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# Researching Factors Affecting the Sustainable Development of Green Banks

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## ABSTRACTS:

*The "Green Bank" model is in a fairly new stage of development, understanding the factors that impact the development of "green banking" is becoming extremely urgent. In the research, the authors used qualitative methods, including collecting information from domestic and foreign sources, and focusing on collecting accurate and realistic data about the "green banking" model. . From there, we can propose and discuss things that need to be improved to support the sustainable development of green banking in Vietnam.*

**Keywords:** *Green banking, sustainable development*

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## Introduction

In the 21st century, green banking has become an indispensable part of the sustainable development revolution. These financial institutions not only work with profit goals but also contribute to solving environmental and social challenges. However, to strongly promote the development of green banks, it is necessary to clearly understand the factors that affect them.

**Policies and Regulations:** Policies and regulations from governments and financial regulators can have a major impact on green banking operations. Incentives and incentives from the government can promote the development of green projects and green bank financing.

**Customer Awareness and Behavior:** Increased awareness of environmental and social issues has changed the consumption and investment behavior of customers. Green banks need to meet increasing customer demand for products and services that promote sustainable development.

**Risk Management and Efficiency:** Environmental and social risk management is an important factor for the stability and sustainable development of green banking. Applying international standards and criteria on risk management can help green banks build a trustworthy image and enhance operational efficiency.

**Funding and Investment:** Funding and investment from international organizations and private investors can play an important role in promoting the development of green banking. Financial and technical support from experienced partners can help green banks expand their operations and strengthen their influence.

**Innovations and Technology:** The development of new technologies and innovative approaches can create new opportunities for green banking. The application of artificial intelligence, blockchain, and other technologies can help green banks improve efficiency and transparency in their operations.

The research paper includes part (I) General overview of Green Banking; (II) Factors affecting the sustainable development of green banking; (III) Propose recommended solutions.

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## 1. General research

Green Banking is any form of banking where countries and peoples achieve environmental benefits. A traditional bank becomes a green bank by shaping its core activities towards improving and protecting the surrounding environment. The banking industry can act as an intermediary between economic development and protecting the Earth by encouraging environmentally sustainable and socially responsible investments. (R.M. Lalon, 2015). Green is gradually becoming a symbol of ecological consciousness globally. According to the Indian Banks Association (IBA, 2014), "Green Banking is like a conventional bank, but it considers all social and ecological factors with the objective of protecting the environment and natural resources". Green banking is also known as ethical banking or sustainable banking. Their aim is to carry out banking activities but with additional plans towards taking care of the earth's ecology, environment, and natural resources including biodiversity. (Vikas nath and other authors, 2014). Nigamananda Biswas (2011) highlights the key benefits in the face of challenges, strategic aspects of green banking, and presents the status of Indian Banks with regard to banking adoption

green. Following that, author Raad Mozib Lalon's (2015) research focuses in depth on the green banking activities of Bangladesh Commercial Banks and also explains why this policy is applied, as well as how it compares. Comparison between green banking activities of Commercial Banks. In Vietnam in 2022, Nguyen Danh Nam and Uong Thi Ngoc Lan examined the factors affecting green banking development in Vietnam. The results show that green banking development is most affected by the factor "state policy" and the lowest impact is the factor "bank financial resources". In the same year, MSc Van Egypt Huy also analyzed the current situation, problems and causes of green banking implementation at commercial banks in Vietnam as well as carbon emissions in internal banking operations. , develop green products and services and develop green credit.

## 2. Theoretical basis for factors affecting the sustainable development of green banking

### 2.1. Objective factors

Guided by Decision No. 1604/QĐ-NHNN dated August 7, 2018 of the State Bank on approving the Green Bank Development Project in Vietnam, green banks are gradually being formed and developing strongly. strong in the country. The most important thing in the process of trying to promote the development of green banking in Vietnam is the main focus on building an appropriate legal basis, encouraging the application of green credit, and requiring banks to Customers set standards, and implement environmental and social risk management in lending transactions. In addition, there are special incentives for commercial banks and credit institutions when implementing projects aimed at greening banking. More specific:

First, the legal framework needs to be built to serve the development of green banking in Vietnam. The most important basis for implementing green banking related activities in Vietnam is the National Action Plan on Green Growth for the period 2014 - 2020 (Decision No. 403/QĐ-TTg dated March 20, 2014 ). This is an important foundation to help the State Bank of Vietnam propose legal documents to support the operations of credit institutions, especially banks in the field of green credit and gradually expand into the field of green banking. The orientation for green credit and green banking development has also been determined in the Banking Industry Development Strategy to 2025 and shaping to 2030 (Decision No. 986/QĐ-TTg dated August 8, 2018). In addition, other documents such as regulations to increase awareness and responsibility of the banking system for environmental protection and combating climate change have also been issued. These documents include gradually greening banking activities, increasing the supply of credit capital for environmentally friendly projects, promoting green and energy-efficient production, service and consumption sectors. clean and renewable energy. The main goal is to actively promote green growth and sustainable development.

