

FairFinance
Vietnam

Policy Brief

TOWARDS SUSTAINABLE FINANCE

**ENVIRONMENTAL - SOCIAL - GOVERNANCE (ESG)
COMMITMENTS IN THE BANKING INDUSTRY:
CASE STUDIES OF TEN VIETNAMESE
COMMERCIAL BANKS**



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Once the financial institutions in Vietnam perform their environment and social responsibilities, they will manage well their risks in credit business. Hence it ensures the effective investment, mitigates negative impacts on environment, society and promotes the implementation of the Sustainable Development Goals (SDGs). In order to enhance environmental and social responsibilities in banking industry, the State bank of Vietnam should develop the policies and mechanism embedding Environmental - Social - Governance (ESG) criteria in alignment with international conventions and standards. Commercial banks in Vietnam are in need of disclosing, developing and practising their ESG commitments.

Introduction

Through their financial services, credit, investment and governance, banks and other financial institutions make great impacts not only on economy but also on the prosperity of communities and environment. The integration of Environmental, Social and Governance (ESG) criteria in the banking industry is a rising global trend actively contributes towards achieving the Sustainable Development Goals (SDGs), and reaching the environmental commitments in the Paris Agreement (COP 21).

Many global initiatives are currently in place to ensure that companies, banks, and other financial institutions fulfil their social and environmental responsibilities. Also do an increasing number of independent agencies now rank and rate ESG commitments and performance by companies and banks. Nevertheless, this kind of scoring and ranking has been not comprehensively and broadly applied. FFV relies on the Fair Finance Guidelines International (FFGI) Methodology to analyse the alignment of the publicly disclosed policies of ten Vietnamese commercial banks with ESG criteria.

This policy brief summarises 10 Vietnamese commercial banks' scores on their ESG policy commitments. FFV provides recommendations to these banks and the State bank of Vietnam to promote the performance of such commitments to align with international standards. This also helps commercial banks in Vietnam fulfil their environmental and social responsibilities, enhance their position in ASEAN and global markets, and attract responsible investors globally.

Methodology

Profundo and FFI jointly developed the Fair Finance Guide International (FFGI) Methodology to analyse and assess the policies of commercial banks and other financial institutions in countries like India, Brazil, Japan, Indonesia and Thailand.

The policy assessment in Vietnam was from the end of 2018 until October 2020, including training and capacity building on FFGI Methodology, selecting commercial banks and assessment themes, introducing an assessment approach to specified banks, contacting banks for feedback, and quality control. Ten Vietnamese commercial banks were selected based on the presence of one or both of the following criteria: (i) The commercial bank has prior or existing investments in or loans to coal-fired power projects, and/or (ii) The commercial bank is among Vietnam's commercial banks with the largest charter capital based on data published by SBV as of June 30, 2019. 12 themes were selected and grouped by ESG pillars. The assessment elements have been developed based on international conventions, standards, and initiatives. The overall theme score is on a scale from zero (0) to ten (10).

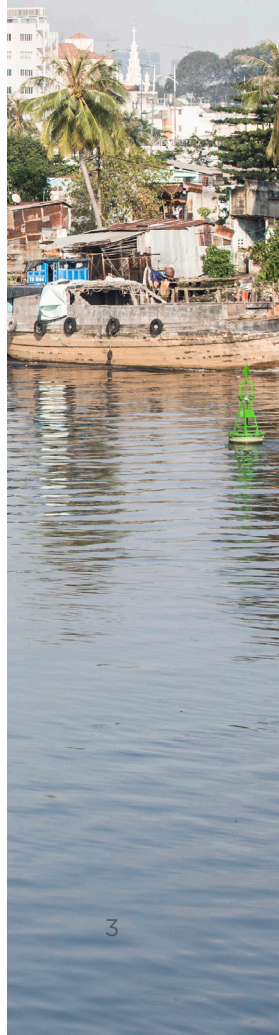
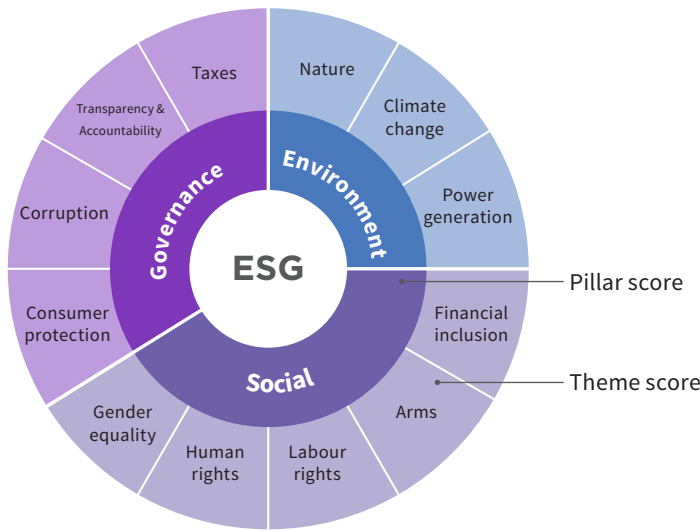


Figure 1. ESG Themes under the Assessment in Vietnam



Scores on ESG Commitments of Ten Commercial Banks in Vietnam

The ten assessed commercial banks have as yet taken only initial steps concerning ESG policy commitments.

