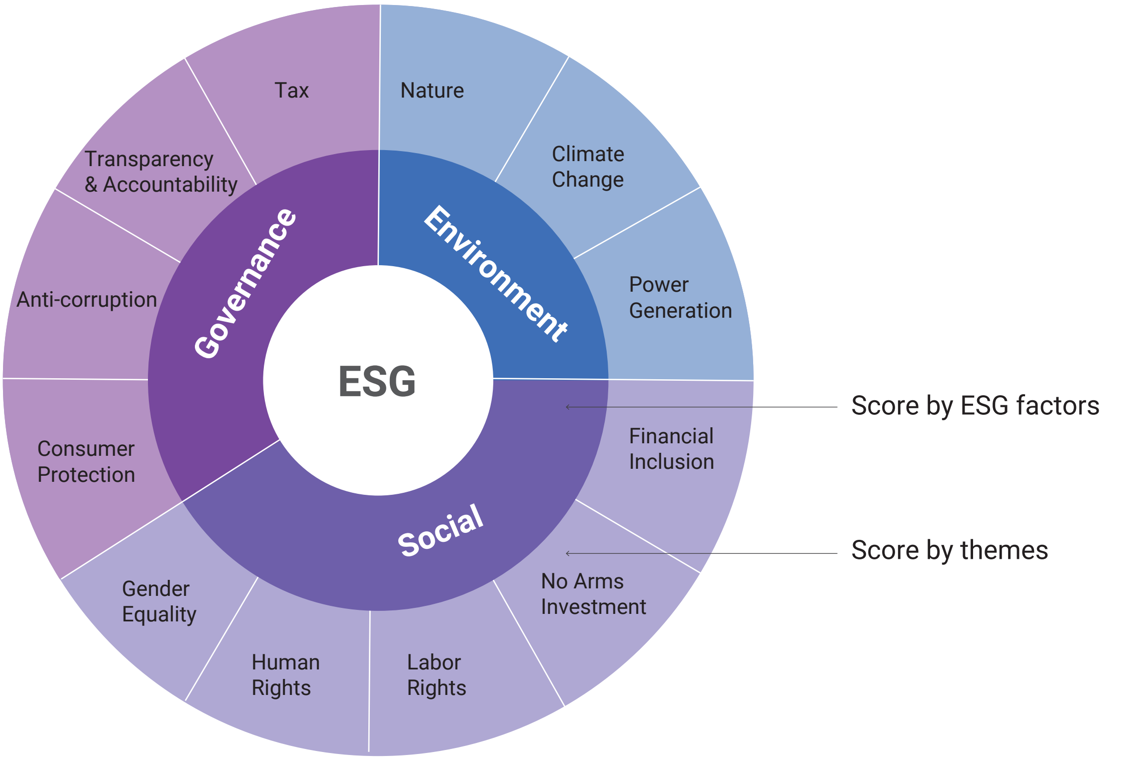


Figure 1: ESG themes under FFV analysis

[3] Agribank, BIDV, Eximbank, LPBank, MSB, Techcombank, VIB, Vietcombank, VietinBank, VP Bank

RESULTS AND RECOMMENDATIONS

The assessment report on the ESG policies of 10 Vietnamese commercial banks in 2020 showed that these banks had just taken the initial steps towards publicly disclosed ESG policy commitments. If this is thought of as a "race to the top", they had just started the climb.[4]

