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PROMOTING ESG PRACTICES AT STATE - OWNED COMMERCIAL BANKS IN VIETNAM

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ABSTRACT

ESG (Environmental, Social, Governance) is a set of standards for assessing environmental, social and corporate governance factors, which are important in building a sustainable financial foundation. In the banking industry, implementing ESG is not only a trend but also an essential requirement for sustainable development, helping banks minimize risks and costs in the long term, improve operational efficiency and build reputation. The study presents the practical implementation of ESG. in the operations of state-owned commercial banks holding 50% of shares, including Vietinbank, Vietcombank and BIDV. Initially, banks have closely followed ESG standards according to international standards and legal regulations to build a sustainable development framework and invest resources for ESG practices at banks. These banks have made significant progress in ESG practices, including strengthening green credit policies and being more transparent in disclosing environmental and social information, implementing many preferential credit programs for many customer groups; focusing on community support activities. However, these banks still face challenges in fully integrating ESG factors into their business operations. Based on the analysis of the above situation, the article proposes two groups of solutions to promote ESG practices in commercial banks: (i) Group of solutions for state banks; (ii) Group of solutions for state-owned commercial banks.

KEYWORDS: promote, practice, ESG, state-owned commercial banks, Vietnam

1. INTRODUCTION

In the context of globalization and increasingly deep economic integration, businesses and financial institutions are not only under pressure of the market and stakeholders on economic performance but also have to pay attention to non-financial factors such as environmental, social, and governance (ESG). These factors are increasingly popular because environmental, social, and governance risks affect the financial performance of businesses (Smith, J., & Brown, R., 2021).

When done right, ESG can help businesses navigate current challenges and seize future opportunities.

However, with its broad scope, ESG can mean different things to different organizations. ESG has become a global trend, especially in the banking industry, which has a major impact on the economic and social development of countries. The banking industry plays a key role in the global economy, not only providing financial services but also directly and indirectly affecting many other sectors. To fully realize the potential that ESG brings to commercial banks, it is necessary to link this concept to the bank's strategy and the business characteristics of the banking industry.

In the fields of finance - banking and investment, applying ESG criteria is becoming a familiar trend and gradually becoming "norms" in the world and in the region (Fair Finance Vietnam, 2022). Not only is it a requirement from international regulators and investors, ESG practices are also an important strategy to help banks enhance their reputation, manage risks and enhance long-term sustainability. Thereby, contributing to creating long-term value for stakeholders including customers, employees, shareholders, and the community. Banks need to pay attention to environmental, social and governance factors in all their activities to ensure sustainable development and contribute to the overall development of society. This is one of the ways for commercial banks to contribute to reducing negative impacts on the environment, addressing poverty and inequality and promoting a sustainable economy, thereby contributing to the United Nations' sustainable development goals (SDGs) (Fair Finance Vietnam, 2022).

The Vietnamese banking industry plays an important role in leading the economy towards sustainable development through the credit risk assessment process and providing capital for green projects. ESG not only helps ensure the safety and soundness of credit institutions against environmental risks but also promotes the development of the national green growth strategy. Commercial banks in Vietnam are increasingly interested in these non-financial criteria in the risk assessment process when making investment decisions as well as demonstrating responsible business goals for sustainable development. This research article promotes ESG practices at joint stock commercial banks with over 50% state capital in Vietnam, including: Vietcombank, Vietinbank, BIDV. Basically, banks have made commitments and roadmaps for ESG practice, but are still in the early stages of ESG practice. Despite the progress, ESG adoption in Vietnamese banks still faces many challenges such as an inadequate legal framework, limited awareness of ESG, and high initial costs. This requires efforts from the Government in building a legal corridor and from credit institutions in implementing and enforcing ESG.

The objectives of the study are:
- Analyze the current status of ESG practice and propose solutions to promote ESG practice at state-owned commercial banks in Vietnam.
- Identify achievements, limitations and causes in ESG practice at state-owned commercial banks in

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Vietnam.
- Propose specific solutions to promote ESG practices at state-owned commercial banks in Vietnam.

This study hopes to provide important findings and practical recommendations, contributing to promoting ESG practices at state-owned commercial banks, thereby supporting the sustainable development of the banking industry in particular and the Vietnamese economy in general.

2. Theoretical basis

2.1. Concept, characteristics, and content of ESG

ESG is a standard set by the Global Compact in 2004, which evaluates corporate performance based on three main aspects: environment, society and corporate governance. The term ESG was formed and expanded on the term Corporate Social Responsibility (CSR) (Cornett, MM, et al., 2016). The fundamental difference between the two terms is that ESG refers to three main aspects (environment, society and governance), while CSR only refers to a part of ESG (Fillan et al., 2021). Therefore, ESG practices are now becoming a trend in the world, helping to orient the vision and business strategy of enterprises; it is one of the measures of sustainable development of enterprises. The benefits of good ESG implementation include reducing costs and risks in the long term through the deployment of new technologies and improving operational efficiency, developing new products, expanding markets to meet new customer needs, improving operational efficiency and corporate reputation. Approaching ESG implementation is a new and topical issue, both an opportunity and a challenge, requiring caution but also urgency and timeliness (Huu Manh, 2023).

Currently, the ESG standards have been increasingly improved and widely applied around the world, especially in the operations of commercial banks (Gillan et .al, 2021). ESG is used by investors, companies and organizations to assess the performance of businesses on environmental, social and governance factors. The standards aim to ensure that business activities do not focus solely on profits but also consider long-term impacts on the environment and society. These standards include:

- Environment (E - Environmental): Assess the business's impact on the environment, including resource management, waste treatment, carbon emissions, and other environmental protection measures. Businesses need to focus on minimizing the negative impact of business activities on the environment (Thompson, A., & Green, L., 2020).
- Social (S - Social): Assesses the relationship of the business with stakeholders such as employees, customers, and the community in which the business operates. This includes working conditions, employee benefits, occupational safety, community responsibility, and human rights. (Williams, M., & Lee, K., 2019).

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- Corporate governance (G): Assesses a company's governance structure, transparency, accountability, and business ethics. This includes leadership, shareholder rights, transparency in financial reporting, and openness in management. Good governance is essential to ensure that a company operates sustainably and efficiently (Johnson, P., & Adams, R., 2018).

With the content, meaning and components of each standard above, the ESG standards not only comprehensively assess the operations of the enterprise but also reflect the impacts of the enterprise on stakeholders and the surrounding environment. The environment includes resource management, emissions and the use of renewable energy. The social aspect is related to labor relations, health and safety, and responsibility to the community. Finally, governance assesses how the enterprise is led, managed and operated in a transparent and responsible manner (Kolk, A., & Pinkse, J., 2005). Whelan et al. (2021) pointed out that ESG implementation can improve financial performance, help businesses prevent risks and protect against social or economic crises. In addition, ESG also helps businesses build a good image, build trust from stakeholders and contribute to global sustainable development goals (Smith, J., & Brown, R., 2021). The three aspects of ESG are closely linked and influence each other. Environmental protection measures can lead to improvements in social aspects, such as creating a healthier living environment for the surrounding community, while enhancing transparency and accountability of corporate governance. This means that improvements in one aspect can lead to improvements in other aspects. Businesses cannot ignore any of the three aspects but must approach them in an integrated and synchronous manner (Freeman, R., & Velamuri, SR, 2006). Although it is a general set of standards, ESG can be applied to many different types of businesses and industries. The flexibility of ESG lies in the fact that it can be adjusted to suit the specific characteristics and needs of each industry.