Figure 2 illustrates the average ESG score of each commercial bank, of ten commercial banks, VPBank is the top performer; however, the average score stands at only 2.52 out of 10. Five banks score below 1 out of 10. In other words, in the “race to the top”, these ten banks have just entered the race.

Figure 2. The average ESG score of each commercial bank

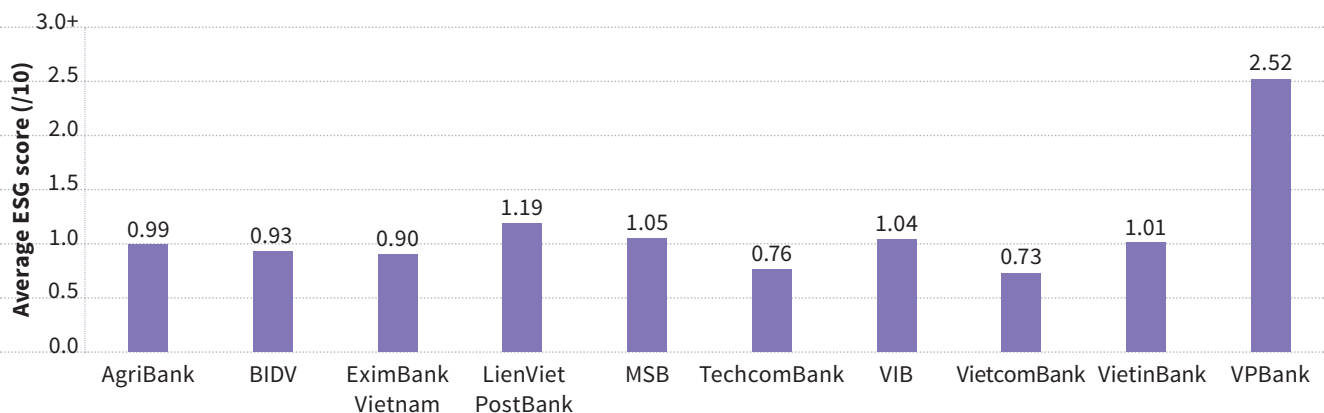
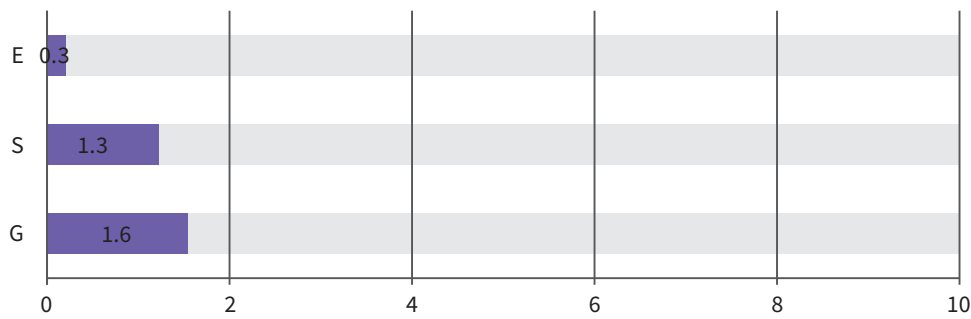


Figure 3 presents ESG policy commitments of all the ten assessed commercial banks. The Environmental (E), Social (S), and Governance (S) scores average at only 0.3/10, 1.3/10 and 1.6/10, respectively. The E score is far below that for S and G.