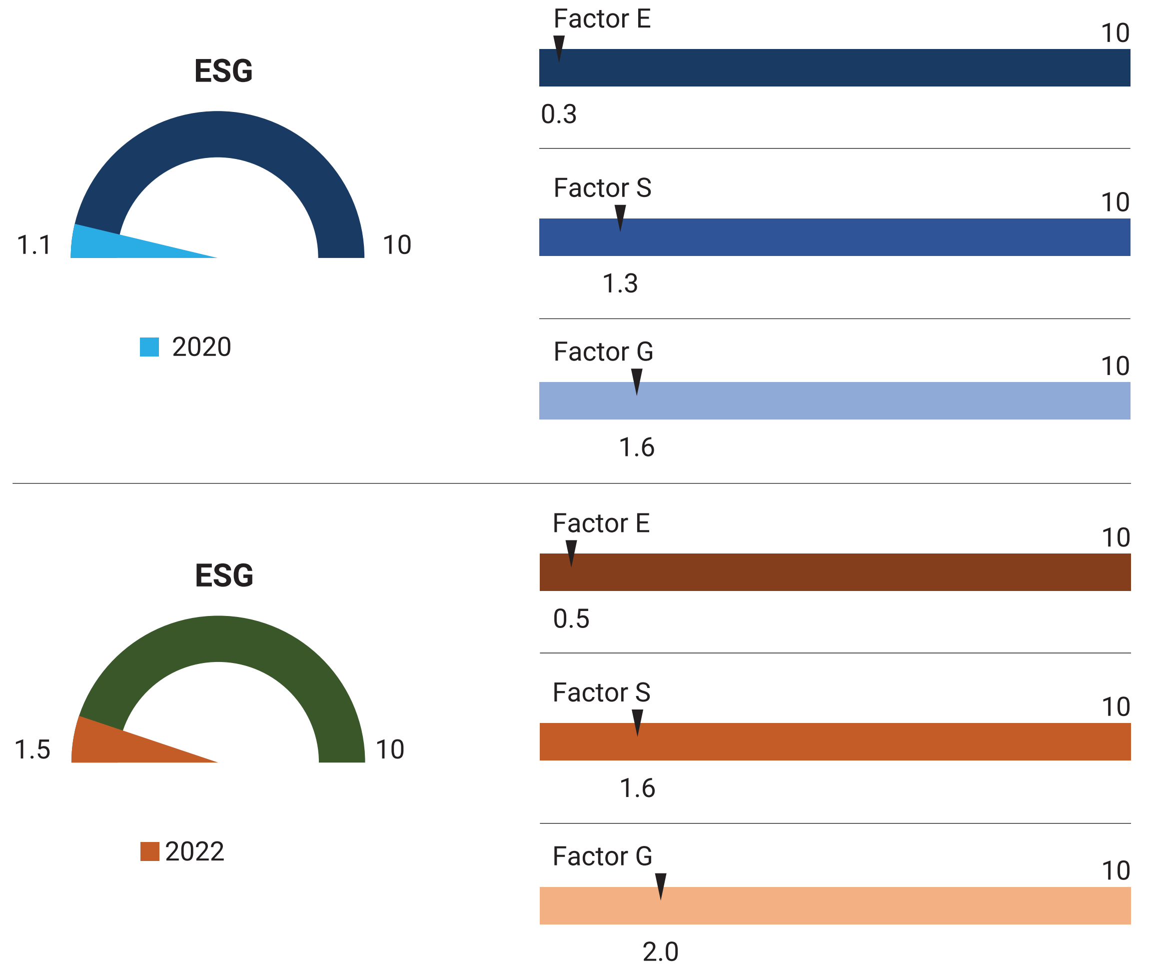


Figure 2: Overview of ESG policy commitments of commercial banks in 2022 and 2020
(Source for comparison: Fair Finance Vietnam, according to FFG methodology, 2020)

The 2022 report, analysing for the second time the ESG policy commitments of 11 Vietnamese commercial banks, including 10 from the first analysis and one new bank, shows that Vietnamese commercial banks are changing with new progress in the 'race to the top'. ESG commitments have been publicly mentioned in various policies, 2021 sustainable development

[4] Please see the report Towards Sustainable Finance - Environmental, Social, and Governance Commitments in the Banking Sector: Overview and Case Studies of 10 Vietnamese Commercial Banks. Fair Finance Vietnam (2020).

reports, 2021 annual reports, and official information sources of these institutions. This change is not taking place at the same pace in all the banks assessed. There are differences across themes and in the magnitude of change in each institution.

Analysis of ESG policy commitments of Vietnamese commercial banks in 2022 shows that there has been an improvement across all three pillars (Environment (E), Social (S), and Governance (G)) compared to 2020. Of the three pillars, (E) witnessed the least change, followed by (S). The (G) pillar witnessed the most obvious change. However, similar to the first analysis, Vietnamese commercial banks' policy commitments on ESG have just entered the initial stage.