2.2. Concept and characteristics of state commercial banks

State-owned commercial banks are a type of commercial bank in which the state owns most or all of the charter capital, and has the right to manage and operate the bank's operations. In terms of ownership ratio, the banking system under the State Bank of Vietnam currently includes: (i) State-owned banks (commercial banks opened with 100% capital from the state budget), (ii) Joint stock commercial banks with over 50% state capital (including Vietcombank - Joint Stock Commercial Bank for Foreign Trade of Vietnam, Vietinbank - Joint Stock Commercial Bank for Industry and Trade of Vietnam, BIDV - Joint Stock Commercial Bank for Investment and Development of Vietnam) and (iii) Social policy banks (including Vietnam Social Policy Bank and Vietnam Development Bank). Within the scope of the article, the research team focuses on the group of 3 joint stock commercial banks with over 50% state capital. The characteristics of this group of banks are as follows:

- Regarding tasks and functions: According to Hao., VD, (2020), state-owned commercial banks are often tasked with implementing the government's financial policies and supporting economic development through credit activities and banking services. Unlike other commercial banks, state-owned commercial banks not only aim for profit but also must ensure political and social goals set by the state.

- Regarding State ownership and control: Joint stock commercial banks own more than 50% of state capital. Thereby controlling business strategies and important decisions. According to Tan, NV, (2019), this helps the state to use banks as a tool to implement macroeconomic policies.

- Regarding operational efficiency: Due to state sponsorship, state-owned commercial banks are often more stable than private banks. They are less affected by market fluctuations and have access to capital from the state budget when necessary (Tuan., N.M, 2018). However, in addition to seeking profits, state-owned commercial banks also have to fulfill social responsibilities, such as providing banking services to disadvantaged areas or supporting small and medium-sized enterprises (Tu., P.A, 2020).

2.3. The role of ESG practices in commercial banks

(1) The role of meeting the general requirements of green growth

At COP26, Vietnam demonstrated its strong commitment to sustainable development, including the goal of achieving net zero carbon emissions by 2050 (Manh Hung, 2022). At the same time, the JETP Agreement between the Vietnamese government and international partners in December 2022, aiming to provide financial support of 15.5 billion USD over the next three years, is a concrete demonstration of this determination. Green growth and sustainable economic development have become the focus of the Vietnamese government's development policies and programs. The national strategy on green growth is issued for each specific period and the most recent is Decision No. 1658/QD-TTg13 issued by the Prime Minister on October 1, 2021, approving the national strategy on green growth for the period 2021-2030 with a vision to 2050. With the goal of *"Green growth contributes to promoting economic restructuring associated with growth model innovation, aiming to achieve economic prosperity, environmental sustainability and social equity, towards a green economy, neutralizing carbon and contributing to the goal of limiting global temperature rise"*. This strategy is specified into 3 goals: "reducing greenhouse gas emissions intensity per GDP", "Greening economic sectors", "Greening lifestyles and promoting sustainable consumption" and "Greening the transition process based on the principles of equality, inclusion, and resilience".

Vietnam is one of the country's most likely to be affected by climate change with an estimated loss of 523 billion USD, equivalent to 14.5% of GDP by 2050. Vietnamese enterprises quickly finding ways to develop and apply ESG standards will gain great benefits and market opportunities because from now until 2030, Vietnam can attract capital worth 753 billion USD to invest in environmental and climate issues. ESG implementation is an inevitable trend in the international market to ensure the safety and soundness of credit institutions against risks related to the environment and climate change; increase the contribution of credit institutions to the green growth strategy of each country (Huu Manh, 2023).

In this context, the State Bank of Vietnam has been reviewing, adjusting, and perfecting banking and credit institutions to align with green growth goals. This is the basis for commercial banks to adjust their operations in a greener direction, closely linked to ESG criteria, thereby contributing to the country's sustainable development goals.

(2) Role in meeting the specific requirements of commercial banks

Although the products and services of commercial banks do not directly have a large impact on the environment, their financing activities for manufacturing enterprises can have an indirect impact through providing capital to finance green projects (granting green credit), issuing green bonds (Oanh., D.TK, & Oanh., CTK, 2024; Ahmed., SU, et al (2018). Enterprises wishing to export goods to foreign markets such as the US and Europe must meet green standards, ensure workers, gender balance, etc. (Vietstock, 2024). Within the bank 's operations, the bank implements projects and activities for the environment and the community, increasing management efficiency and environmental protection awareness. That contributes to minimizing negative impacts on the environment and creating sustainable values (Oanh., D.TK, & Oanh., CTK, 2024). ESG are necessary and important standards for commercial banks in the process of moving towards sustainable development. Integrating ESG criteria into commercial banks' operations not only helps them avoid risks but also improve operational efficiency (Wanless, 1995). Specifically:

- *Improve operational efficiency:* The Global Alliance for Banking Values report found that banks that adopt ESG criteria have better performance (Global Alliance for Banking on Value, 2019). In the US, ESG has boosted bank performance, especially in terms of social responsibility (Cornett., MM, et al., 2016). European banks, through the application of ESG, have increased their competitive advantage and earnings in the context of climate change and pandemics (Bischof et al., 2021).

- *Risk mitigation:* In the past, traditional risks were often identified and controlled by commercial banks in terms of financial risks, credit risks, and governance risks. However, currently, adverse impacts of the environment, climate change, social issues, and governance issues on business operations are also considered risks that need to be controlled and implemented as a responsible business standard (Fair Finance Vietnam, 2022) . Practice in Bangladesh has proven that ESG standards help mitigate credit crises and improve lending efficiency (Weber et al., 2015).

- *Enhance reputation and trust with customers: From* the effectiveness of ESG practices to improve business efficiency and minimize risks. Danisman., *G.O*, (2022) demonstrate that ESG can promote the increase of bank stock prices in developed countries in Europe, this effect is strong during the Covid-19 outbreak.

- *Responding to new investor demands and trends:* More and more financial institutions and investors are interested in and considering these non-financial criteria in the risk assessment process when making investment decisions as well as demonstrating responsible business goals for sustainable development. According to a survey by PWC, (2022), 79% of investors participating in the survey said that ESG risks are one of the important factors when considering investment decisions and 49% of investors surveyed are willing to divest from companies that do not take appropriate actions on ESG issues (James Chalmers, et. al., (2021). Therefore, banks that practice ESG well will find it easier to attract investment capital, thereby improving competitiveness and sustainable development.

In contrast to the above trends, there are opinions that the application of ESG can increase costs and reduce profits of commercial banks in the short term (*Galant, A., & Cadez, S. (2017)*; Yuen et al., 2022). However, in the long term, the benefits of ESG are undeniable. ESG not only helps commercial banks cope with current challenges but also creates new opportunities in the future (Azmi et al., 2021). Therefore, commercial banks need a roadmap for implementing ESG in the long term to be effective. In the process of implementing the ESG standards, commercial banks need to develop in the direction of improving governance capacity, applying standards to minimize environmental pollution and enhancing social responsibility (Yuen., et al., 2022).