Second, specially encourage green credit. The policy to encourage green credit first appeared in Resolution No. 24-NQ/TW dated June 3, 2013 of the 7th Central Conference, phase XI, focusing on combating climate change and managing climate change. resources, environmental protection and guidance for green growth. To support the implementation of this Resolution, the State Bank (SBV) announced Directive 03/CT-NHNN on April 23, 2015, to promote green growth and manage environmental risks in credit granting activities.

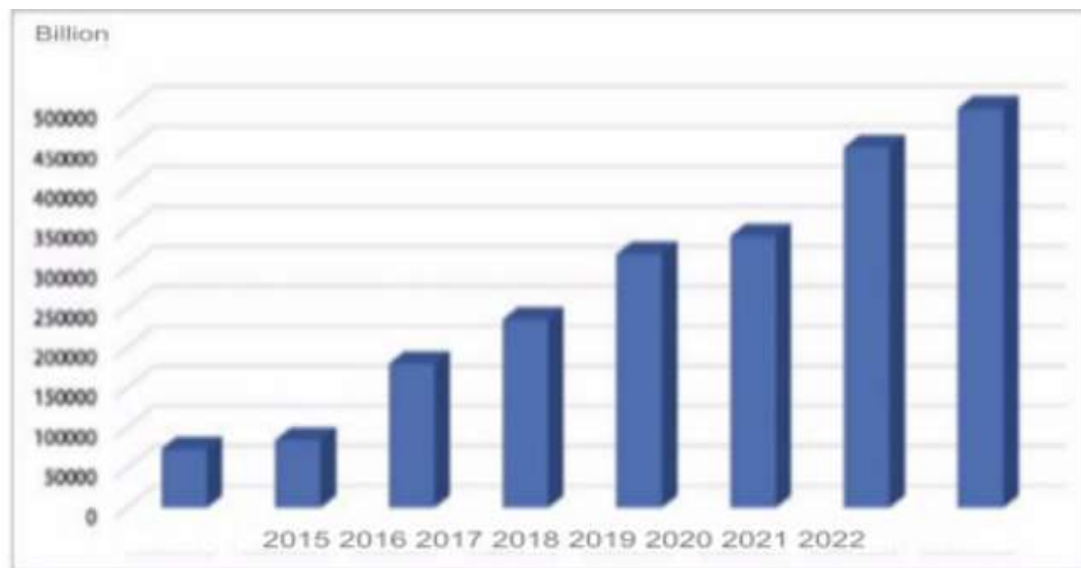


Figure 1. Current status of green credit in the period 2015 – 2022

- Third, banks are recommended to develop frameworks, standards, and implement environmental and social risk management in the process of performing lending operations. In 2018, the State Bank (SBV) cooperated with the International Finance Corporation (IFC) to develop and release the "Environmental and Social Risk Assessment Handbook" applicable to 10 economic sectors. differences in credit granting. Specifically, in this handbook, industries such as agriculture, chemicals, construction and infrastructure, energy, food processing, textiles, oil and gas, waste treatment, mining and other non-metallic mineral products are mentioned. This handbook is designed to support the environmental and social risk management process of Credit Institutions in Vietnam. It guides credit officers and experts in the field in effectively conducting project appraisals or production and business plans, to ensure that all activities meet green development goals. and sustainable.

Table 1. Economic sectors that encourage green credit

TT	Branch	Content of appraisal and assessment of green credit granting
1.	Sectors that have been recommended for green credit: agriculture, chemicals, construction and infrastructure, energy, food processing, textiles, oil and gas, waste treatment, mining and products from non-metallic minerals	<ul style="list-style-type: none"> <li>- Information about Enterprises and Projects requesting credit</li> <li>- Environmental and social impacts of the project for which credit is requested.</li> </ul>
2.	Industry expected to grant green credit: Thermal power production, paper and pulp production, fabric dyeing, seafood processing, batteries and accumulators	<ul style="list-style-type: none"> <li>- Suggest and give recommendations.</li> </ul>

- Fourth, issue preferential and supportive policies for banks when providing loans to environmentally and climate-sensitive sectors. This may include providing loans with various incentives, applying low interest rates, or compensating interest rate differentials. In recent times, the State Bank (SBV) has integrated the green credit program into a number of legal documents such as Circular 39 (December 30, 2016) regulating lending activities of the Organization. Credit (TCTD), Decree 55 (on credit policy for agricultural and rural development) and Decree 116 (amending Decree 55) of the Government, to promote the application of high technology in agricultural and rural development.
- Fifth, organize training sessions accompanied by workshops to exchange experiences and knowledge about green banking development to improve the capacity of commercial banks and financial institutions in financial activities - green credit. In recent times, the State Bank and IFC have cooperated to organize training sessions specifically for core officials on environmental and social risk handling and credit appraisal at credit institutions, building a team Lecturers have expertise in green credit and environmental and social risk management. The Vietnam Banking Association and WWF, GIZ, UNEP FI have organized many seminars, workshops, and training classes on the topic of green finance and sustainable development, assessing possible risks in operations. Credit. The Vietnam Banking Association also translated and published the book Banking and Sustainable Development to disseminate to member organizations.