Commercial banks' commitments by ESG themes

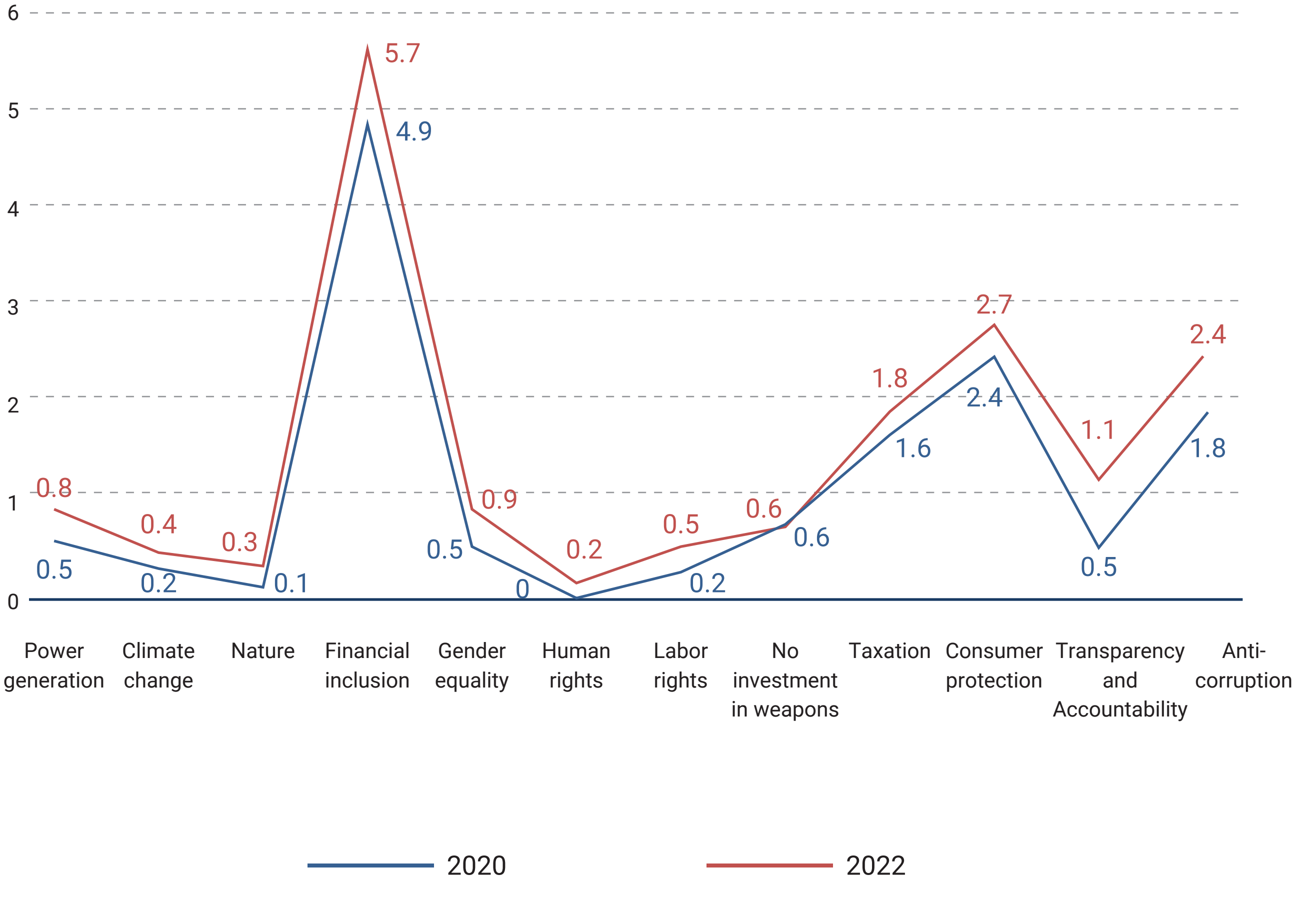


Figure 3: Commitments of Vietnamese commercial banks by theme in 2022 and 2020
(Source for comparison: Fair Finance Vietnam, according to FFG methodology, 2020)

Policy commitments concerning the environmental (E) pillar publicly disclosed by the assessed banks in 2022 improved compared to 2020 but remained lackluster.

2022 policy commitments on the Environmental (E) factor by 11 commercial banks scored 0.5/10 points, increasing by 0.2 points (or 40%) compared to 2020.