2.4. ESG practice content in commercial banks

considerations and integration in the financial and banking sector have been clearly demonstrated and gradually become universal with the introduction of the United Nations Principles for Responsible Investment (UN PRI) in 2006 and the United Nations Principles for Responsible Banking (UN PRB) in 2019. The UN PRB provides a framework for the banking industry to integrate sustainability at the strategic, portfolio and transaction levels, and across business lines. In June 2022, the Basel Committee on Banking Supervision announced 18 principles for effectively managing and monitoring climate-related financial risks and focus on internal governance, internal control, risk assessment, management and reporting (BIS, 2022, Basel Committee on Banking Supervision, 2022).

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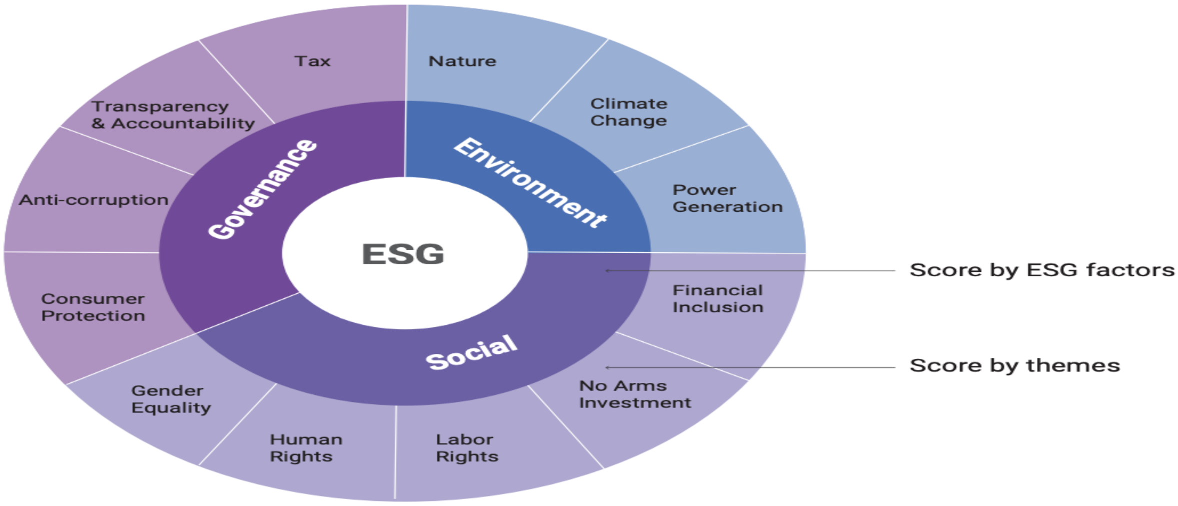

Figure 1. ESG themes under FFV analysis

Source: Fair Finance Vietnam, 2022

The bank's social standards focus on social responsibility, including improving financial inclusion, increasing responsibility to employees, partners and communities (Siueia et al, 2019). The ESG practice analysis in commercial banking includes 12 topics, distributed into the following corresponding groups:

Table 1. Summary of criteria for assessing ESG practices at commercial banks

Group	Content	Specific criteria for assessment
E	Nature	- Level of investment in environmental protection and nature restoration projects - Policy to minimize impact on ecosystem
	Climate Change	- Carbon emission reduction level - Funding policy for renewable energy projects - Climate change response plan
	Power Generation	- Invest in clean energy - Policy to reduce dependence on fossil fuels
S	Gender Equality,	- Proportion of women in management positions - Policy on income equality - Anti-sexual harassment policy
	Labour Rights,	- Committed to ensuring labor rights and safety - Working hours and salary policy - Anti-discrimination policy

	Human Rights	- Commitment not to violate human rights - Policy on protecting the rights of customers and employees
	Financial Inclusion	- Financial support policy for disadvantaged groups - Financial service coverage to remote areas
	No Arms Investment	- Pledge not to finance or invest in weapons manufacturing businesses
G	Tax	- Commitment to combat tax avoidance and tax evasion
	Transparency and Accountability	- Transparent financial reporting mechanism - Policy of accountability to stakeholders
	Anti-Corruption,	- Anti-bribery and corruption policy - Mechanism for detecting and handling violations
	Consumer Protection.	- Customer rights protection policy - Level of handling customer complaints and disputes

Source: Fair Finance Vietnam, 2022

Nowadays, these ESG factors are not only a trend but have become a mandatory requirement for businesses that want to survive and develop sustainably in the modern market. Good implementation of ESG factors not only helps businesses minimize risks but also creates long-term value for both businesses and society (Kolk, A., & Pinkse, J., 2005).

3. RESEARCH METHODS

3.1. Data collection method

The authors used the document research method to systematize the theoretical basis of ESG and the characteristics of state-owned commercial banks; the role of ESG practices in state-owned commercial banks and the content of ESG practices in commercial banks. The article reviews theories and research on ESG, on trends in meeting ESG standards in the economy and in financial-banking activities. Research related to this topic is selected by the authors from databases such as Scopus, the online library of Fair Finance Vietnam, specialized journals such as Banking Journal, Development Economics Journal, etc.

The main contents are analyzed by topic and analyzed through synthesis and narrative methods. To study the current status of ESG practices at state-owned commercial banks, the research team based on the content of the ESG criteria set to focus on reviewing the following contents: (i) Current status of ESG practices in 3 state-owned commercial banks Vietinbank, Vietcombank, BIDV; (ii) Draw out the achieved results, existing limitations and causes. The data source to assess the current status is collected from domestic and foreign books and scientific journals. The data collected for analysis is the data published by the bank itself on its website (bank's website :

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https://www.vietcombank.com.vn/vi-VN , https://www.vietinbank.vn/phat-trien-ben-vung , https://bidv.com.vn/).

Public bank data includes bank policies on internal bank operations; bank lending and investments; policies for corporate customers who receive loans or investments from the bank. This information is available at:

- Annual Report
- Sustainability Report
- Climate Finance Report (TCFD); Green Credit Framework; Social Finance Report
- Bank investment and lending policies; Exclusion list
- Bank charter
- The Bank’s own internal operating policies (which are made public), codes of conduct, culture handbooks, notices and press releases of the Bank are widely publicized, etc.
- Newsletter
- Terms, conditions, product and service information, and introductions are posted on the Bank’s website.
- Other official information is posted on the Bank’s website.

From the collected data, the authors synthesized and selected information suitable for the research content and used a combination of descriptive statistics to clarify the current situation.

3.2. Data processing method

The secondary data of the article is provided in the Fair Finance Vietnam Report , specialized magazines (Finance Magazine, Banking Magazine, Development Economics Magazine); State Bank; Annual reports and financial reports of 3 joint stock commercial banks with 50% state ownership. The collected data is compiled, calculated, and reflected in tables. From there, the research team evaluates and analyzes the data to draw out the achieved results and remaining limitations.

4. ESG practice results at state-owned commercial banks

4.1. Overview of the operations of state commercial banks

In Vietnam, according to Clause 3, Article 4 of the Law on Credit Institutions 2010, a commercial bank is a type of bank that is allowed to carry out all banking activities and other business activities as prescribed with the aim of making profit. Commercial banks are organized in 02 forms according to Clause 1 and Clause 2, Article 6 of the Law on Credit Institutions 2010, including:

- Domestic commercial banks are established and organized in the form of joint stock companies.
- State-owned commercial banks are established and organized in the form of single-member limited liability companies with 100% charter capital owned by the State.