Figure 3. ESG average scores of 10 assessed commercial banks



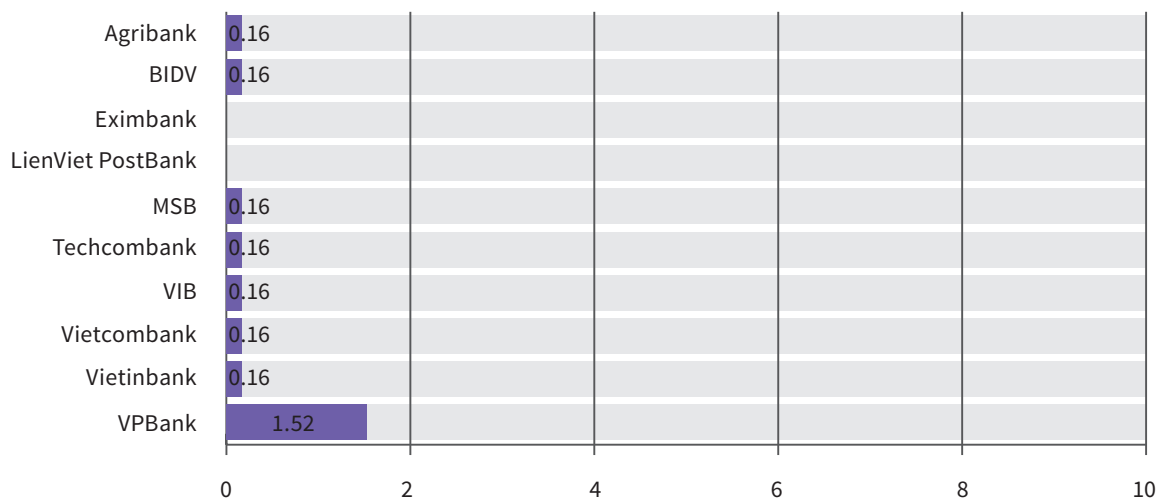
Environmental Policy Commitments (E)

Policy commitments of all ten assessed banks on the theme of Climate Change and Nature are somewhat limited.

None of the assessed commercial banks has made a public policy commitment to stop lending to power generation from fossil fuels, including coal-fired power projects, or to increase its finance for renewable energy generation. Most of the assessed banks' publicly disclosed policies regarding their financed companies do not demonstrate any commitment to Nature and Climate Change.

All ten banks' average score is relatively low, at only 0.3/10 on Power Generation, 0.1/10 on Climate Change and 0.1/10 on Nature.

Figure 4. Environmental Policy Commitments of each assessed commercial bank

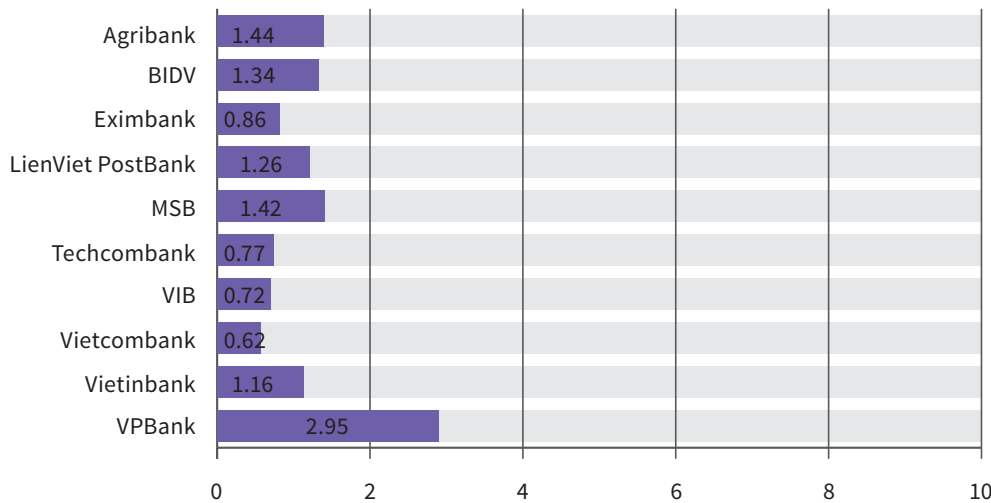


Social Policy Commitments (S)

The social policy commitments of the ten commercial banks are vague.

In particular, these banks have not made any concrete policy to require or encourage their corporate customers to fulfil Social criteria. Most banks have not published commitments to Labour Rights (0.2/10), Human rights (0/10), No investment in Arms (0.6/10).

Figure 5. Social Policy Commitments of each assessed commercial bank



Only a few banks have explicit public policy commitments to zero tolerance for gender-based discrimination or to pay equity. None of the banks has published any policy to require or encourage corporate customers to fulfil their obligations on gender equality. Gender Equality score averages at 0.5/10.