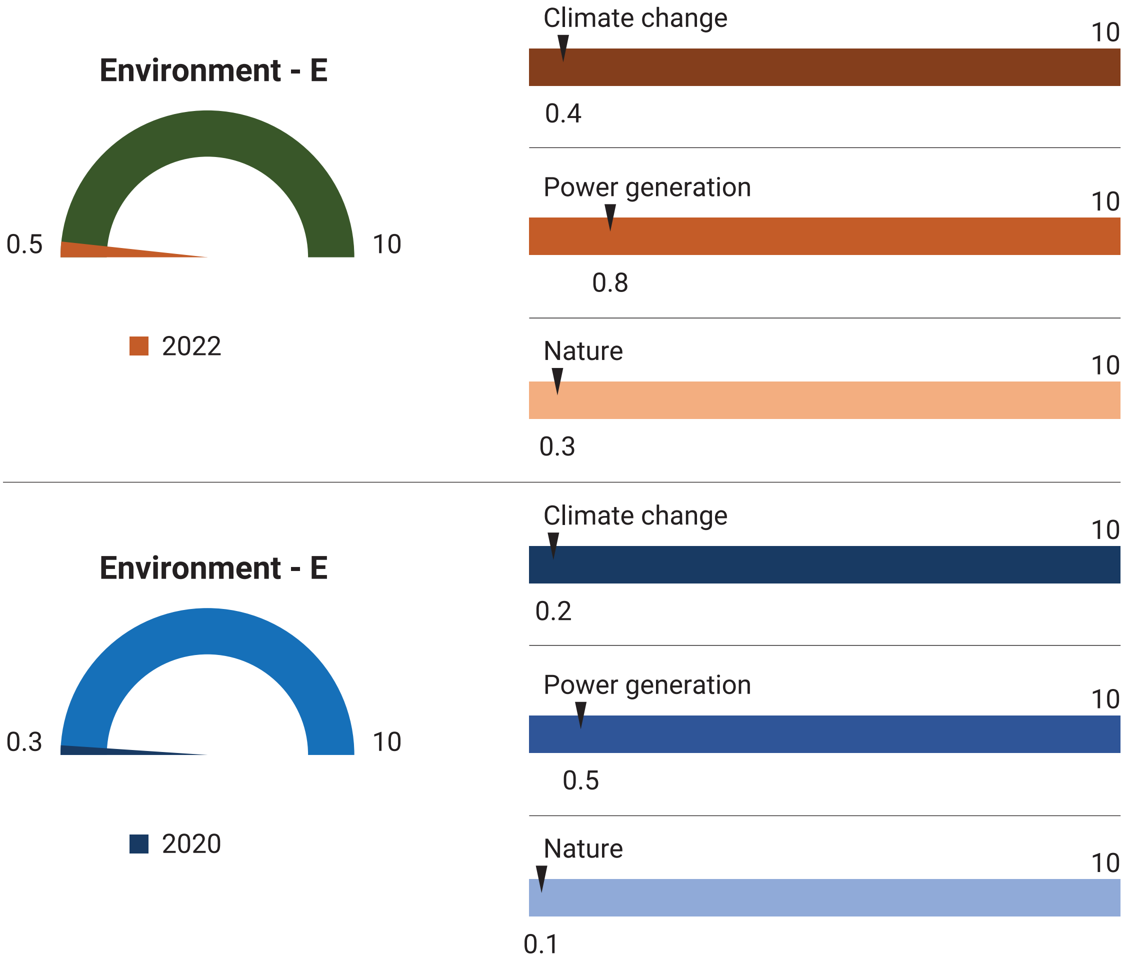
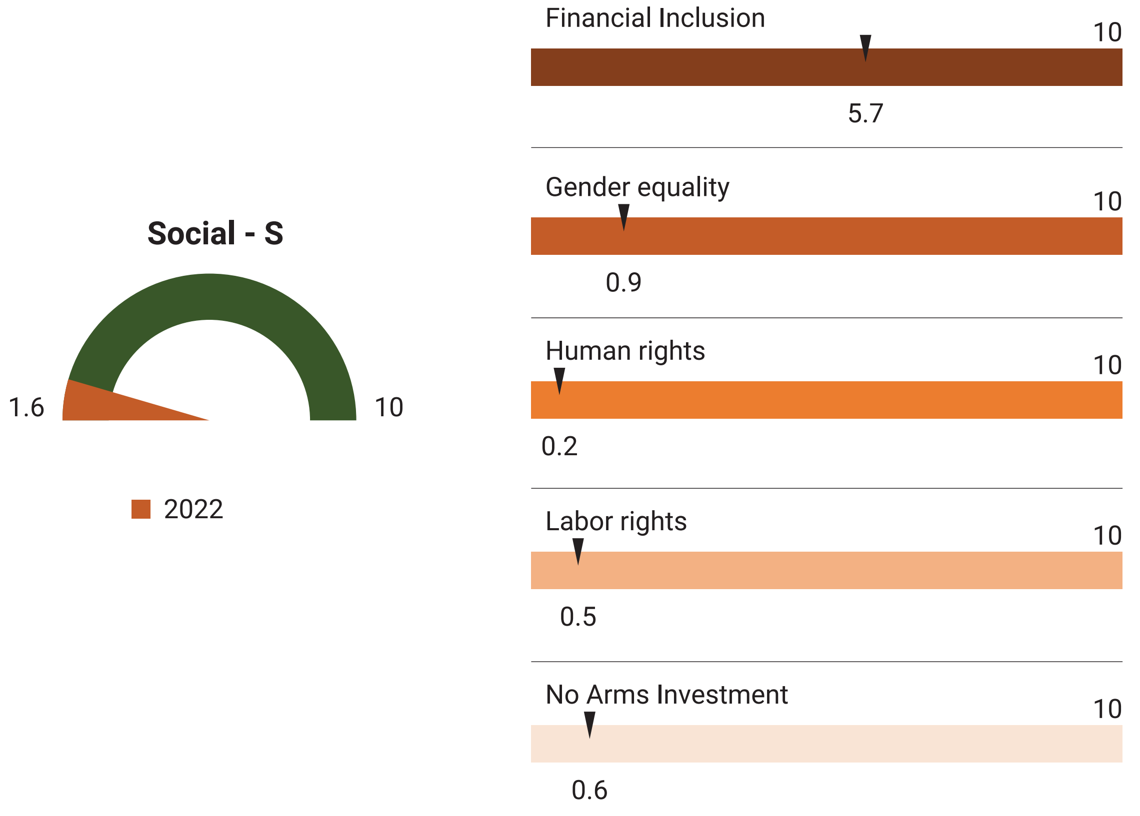