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- State-owned commercial banks own 50% of capital

Table 2. Scale of state-owned commercial banks with 50% capital ownership in Vietnam in 2023

Unit: Billion VND

TT	Abbreviations	Full name	Year of establish ment	Total assets	Equity
1	BIDV	Joint Stock Commercial Bank for Investment and Development of Vietnam	1957	2,300,868	122.86 7
2	Vietcombank	Joint Stock Commercial Bank for Foreign Trade of Vietnam -VCB	1963	1 . 839 ,000	149,508
3	VietinBank	Vietnam Joint Stock Commercial Bank of Industry and Trade	1988	1,860,104	135.97 3

Source: Author compiled from websites and financial reports of banks

The above three banks are among the largest banks in Vietnam based on factors such as history, strength, revenue, scale and growth potential. Table 2 provides information on the scale of 50% state-owned commercial banks in Vietnam in 2023, including total assets and equity. BIDV is the oldest bank, established in 1957, with the largest total assets of VND 2,300,868 billion, but equity is only VND 122,867 billion, lower than Vietcombank and VietinBank. Vietcombank has the highest equity of VND 149,508 billion, although its total assets are only VND 1,839,000 billion. This shows the difference in capital structure and assets between banks, although they are all in the group of large state-owned commercial banks in Vietnam.

In its development process, each bank has its own strengths. VietinBank is known for its ability to finance and invest strongly in large projects (industrial and infrastructure projects) and has a sustainable development strategy in the banking industry. Vietcombank is highly regarded for its reputation in international payments and retail banking services, with a wide network and stable service quality. BIDV is prominent in supporting national economic development through major investment projects and is one of the leading banks in project financing in Vietnam. These three banks all play an important role in Vietnam's banking system, contributing significantly to the country's economic and financial development.

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The size of the apparatus and personnel of the 3 banks are shown in Table 3. Basically, the banks all have policies to ensure income, employee benefits, working conditions and enhance the role of women in the leadership apparatus of officers and employees within the bank.

Table 3. Scale of apparatus and human resources of State-owned commercial banks in 2023

TT	Abbreviations	Staff	Branch	Transaction office
1	BIDV	25,328	190	871
2	Vietcombank	21,884	130	517
3	VietinBank	22,879	155	1000

Source: Compiled from websites of 3 banks

These banks all have policies to ensure income and welfare for employees, improve working conditions, and promote the participation of women in leadership positions. The size of the staff and the number of branches/transaction offices of each bank show their resource allocation and expansion strategy. In particular, focusing on the role of women in leadership not only enhances diversity but also reflects the banks' commitment to ESG standards, especially the social factor.

4.2. Current legal regulations on ESG practices in commercial banks

Current laws in Vietnam have established a relatively comprehensive legal framework to promote ESG practices in commercial banks, including regulations on environmental and social risk management, green credit, internal control, and financial inclusion. These regulations aim to promote sustainable development in the banking sector while ensuring the stability and transparency of the financial system.

(1) Legal framework on environmental and social risk management in credit activities

- Directive No. 03/CT-NHNN dated March 24, 2015: On promoting green credit growth and managing environmental and social risks in credit granting activities.
- Circular No. 17/2022/TT-NHNN dated December 23, 2022: Guidance on implementing environmental risk management in credit granting activities of credit institutions and foreign bank branches.
- Decision No. 882/QD-TTg dated July 22, 2022: National Action Plan on Green Growth for the period 2021-2030, including the task of "Improving the legal framework on environmental and social risk management, climate and natural disaster risks in credit granting activities".
- Law on Environmental Protection No. 72/2020/QH14 dated November 17, 2020: Effective from January 1, 2022, regulating issues related to environmental protection in the operations of organizations, including credit institutions.

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- Decree No. 80/2022/ND-CP dated January 10, 2022: Detailing a number of articles of the Law on Environmental Protection.

(2) Legal framework on green credit growth and green banking

- Decision No. 1658/QD-TTg dated October 1, 2021: National strategy on green growth for the period 2021 - 2030, vision 2050, emphasizing the role of banks in promoting green credit.
- Decision No. 986/QD-TTg dated August 8, 2018: Approving the Development Strategy of Vietnam's Banking Industry to 2025, with a vision to 2030, including green banking goals.
- Decision No. 882/QD-TTg dated July 22, 2022: Approving the National Action Plan on Green Growth for the 2021-2030 period, with the task of perfecting the legal framework for green credit and green banking.

(3) Legal framework on financial risk management and financial market protection

- Law on Anti-Money Laundering No. 14/2022/QH15 dated November 15, 2022: Effective from March 1, 2023, regulating anti-money laundering activities in banks.
- Circular No. 13/2018/TT-NHNN dated May 18, 2018: Regulations on internal control systems of commercial banks and foreign bank branches.
- Decree No. 153/2020/ND-CP dated December 31, 2020: Regulations on offering and trading of individual corporate bonds in the domestic market and offering corporate bonds to the international market.
- Circular No. 96/2020/TT-BTC dated November 16, 2020: Guidance on information disclosure on the stock market, to ensure transparency and accountability of financial institutions.

(4) Legal framework on comprehensive financial strategy

- Decision 149/QD-TTg dated January 22, 2020: Approving the national financial inclusion strategy to 2025, with a vision to 2030.
- Decision No. 1309/QD-NHNN dated July 24, 2020: Promulgating the banking industry's action plan to implement the national financial inclusion strategy to 2025, with a vision to 2030.

In general, the legal framework for implementing ESG in the banking industry in Vietnam is gradually being improved. The above-mentioned Vietnamese banking industry policies address ESG in all 3 elements:

Environmental Factor – E: environmental protection; combating climate change; directing credit flows to finance environmentally friendly projects; promoting green manufacturing, services and consumption; energy efficiency; promoting clean energy and renewable energy.

Social factor S: protect human health and financial inclusion, thereby removing barriers to access, ensuring access to basic banking services for small and medium enterprises, the poor and vulnerable.

Governance Factor - G: perfecting banking and credit institutions, enhancing awareness, capacity and environmental and social responsibility of the banking system; managing environmental and social risks; strengthening anti-money laundering and anti-terrorist financing; fully meeting standards on governance and operational safety of banks to approach international practices.

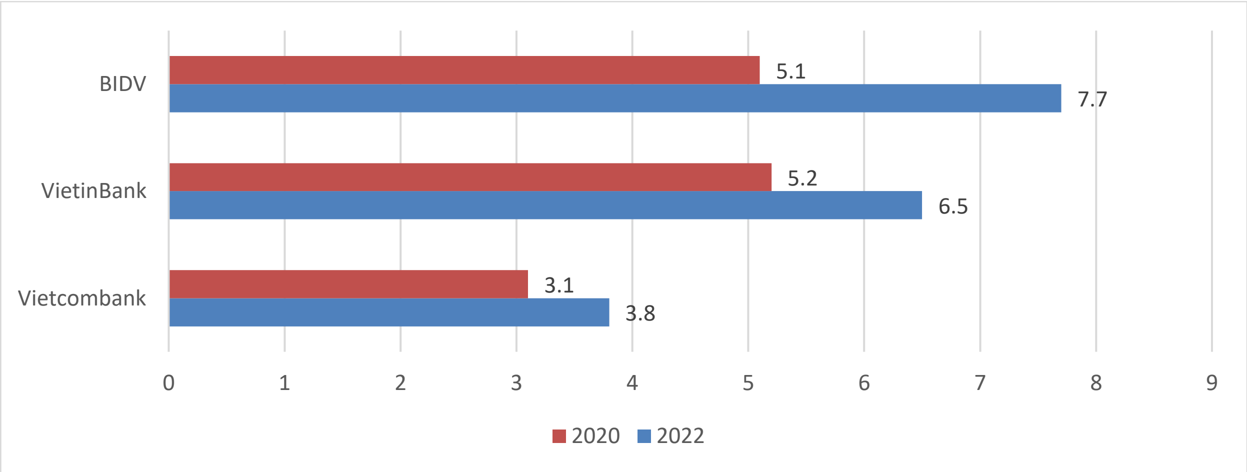
4.3. Current status of ESG practices in Vietnamese state-owned commercial banks