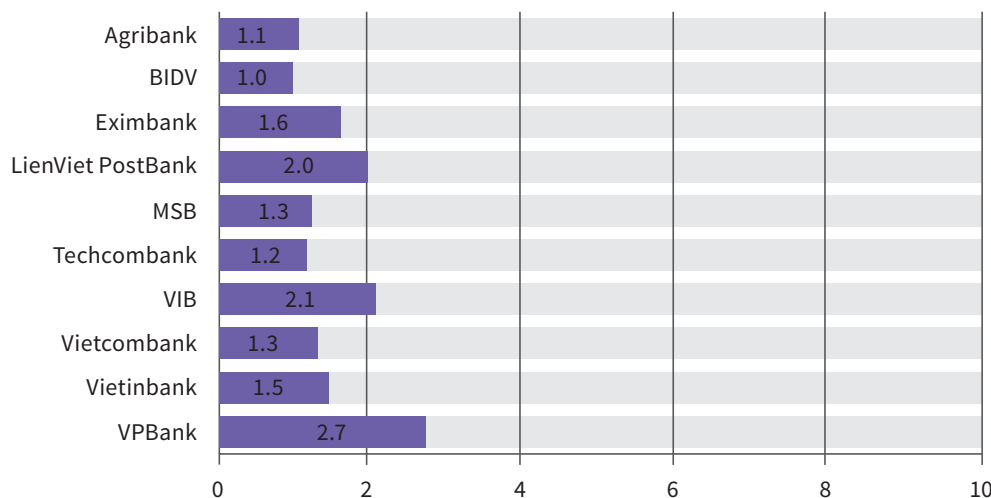
What is most worth noting is policy commitments to financial inclusion, with the scores for ten banks averaging at 5/10. Financial inclusion has been a policy focus, as evident in the Prime Minister’s Decision 149/QD-TTg, dated 22/1/2020 on ratification of the National Financial Inclusion Strategy to 2025, with a vision to 2030; and the State Bank of Vietnam’s National Financial Inclusion Strategy.

Governance Policy Commitments (G)

Almost all banks have policies regarding anti-corruption, consumer protection, tax, and transparency and accountability.

Among all Governance themes, policy commitments to transparency and accountability are still limited (0.5/10), while consumer protection scores the highest (2.4/10). In general, these ten assessed Vietnamese commercial banks score higher for Governance than Environmental and Social. However, it is still lower than that of Thai and Indonesian banks.

Figure 6. Governance Policy Commitments of each assessed commercial bank



ESG in the Vietnamese Banking System

In Vietnam, multiple decisions, directives of the government, the State Bank of Vietnam (SBV) and related agencies reflect ESG criteria to promote green growth and sustainable development in the banking industry. At the national level, these policies issued by the government, the SBV and other ministries refer to Environmental criteria (E) extensively. Simultaneously, references to Social (S) and Governance (G) are fragmented and unclear. Nor are they mandatory but only guideline.

Recommendations

To the State Bank of Vietnam

1. Develop common ESG standards for commercial banks in Vietnam in alignment with international standards and conventions. Voluntary compliance for the first two years, followed by mandatory compliance after that, is recommended. In addition, concrete sanctions might be imposed for compliance.
2. Develop the assessment and ranking tool on ESG based on the aforementioned common ESG standards, with possible reference to the FFGI methodology. The assessment process should be transparent, with engagement and consultation with civil society organisations, academia, institutes, and other relevant stakeholders. On an annual basis, SBV publishes a list of the top 10 leading ESG banks in addition to the traditional rankings in terms of credit growth or assets. It helps shape commercial banks' business operations towards ESG incorporation, strengthen their environmental and social responsibilities, and enhance brand positioning.
3. Issue regulations requiring commercial banks to make public disclosure on ESG commitments and implementation.
4. Incorporate concrete ESG criteria appropriately in the banking industry's policy, including decisions, directives, and regulations regarding investments, credit, and other financial services, as well as commercial banks' governance.
5. Collaborate with relevant ministries and agencies, private initiatives, academia and institutes to promote ESG commitments among commercial banks in Vietnam.

To commercial banks of Vietnam

6. Disclose and update ESG-related policies and information concerning the banks' internal operations and the companies receiving investment or credit that have not been published yet in a comprehensive, concrete, accessible and verifiable manner.
7. Develop and update ESG policies in alignment with international standards and conventions. The commercial banks should prioritise one or several ESG themes based on their strategies, even where the 12 assessed ESG themes are all prominent. For example, those targeting the energy sector should prioritise such themes as climate change, nature and power generation. Those planning to invest overseas should prioritise themes such as transparency and accountability, anti-corruption, and labour rights. However, this does not imply that commercial banks should ignore other themes. Appropriate prioritisation and a time-bound framework help the banks incorporate and develop ESG criteria in a more feasible way in alignment with their overall development.

Fair Finance Vietnam (FFV) is the creation of the collective efforts of several civil society organisations, including the Center for Water Conservation and Development (WARECOD), the Center for Education and Empowerment of Women (CEPEW), the Center for Media in Educating Community (MEC), and Oxfam in Vietnam. They are currently active in the field of environmental protection and community development for sustainable development.

Full report is available [here](#).



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