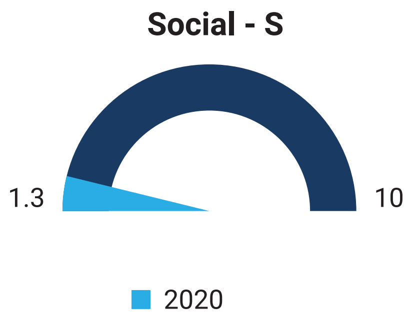
Figure 4: Commitments on Environmental (E) factor of commercial banks in 2022 and 2020
(Source for comparison: Fair Finance Vietnam, according to FFG methodology, 2020)

Among all the themes of the E pillar, the information disclosed by 11 banks mainly related to the theme of **Power Generation**. Most showed that they made capital investments in the renewable energy industry. Regarding **Nature and Climate Change** policy commitments, banks still lack alignment with international standards. Very few made public commitments on the theme of nature (only 1 bank) or climate change (2 banks) in conformity with international standards. At the ASEAN level, the average score (on a scale of 10) of the 11 Vietnamese commercial banks on the themes of Climate Change and Nature was lower than that achieved by Thai banks in 2022 (Assessment Report on the ESG Policy Commitments of Thai Banks, Fair Finance Thailand, 2023).

The Social (S) pillar in policy commitments publicly disclosed by the 11 banks also witnessed moderate improvement in a number of themes compared to 2020.

2022 policy commitments on the Social (S) factor by 11 commercial banks scored 1.6/10 points, increasing by 0.3 points (equivalent to 26%) compared to 2020.





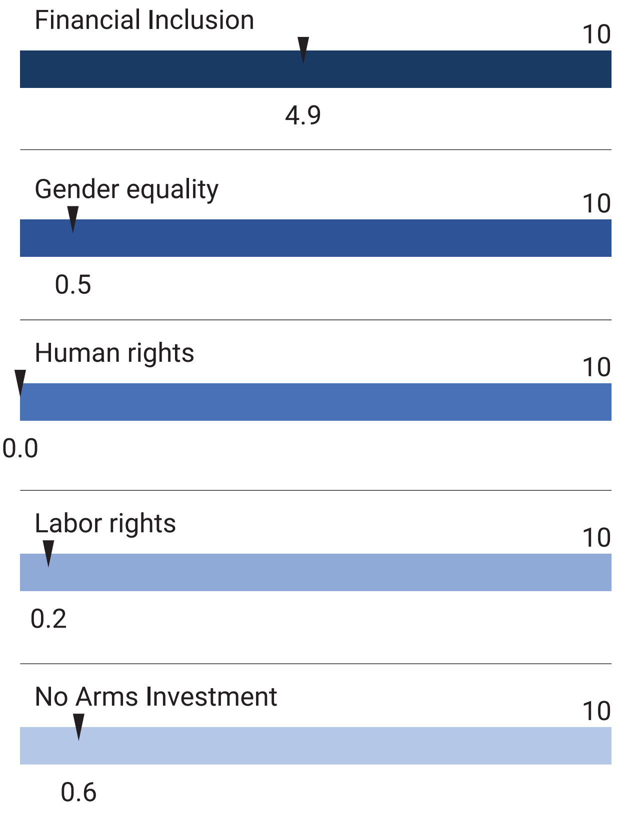


Figure 5: Commitments on the Social (S) factor of commercial banks in 2022 and 2020
(Source for comparison: Fair Finance Vietnam, according to FFG methodology, 2020)