4.3.1. Commitments of Vietnamese State Commercial Banks

Regarding the general policy of commercial banks on ESG commitment, ESG practices, promoting climate finance and sustainable finance are among the core tasks of banks. Over time, banks have gradually integrated ESG factors into the Bank's general development strategy, aiming for steady and sustainable growth and engagement with the community.

- All three state-owned commercial banks have announced policy commitments on financial inclusion and equality. There is an improvement compared to 2020. In Vietnam, one of the goals set out in the National Financial Inclusion Strategy set by the Government is to *"Build a mechanism to protect financial consumers from unfair treatment by financial service providers, require information disclosure by financial service providers, and make transparent the way financial service providers approach and effectively resolve disputes with financial consumers"*.

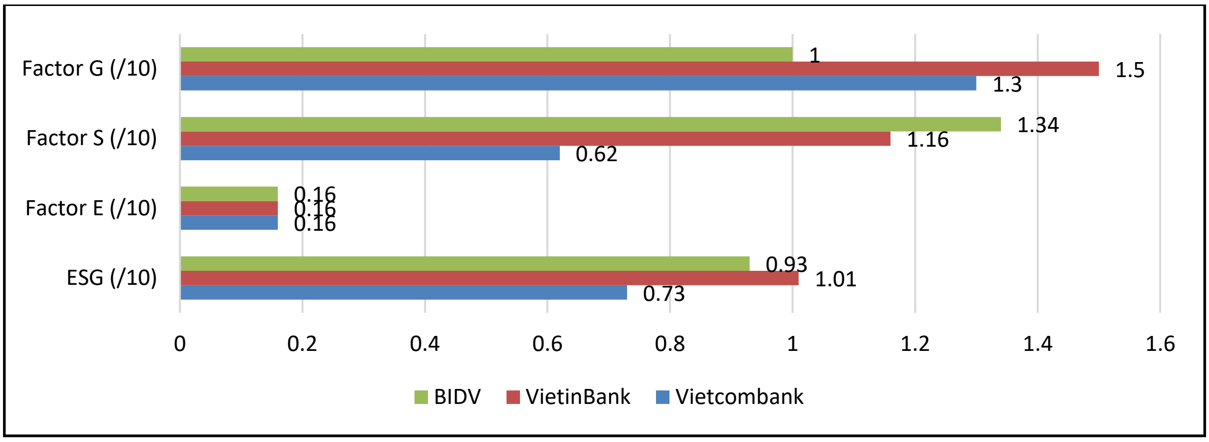
Figure 2. Commitment of State-owned commercial banks on financial inclusion



Source: FFV, 2022

Details of each factor E, S, G show that in 2020, on a scale of 10, the average score of the 3 banks was quite low. Comparing the 3 banks, Vietinbank scored the highest in factor G (1.5 points), BIDV scored the highest in factor S, and the 3 banks all scored the same (0.16 points) in factor E. FFV also calculated scores for each component indicator of each factor. Notably, the average score of the topic of Financial Inclusion (under indicator S) in 2022 reached 5.7/10, an increase compared to 2020 with 4.9/10 points (All 3 State -owned commercial banks announced policies on Financial Inclusion).

Figure 3. Average ESG commitment score of commercial banks in Vietnam



Source FFV, 2022

Although the regulations and policies of the State Bank as mentioned in the previous section have mentioned many factors on Environment - E, the policy commitment score on this factor of all three commercial banks in the scope of the study is low, all only at 0.16 / 10 (Chart 3). To implement commitments on environmental standards, the three topics considered are Climate Change; Electricity Generation Industry and Nature. However, commercial banks have not yet widely publicized or have no internal operating policies setting out goals related to the above three topics. For example, with the topic of climate change, commercial banks lack commitments on: restrictions on lending or investing in coal-fired thermal power projects or coal mining; regulations requiring or encouraging businesses to disclose greenhouse gas emissions, converting fossil fuels to renewable energy, and disclosing information on greenhouse gas emissions from commercial bank operations or from the operations of businesses and projects receiving finance from commercial banks. Similar to commitments related to electricity generation and nature (FFV, 2022).

4.3.2. ESG practice results of State-owned commercial banks in Vietnam

(1) BIDV Bank

With a commitment to implementing a sustainable development strategy focusing on three main pillars: green transformation, efforts to build a sustainable society, and promoting transparent and effective governance; BIDV has continuously strived to practice ESG, with the following results:

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- Building a green transformation and sustainable development strategy: BIDV's Board of Directors has affirmed that the bank will carry out a comprehensive, synchronous, and substantial transformation in all its activities. This includes transforming thinking, awareness, goal setting, business orientation, and operating model towards green and sustainable development (BIDV, 2024).

- Actively deploy green credit and sustainable finance projects: As of December 31, 2023, BIDV is the leader in the banking system in green credit with a total outstanding loan balance of over VND 74,000 billion, accounting for 4.2% of BIDV's total outstanding loan balance and 12% of the total outstanding green credit balance of the entire economy (BIDV, 2024). BIDV's green loans are mainly allocated to renewable energy projects, energy saving projects, and projects with positive impacts on the environment. This not only helps BIDV meet the requirements of international laws and regulations on environmental protection but also promotes the sustainable development of the Vietnamese economy.

- Issuing green bonds and sustainable loan framework: In 2023, BIDV became the first bank in Vietnam to successfully issue green bonds according to the principles of the International Capital Market Association (ICMA) with a scale of VND 2,500 billion. The proceeds from the issuance of these bonds will be used to finance green projects, save energy, reduce emissions, and protect the environment (BIDV, 2024). In addition, BIDV is also the first commercial bank in Vietnam to issue a Sustainable Loan Framework according to international standards. This was done in the context that Vietnam has not officially issued environmental criteria. This framework allows BIDV to meet the sustainable finance needs of businesses and projects, while enhancing compliance with international regulations on sustainable finance.

- International cooperation and green capital: Over the years, BIDV has established cooperative relationships with many major financial institutions in the world such as the European Investment Bank (EIB), the World Bank, and the Asian Development Bank (ADB). Typically, in 2024, BIDV signed a green credit line worth 100 million USD with the French Development Agency (Agence Française de Développement - AFD). This is the first financing from AFD to a commercial bank in Vietnam in the form of direct preferential loans without government guarantees. This credit is used to finance renewable energy projects, and is considered by AFD to be one of the most successful projects they have implemented (AFD, 2024). In addition, BIDV also proactively participates in international forums such as the United Nations Climate Change Summit (COP26, COP27, COP28) to grasp the goals, orientations, and shifting trends of the market towards sustainable development.