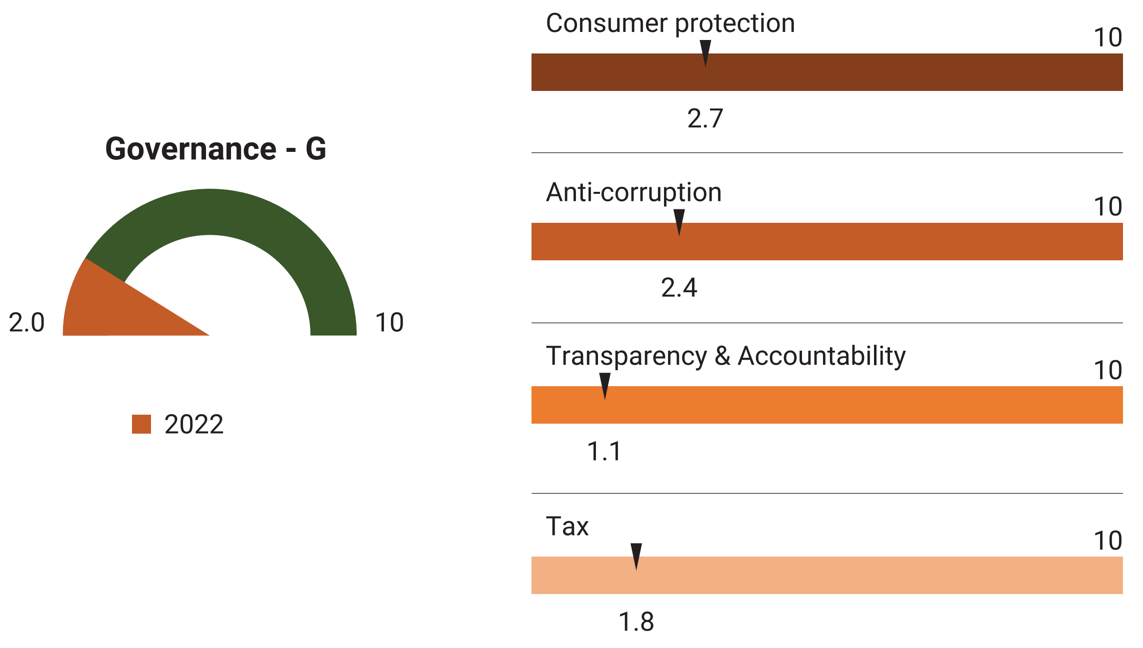
Financial Inclusion is the most prominent theme among the five social themes and has gained the most improvement compared to 2020. All 11 commercial banks have disclosed their commitments on the criteria of financial inclusion to different extents. At the ASEAN level, the average score on the theme of Financial Inclusion achieved by Vietnamese banks (5.7/10) is higher than that of Indonesian (5.2 in 2022) and Philippine (4.4 in 2019) banks (data compiled from Assessment Reports on ESG Policy Commitments of Indonesian and Philippine Banks, Fair Finance Indonesia, 2022 and Philippines, 2020)

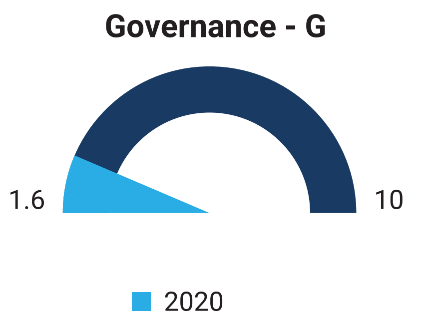
In addition, the public commitments of the 11 banks on the themes of Gender Equality, Human Rights, and Labour Rights in 2022 showed an improvement against 2020. However, such improvement remains modest compared to several ASEAN countries. Only a few Vietnamese commercial banks made public commitments on the theme of Human Rights (3 banks) and on the theme of Labour Rights (5 banks).

Governance (G) saw the greatest improvement of the three ESG pillars compared to 2020

The average score of the G pilar in the two assessments was higher than that of the E and S pillars. The average score of the G pillar in 2022 reached 2.0/10, increasing compared to 2020 (1.6/10).


Photo: Nguyen Duc Hieu / Oxfam





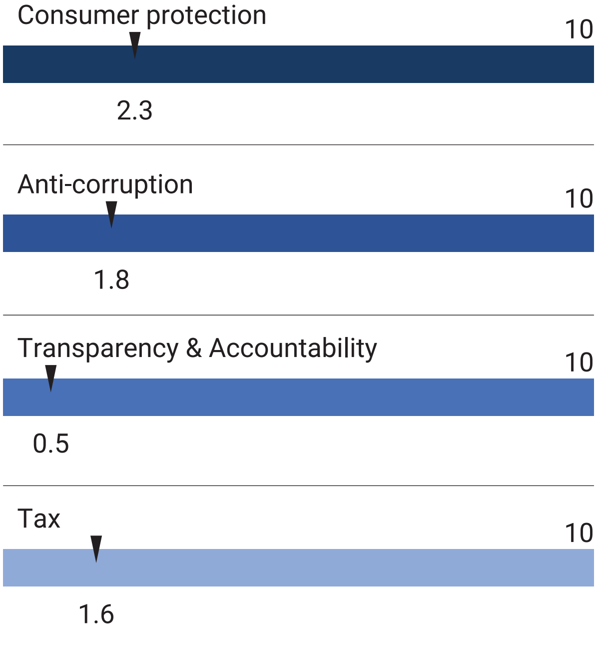


Figure 6: Commitments on Governance (G) of commercial banks in 2022 and 2020 *(Source for comparison: Fair Finance Vietnam, according to FFG methodology, 2020)*

All 11 banks publicly disclosed their policies on Anti-Corruption, Customer Protection, Tax, and Transparency and Accountability – albeit to different extents. Of the four themes under the G pillar, Anti-corruption and Transparency and Accountability showed the most improvement, followed by Customer Protection and Tax.

However, the G pillar of Vietnamese banks is still limited compared to the G commitments made by those in other ASEAN countries. Specifically, Philippine, Indonesian, and Thai banks, respectively, achieved an average score of 2.2 (2019), 3.0 (2022), and 3.6 (2022) for the same themes under the G pillar (data compiled from

Assessment Reports on ESG Policy Commitments of Indonesian, Philippine, and Thai Banks, Fair Finance Indonesia (2022), Philippines (2020), and Thailand (2023)).

The scope of application of ESG statements, commitments, and policies has not yet covered the entire operation of the assessed commercial banks.

Generally, ESG policy commitments publicly announced by Vietnamese commercial banks are mainly applied in their internal operations or loan and investment portfolio management activities. ESG policies that require or encourage businesses to take investment or credit from banks are rarely publicly announced by most of the analysed commercial banks.

In the first (2020) and second (2022) analyses, some information was found in bank policies concerning corporate culture, codes of conduct, and anti-corruption/terrorism financing posted on customer service channels or websites. Most of the information about ESG commitments was found in their annual reports. Therefore, public ESG commitments lacked stability and were unevenly disclosed, making it more difficult for customers, investors, and other stakeholders to access. Some banks made statements about ESG criteria in their 2018 annual reports, however, that content was missing in the 2021 annual reports.

In addition, based on the analysis of the 11 commercial banks, the **"INITIAL PROGRESS TOWARDS SUSTAINABILITY: ENVIRONMENTAL - SOCIAL - GOVERNANCE COMMITMENTS IN THE BANKING SECTOR** - Case studies of 11 Vietnamese Commercial Banks 2022" report provides recommendations to the State Bank of Vietnam and commercial banks to promote their ESG commitments in accordance with international standards while approaching the regional level.

Commercial banks

1. Refer to and select an ESG assessment methodology (FFG is one possible reference methodology) to enable commercial banks to:

   (i) (i)Review the status of their ESG policies, including their internal operating policies, investment/lending policies, and those applied to corporate customers who take out credit or receive investment from them;

   (ii) Review their level of information disclosure and ESG commitments;

   (iii) Develop plans for policy revision, updating, and formulation in line with each bank's strategic goals, and;

   (iv) Apply policies in their operations and monitor ESG adoption across their organisations.