- Environmental and social risk management in credit activities: According to the credit granting process for institutional customers, BIDV has clearly stipulated the assessment of environmental and

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social risks for each credit grant. This is to ensure that funded projects not only fully comply with the provisions of the law on environmental protection but also provide risk prevention measures, and conduct regular periodic inspections and monitoring (BIDV, 2022). BIDV's environmental and social risk management framework includes detailed processes such as: (i) Screening and classifying environmental and social risks; (ii) Detailed assessment of risks in accordance with general and specific regulations of 10 specific industry groups; and (iii) Action plan for remediation as well as reporting, inspection, and monitoring of the environmental and social environment after borrowing (BIDV, 2022).

- Digital transformation and transparent governance: Since 2021, BIDV has issued the Digital Transformation Strategy for the period 2021-2025 with a vision to 2030. In this strategy, BIDV has identified a roadmap for comprehensive digitalization of products and services, promoting digitalization of internal governance activities, and automating operational activities (BIDV, 2024).

- Serving community development programs: BIDV not only focuses on business activities but also actively participates in community development programs. One of the typical activities is BIDV's coordination with international organizations and government agencies to implement community development projects such as supporting housing construction for people in flood-hit areas, funding education, and improving health infrastructure in disadvantaged areas. These activities not only help improve people's living conditions but also raise awareness of sustainable development and environmental protection (BIDV, 2024).

(2) Vietcombank

- Green bonds and financial support for green projects: Vietcombank has taken strong steps in issuing green bonds to raise capital for environmentally friendly projects. In 2022, the bank successfully advised on the issuance of VND 1,725 billion in green bonds for the Electricity Finance Joint Stock Company. This is the first corporate bond in Vietnam to be recognized as a green bond according to international standards (Vietcombank, 2024). These efforts demonstrate Vietcombank's commitment to sustainable development and minimizing environmental impacts.

- Green credit and investment in renewable energy projects: Vietcombank has deployed a green credit package worth VND4,200 billion to support textile and garment enterprises in the process of transitioning to green development. The bank has financed more than 30 renewable and clean energy projects such as solar power and wind power with a total capacity of over 2,500 MW. The total outstanding credit balance for these projects reached more than VND38,800 billion, accounting for more than 84% of Vietcombank's total outstanding green credit (Vietcombank, 2024). In 2024, Vietcombank continues its commitment to sustainable development by allocating VND10,000 billion to businesses to borrow capital to invest in “Green Construction”.

- Funding for key national projects: Vietcombank is one of the leading banks in Vietnam in funding key national projects and key economic sectors such as oil and gas, electricity, and aviation. Trusted by the Ministry of Finance to serve over 300 ODA counterpart loan projects with a total value of nearly 30 billion USD, Vietcombank has demonstrated an important role in promoting national economic development (Vietcombank, 2024). The bank has also cooperated with the Ministry of Natural Resources and Environment to monitor the progress of JETP capital deployment - a 15.5 billion USD funding package for the green transition in Vietnam.

- Social security activities and community support: In terms of society, Vietcombank always adheres to the goal of eliminating hunger and reducing poverty quickly and sustainably. From 2009 to 2023, Vietcombank has spent more than 3,200 billion VND on social security and charity activities, supporting many people in difficult circumstances through programs with profound humanitarian significance. The key areas that Vietcombank targets include healthcare, education, supporting the construction of charity houses, giving gifts to the poor, policy families and war invalids (Vietcombank, 2024).

- Digital transformation and technological innovation: The bank has deployed the Internet Banking version for individual customers and the VCB-Money system for corporate customers since 2001. In the field of digitizing internal operating systems, Vietcombank has put into operation the new Core Banking Signature system, a powerful, centralized database. In addition, the bank has also launched many other digital transformation projects, applying modern technology to serve diverse customer needs, such as the payment and cash flow management system VCB CashUp, digital bank for SMEs - VCB DigiBiz, and virtual assistant VCB Digibot in 24/7 online customer care activities (Vietcombank, 2024).

- Transparent governance and anti-corruption: The bank has issued strict regulations on not accepting gifts from customers and partners, as well as prohibiting acts of abusing power for personal gain. These measures are clearly stated in the Vietcombank Culture Handbook, emphasizing the importance of maintaining the bank’s reputation and image (Vietcombank, 2024).

- International cooperation and participation in global forums: In particular, Vietcombank, together with other banks, has cooperated with IFC - a member of the World Bank (WB) to develop a sustainable credit lending model. At COP28 - Dubai, the bank signed a cooperation agreement with the Asian Development Bank (ADB) and Standard Chartered Bank on promoting green financing and sustainable finance activities.

(3) Vietinbank

- Building a sustainable financial structure: VietinBank has developed a sustainable finance framework in line with international practices, providing detailed guidance on financing and managing grants for a portfolio of green projects. This financial framework not only defines the basic principles for capital allocation but also includes the process of evaluating and selecting funding items, managing capital use and reporting results. This comprehensive approach has been applied to financial instruments such as loans and bonds, supporting green projects and initiatives.

VietinBank's Green Capital use groups include: renewable energy, energy efficiency, circular economy, green transportation, green buildings, and sustainable agriculture, forestry and fisheries. Social Capital use groups include: access to basic infrastructure, social housing, and access to basic services such as healthcare and education. During the period 2018 - 2022, VietinBank's sustainable finance recorded a growth rate of 100%, affirming the bank's strong commitment to sustainable development (VietinBank, 2024).

- Preferential interest rates and fees for green projects: VietinBank has launched a green credit package worth VND5,000 billion, with many incentives on interest rates and fees for plans and projects that meet sustainability criteria. This is one of the specific initiatives that the bank has implemented to promote green economic activities, while supporting businesses and individuals in realizing sustainable development goals.

- Boost The development and implementation of a digital transformation program, focusing on improving customer experience and optimizing banking operations through digital platforms. The results achieved have demonstrated the effectiveness of digital transformation strategies: The VietinBank iPay Mobile application for individual customers has attracted nearly 7.8 million users, with a total of 1,180 million transactions, accounting for 91.6% of total transactions (VietinBank, 2024). The eFAST application for corporate customers also recorded the participation of 107,000 businesses regularly using it, with 32.5 million transactions, accounting for 82% of total transactions via this channel (VietinBank, 2024).

- Commitment on Anti-Money Laundering and Anti-Terrorist Financing (PCRT/TTKB): VietinBank has demonstrated its strong commitment to anti-money laundering and counter-terrorist financing (AML/CFT) by building an organizational structure and compliance process based on three lines of control, in line with international practices. The Bank has improved its mechanisms and policies with the introduction of the AML/CFT Framework; established a process for reporting AML/CFT risks across the entire VietinBank system; and modernized the detection and handling of suspicious transactions as well as reviewing the sanctions list (VietinBank, 2024).

- Orientation for sustainable development and international cooperation: VietinBank has actively cooperated with the Ministry of Natural Resources and Environment and signed agreements with international organizations, typically the agreement with MUFG with a mobilization scale of up to 1 billion USD at COP28.