2. Make ESG information disclosures regarding themes that commercial banks have policies on and have been implementing. Such policies should align or closely align with international and regional standards. Commercial banks can consolidate publicly disclosed information about ESG from sustainability reports and post it on their website in a systematic and transparent manner to regularly keep their stakeholders informed. They can disclose their policy information in a brief format or provide some key information on their policies.

3. Commercial banks can play a role in creating sustainable development through their investments and loans with policies in which their customers are asked or encouraged to declare and implement ESG commitments. They play a leading role in shifting investments towards an economy that consumes less CO_2 as well as encouraging companies to produce less CO_2 emissions. As a result, they should promote the disclosure of their ESG policies to businesses that receive credit and investments from them.

4. In the long run, they should select and prioritise a number of ESG themes to develop strategies and plans with specific focuses including measurable objectives and targets and disclose information about the process, progress, and achieved results in each period. This does not imply that they do not need to pay attention to other themes. On the contrary, setting out priorities and roadmaps will make the process of developing ESG commitments feasible and align with their development path.

5. Commercial banks can only improve ESG adoption when they have clear strategies and effective management systems and adopt governance towards sustainability while taking into account the E and S factors. Thus, they need to have strategic directions that integrate ESG in their policies and actual implementation towards the application of international standards. To make this possible, they need to have a dedicated ESG department/personnel in charge of studying and consulting the development of an ESG policy roadmap in line with their strategy. Also, mechanisms are required to monitor and measure the realisation of ESG commitments and policies. As ESG cuts across all activities, products, and services of banks, the dedicated unit/personnel should play the role of information coordination and consolidation, thus, coordination and collaboration between departments is particularly important.

6. Since the themes of the E and S pillars are cross-cutting and require knowledge of various fields of expertise, the openness of commercial banks to policy recommendations, information, and evidence provided by the community, social groups, and science and technology organisations will ensure the practicability of ESG integration policies, thereby helping them identify ESG risks more clearly. Therefore, exchange activities should be strengthened between banks at the national and regional levels on the improvement of ESG commitments and practices toward sustainability.

For the State Bank of Vietnam and relevant ministries and departments

Commercial banks that implement and conform to ESG policies require the completion of a legal framework as well as supporting policies to encourage their transition from traditional to responsible business models. This requires strong coordination between the State Bank of Vietnam and competent authorities. Based on the policy analysis and requirements from the practical context, some recommendations drawn from the assessment include the need to:

1. Develop a common set of ESG standards for commercial banks to adopt in Vietnam in alignment with international standards and conventions. It is recommended that voluntary

compliance be applied to commercial banks in the first two years, followed by mandatory compliance or conditions on bank operations in subsequent years. At the same time, specific sanctions should be introduced to request that commercial banks adopt policies that meet international good practice standards. Meanwhile, criteria for green classification (taxonomy) in the field of credit and investment should be quickly developed and announced.

2. Develop a set of tools to evaluate and rank the level of ESG commitments of commercial banks with possible reference to the FFG tool based on the common standards released by the State Bank of Vietnam. It is recommended that the evaluation process embraces transparent consultation with social organisations, research institutes, experts, and social activists.

3. The State Bank can annually rank and give awards to the 10 best commercial banks in terms of ESG responsibility fulfillment, in addition to rankings based on their credit growth and asset scale. This will help shape and enable commercial banks to increasingly integrate ESG in their banking operations, enhance their social and community responsibilities, and improve their reputation and brand.

4. Suitably incorporate concrete ESG factors and criteria into the banking industry's policies, including decisions, directives, and regulations related to investment, credit, and other financial services as well as the commercial bank governance system.

5. Since Environmental and Social factors are cross-cutting and require knowledge of various fields, the openness of the State Bank of Vietnam and line ministries and departments, together with contributions from the community, social groups, and science and technology organisations will ensure the practicability of developed policies in which E and S criteria are successfully integrated.

6. Ensure close coordination between relevant ministries and departments as well as cooperation with non-state initiatives, research institutes, and universities to promote ESG commitments among commercial banks in Vietnam as these ESG criteria involve multiple sectors and industries.

Read full report *here.*

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Fair Finance Vietnam (FFV) is the creation of the collective efforts of several organisations, including the Center for Water Conservation and Development (WARECOD), Business Administration Faculty - Hanoi University of Industry (HaUI), Communication Initiative Todocabi and Oxfam in Vietnam. They are currently active in the field of environmental protection, education, communication and community participation for sustainable development.

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https://vietnam.fairfinanceasia.org/