4.4. Achievements and remaining limitations

4.4.1. Results achieved

(i) ESG legal framework and policies are increasingly improved

- ESG factors have been stipulated in many legal documents, decisions and directives of the Government and the State Bank of Vietnam, to promote commitments to sustainable development in the finance and banking sector (Fair Finance Vietnam, 2022). Instead of the encouragement and orientation in previous legal documents, up to now, Vietnam has shaped the policy framework and implemented sustainable development goals in the field of Finance- Banking.

- State-owned commercial banks have gradually approached and applied international standards such as the Global Reporting Initiative (GRI), the standards of the International Finance Corporation (IFC) and the working group on climate financial disclosure (TCFD) in their operations.

(ii) Banks' ESG commitments and disclosure

- According to Fair Finance Vietnam's assessment, (2022), Vietinbank is in the top 3 commercial banks with the most public ESG policy commitments compatible with international standards (alongside VPBank, HDBank and VIB). Followed by BIDV and Vietcombank (alongside Agribank, MSB, and Techcombank).

- All three banks disclose their ESG policies in their annual reports and sustainability reports, demonstrating their commitment to transparency and accountability.

- Vietinbank and Vietcombank are included in the VNSI basket of sustainable development stocks of the Ho Chi Minh City Stock Exchange, based on ESG criteria.

(iii) *Growth* ***in green credit balance***

Green credit policy is understood that the bank will consider information about the project, the operation process of the related business, and its impact on the environment. This is one of the bases for the bank to decide whether to grant credit or not. (NIF, 2023). Overall, green credit plays a supporting role in using renewable energy; supporting economic activities to reduce environmental pollution and climate change. In the period 2017-2023, Vietnam has 47 credit institutions with an outstanding credit balance of nearly 620,984 billion VND. Compared to the end of 2015, when the green credit program began to be implemented, the outstanding balance was 71,000 billion VND (Ministry of Finance, 2024). Contributing to that result, BIDV, Vietcombank and Vietinbank achieved the following green credit outstanding balance results:

Table 4. Summary of green credit balance of state-owned commercial banks

Criteria	BIDV	Vietinbank	Vietcombank
Green credit balance (billion VND)	7 4,000	47,465	47,700
Percentage of total outstanding bank credit (%)	4.2 %	3.24%	3.7%
Number of customers with access to green credit	2,069 projects/business plans of 1,698 customers.	nearly 1,000 customers	accounts for 84.1%; sustainable water management in urban and rural areas accounts for 10.4%; waste treatment and pollution prevention and control accounts for 2%; recycling and reuse of resources accounts for 1%.

Source: Compiled from bank websites: BIDV, Vietinbank, Vietcombank

BIDV has a green credit outstanding balance of more than 74,000 billion VND, accounting for 4.2% of the bank's total outstanding balance and 12% of the total green credit outstanding balance of the entire economy. Vietcombank and Vietinbank also achieved similar results with a green credit balance of VND47,700 billion and VND47,465 billion, respectively, accounting for 3.7% and 3.24% of the bank's total credit balance.

(iv) Practice each element E, S, G

- Factor E: Commercial banks have made efforts to integrate this set of standards into their products and services as well as risk management processes (Dat. PT, et al, 2024). All three banks have built credit products and banking services for green industries/sectors and have paid attention to allocating bank capital to provide credit to these sectors with mainly medium and long-term terms, with preferential interest rates for green projects. Applying technology within the bank in an environmentally friendly direction, improving customer experience through digital transformation, improving the quality of human resources, and improving the efficiency of the apparatus. Deploying environmental protection and climate change response programs; participate in international forums

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such as COP26, COP27, and COP28, and cooperate with international financial institutions such as the Global Green Growth Institute (GGGI) to promote green bonds and viable green projects.

- Factor S: evaluates the level of implementation of the bank's programs for each related partner. For customers, the bank implements many preferential credit programs suitable for many customer groups, implementing promotional programs, free of charge, bringing benefits to customers. For staff, the bank has policies to increase income, employee benefits, working conditions; enhance the role of women in the leadership apparatus. For the community, the bank carries out community support activities including sponsorship programs, hunger eradication and poverty reduction.

- Factor G: Based on the development of corporate governance standards to assess the extent to which banks implement ESG standards through the development of ESG governance structures; Implement comprehensive risk management, green banking development strategies; Implement publicity, transparency and accountability and Organize training on ESG, green growth, green credit.

4.4.2. Existing limitations

(i) Incomplete legal framework, lack of specific guidance and standards as a basis for some ESG practices

- Although the Government and the State Bank of Vietnam have had guidelines on green banking and ESG since 2015, the lack of detailed guidelines and specific criteria has led to each bank developing its own criteria. This makes it difficult to evaluate and compare results between banks.
- The ESG legal framework in Vietnam still has many loopholes and is unclear, especially in terms of Social and Governance factors (FFV, 2022). Important criteria such as green criteria and a list of green projects are not yet available; Risk management in credit granting activities is currently mainly focused on the environment, with no regulations on risk management related to social factors, governance or in-depth analysis of climate risks.
- Many documents are only indicative and not mandatory legal regulations.
- The lack of criteria such as environmental emissions content and different levels of impact of each emission level complicates the evaluation of green projects.

(ii) Limitations on ESG practice policy commitments

- The new ESG standards are in the early stages of application in commercial banks in Vietnam (Fari Finance Asia, 2023). In terms of commitment content, most commercial banks invest in the renewable energy industry without commitments on nature and climate change compatible with international standards.
- Policy commitments on some aspects of ESG are still weak, for example the commitment to not invest in the arms industry; commitments on human rights

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- ESG commitments often focus only on the internal operations and investment policies of banks, without paying attention to the businesses that receive funding from banks. The disclosure of ESG policies for businesses receiving funding, loans, and investment capital from banks has hardly been publicly demonstrated.
- Banks lack criteria and management measures after disbursement. If businesses do not use loan capital for the right purpose, banks can only stop lending or shorten the loan period, but there are no specific measures to control or handle violations (Vietstock, 2024).
- Banks' ESG commitments are often only disclosed in annual reports, lacking stability and consistency, making them difficult for stakeholders to access and monitor.

(iii) Limitations on ESG practice results

- Banks have difficulty predicting and managing ESG-related risks, due to a lack of knowledge, technology, and quality data. Integrating ESG into existing risk management has not been comprehensively implemented.
- Government support capital is still limited and the stock market is underdeveloped, forcing the banking system to shoulder the main responsibility in providing green credit.
- The proportion of green credit in total outstanding debt is still low, showing that the implementation is not effective. Although the growth rate of green credit over the years is relatively high, the proportion of green credit is still modest in the total outstanding credit of the economy, accounting for only 4.5% of the total outstanding debt of the whole economy (Ministry of Finance, 2024). Of the 620,984 billion VND of green credit, it is balanced for the following areas: Medium and long-term credit accounts for 77%, divided by area as shown in the following chart:

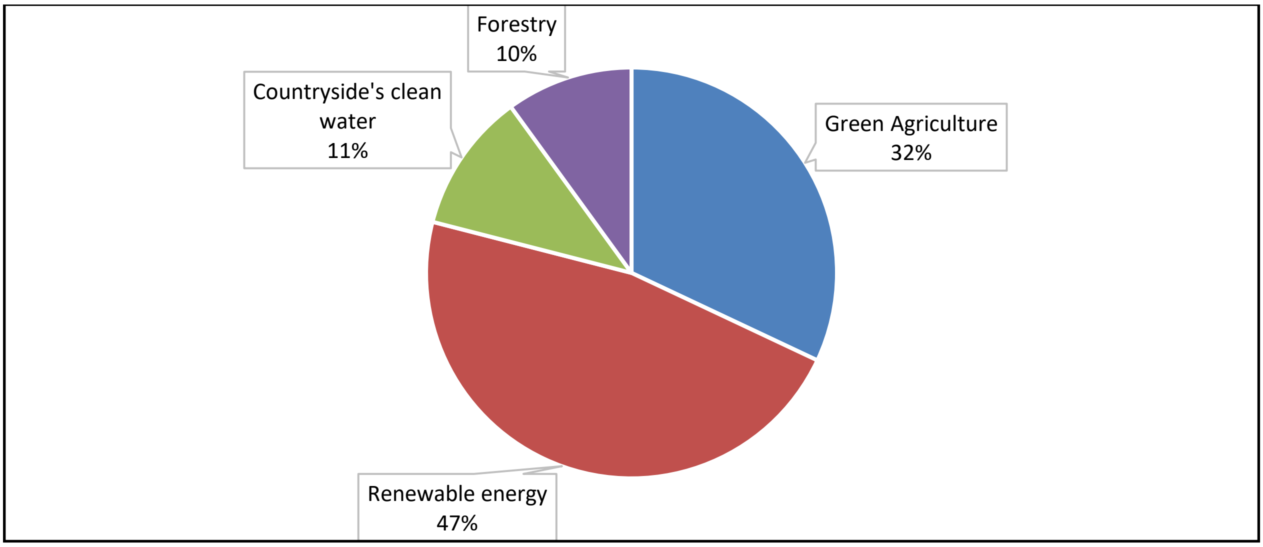

Figure 4. Proportion of green credit sectors

Source: Ministry of Finance, 2024

The main areas of green credit disbursement are renewable energy and clean energy. (accounting for 47%) and green agriculture (accounting for about 32%); the rest is clean water for urban and rural areas about 11% and 10% for forestry (vietstock, 2024). That overall result has a significant contribution from three state-owned commercial banks holding 50% of shares.

- Applying ESG requires a large investment in resources and technology. However, banks face challenges in implementation, assessment of environmental impacts, risks related to investment portfolios, governance, ESG risk assessment and improving the quality of human resources (Oanh., D.TK, & Oanh., CTK, 2024). Banks face the problem of the quality of banking staff in appraising green projects, appraising customers' debt repayment capacity, difficulties in monitoring and managing risks when granting green credit and integrating ESG criteria into the bank's risk framework.

- People and businesses' awareness of environmental protection and implementation of commitments to banks after being granted green credit is not high; there are still violations of commitments, posing potential risks of debt collection for banks (PwC, 2023).

5. Proposing solutions to promote ESG practices at state-owned commercial banks in Vietnam.

(1) Solution group for the State Bank and related ministries and branches

- Developing a Legal Framework: It is necessary to develop and promulgate a detailed legal framework on ESG, including specific criteria and guidelines. This will help banks have a consistent basis to apply ESG standards and easily compare results between organizations. The contents that need to be clearly regulated are green criteria, green project portfolios, risk management related to social factors and governance.

- The State Bank needs to develop a common set of ESG standards for commercial banks and a tool to assess the level of ESG commitment. It can refer to international tools such as FFG - Fair Finance Guide following the approach of Fair Finance Guide. In Asia, the methodology has been used to analyze the policies of financial institutions in Bangladesh, Japan, India, Thailand, Indonesia, the Philippines and Vietnam. The FFG methodology is developed from the perspective of customers, shareholders and investors (current and potential) for considerations in decisions to use the services of, cooperate with and invest in financial institutions.

When developing specific criteria and sanctions to force banks to apply these standards, there should be transparent consultation with social organizations, research institutes as well as experts and social activists.

- The State Bank should research and develop support policies to promote commercial banks to shift from traditional business models to responsible and sustainable business models. This issue requires the synchronous coordination of the State Bank and relevant agencies.

- The State Bank organizes annual assessment and ranking of banks based on ESG commitments and awards banks that perform well. This helps shape banking operations towards ESG integration.

(2) Solution group for commercial banks (Vietcombank, Vietinbank, BIDV)

- Review and evaluate current policies: Banks need to review and evaluate the current status of ESG policies, including internal operating policies, investment/lending policies and policies applied to corporate customers. From the framework, commercial banks need to develop an ESG implementation roadmap, select and prioritize a number of ESG topics, to develop and implement strategies and plans with specific focuses including measurable targets and objectives. Policies need to be adjusted or newly developed to match strategic goals and legal requirements.

- ESG disclosure and commitments: Banks should disclose ESG policies and practices transparently and regularly on their websites. This includes public disclosure of ESG policies, sustainability reporting, and updates on ESG progress.

- Encourage corporate commitment: Banks can facilitate sustainable development by requiring or encouraging corporates receiving financing and loans to comply with ESG commitments. It is necessary to promote the disclosure of policies for corporations receiving credit and investment.

- Enhance understanding and capacity building through ESG training and awareness programs for employees. Each bank aims to promote ESG culture in the bank through specific activities and policies, while encouraging and rewarding employees for implementing initiatives in practicing each content of the ESG standards.

- Establish a dedicated ESG department or person to research, consult and implement appropriate ESG policy roadmaps. This department should work closely with other departments to ensure the implementation and monitoring of ESG commitments.

- Integrate ESG risks into the bank's overall risk management framework: Banks need to integrate ESG factors into all stages of their risk management framework, including project appraisal and portfolio management. ESG risks such as transition, physical, social, governance, and credit risks need

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to be assessed and measured.

- Proactively communicate to make people and businesses more aware of environmental protection through programs, campaigns... coordinate with organizations and partners who share the same vision on ESG to increase the effectiveness of implementing ESG solutions and projects of the bank.

- Enhance exchanges between domestic and international banks on improving ESG commitments and practices. Mechanisms for sharing experiences and cooperation in ESG implementation should be developed.

6. CONCLUSION

Vietnam is one of the countries facing many environmental and social problems and is heavily affected by climate change, negatively affecting economic development and people's lives. With the role of financial intermediaries, providing capital for the economy, banks are considered an important bridge and link in the ESG ecosystem; contributing to the implementation of international commitments on green transformation, reducing greenhouse gas emissions, minimizing the impact of climate change, towards the goal of sustainable development. The results of ESG practices at 3 state-owned commercial banks in Vietnam, VietinBank, Vietcombank, and BIDV, show that these banks have made significant progress in ESG practices, including strengthening green credit policies and being more transparent in disclosing environmental and social information, implementing many preferential credit programs for many customer groups; focusing on community support activities. However, these banks still face challenges in fully integrating ESG factors into their business operations. The lack of uniformity in measuring and reporting ESG indicators, along with the application of international standards, is a major limitation in developing and implementing long-term ESG strategies. Stakeholder engagement and raising awareness of ESG throughout the banking system need to be improved to achieve comprehensive sustainable development goals. Based on the analysis of the above situation, the article proposes two groups of solutions: (i) Group of solutions for state banks; (ii) Group of solutions for state-owned commercial banks. Future studies can focus more on each independent factor: E, S, G. Regarding research methods, subsequent studies can approach user behavior (for the intention to access green credit); approach quantitatively (study factors affecting ESG practices of each bank; study the impact of ESG on bank business performance).

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