## 2.2. Subjective factors

Green banks focus on promoting sustainable development by integrating environmental, social and business factors into operating strategies. Therefore, in addition to external factors, internal factors of the bank also play a very important role in implementing Green Banking campaigns. Typical examples include:

Banking policies and culture play an important role in promoting sustainable activities. If policies support sustainable business decisions and strategies, and cultures encourage social and environmental values, banks can develop strong sustainability systems. Banks need to create opportunities for businesses to develop sustainably through credit policies such as providing capital and encouraging green projects, creating influence through services. Banks can provide tools and knowledge to encourage businesses to develop sustainably. Appropriate policies will create favorable conditions for green living activities, supporting banks to reach the goal of becoming green banks. On the occasion of the 65th anniversary of its founding, BIDV has put into use a new brand identity (from April 26, 2022), this is an important component of BIDV's brand positioning strategy to build image of a friendly, dynamic bank, always ready with the mission of bringing the best benefits and amenities to customers, shareholders, employees and the social community. BIDV's main brand identity color is emerald green, one of the four most precious and valuable gems, crystallized over millions of years - symbolizing vitality and the desire to build a "Green Bank". ", as the strategy that BIDV is determined to pursue. (According to Banking magazine 2024)

- Sustainable development sometimes requires financial resources. Green banks can strengthen financial power by providing and supporting green financial products and services, as well as investing in sustainable businesses and projects. In 2012, Lien Viet Post Bank launched the Green Banking program to promote environmental protection activities and aim for sustainable development. The program includes three main activities: (1) building green offices by saving electricity, stationery, reducing water and toilet paper, and creating clean and beautiful green spaces; (2) promote paper reuse through the policy of exchanging paper for trees; and (3) build a green transaction counter to create a friendly and happy impression on customers. Meanwhile, in 2013, Sacombank proposed a policy of minimizing environmental impact by strictly controlling operating costs and effectively using resources. Specific measures include: using energy-saving light bulbs, using office equipment that saves energy or reduces emissions, uses water-saving equipment and modern communication technology to minimize move. The result of this strategy is a reduction in electricity, gasoline and transportation costs by 12%, 14% and nearly 30% respectively compared to the original plan.
- Training personnel on sustainability issues and building the capacity of working groups can help green banks implement and maintain their sustainability strategy. Raising employee awareness of environmental and social risks and related issues should be an ongoing process as part of Human Resource Development departments and an ongoing work of the bank. belongs to the public relations department. The entire BIDV system, under the direction of grassroots trade unions, has actively implemented the "Green Living" program, and proactively reported to party committees to coordinate with authorities at all levels in the organizational unit. propaganda activities. The goal of the program is to raise employees' awareness of the role and meaning of participating in the "Green Living" movement. Specifically, employees are encouraged

to participate in activities such as replacing plastic bottles and disposable plastic products with environmentally friendly products, planting trees, saving paper, energy and water, and sorting waste, and limit the use of plastic bags. Furthermore, environmental protection activities are integrated with the movement to build a "Green - Clean - Beautiful" working space and ensure labor safety and hygiene, as well as create an environmentally friendly transaction space. schools at each unit and affiliated trade union organizations.

- These elements, when tightly integrated, can help green banks develop a strong sustainability strategy, while meeting growing community and market demand for products and services. environmentally and socially responsible finance.

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### 3. Propose solutions and recommendations

First, in the current situation, when there is no specialized green bank, the Government needs to consider establishing legal mechanisms, rules and a favorable environment to encourage and bind banks. The goal is to encourage banking systems towards sustainable development and green growth. The government should propose conducting research to establish funds related to green growth capabilities through mobilizing low-interest loans and attracting capital from the budget. The Fund's capital can be assigned to one or several credit institutions to manage and finance projects that meet the Fund's requirements. In the future, the State should consider the possibility of establishing a specialized form of Green Bank to specialize in providing capital for projects related to green growth. This green banking operating model can be built based on the experience of many countries such as Germany, England, and China that are applying and have implemented it.

Second, it is necessary to continue to improve the legal system, preferential policies and support mechanisms to promote the development of green banking. To clearly define green banks, including the nature, characteristics and criteria to have the title "green bank", legal regulations need to be clearly communicated, providing grounds and foundations for promulgation and implementation of appropriate development support mechanisms. For specialized laws directly related to banking activities such as the Law on the State Bank and the Law on Credit Institutions, it is necessary to establish a process of completion and updating to adjust according to the development orientation of the banking system. banking, especially in the context of green banking in the upcoming period. At the same time, it is necessary to evaluate and adjust other legal policies to ensure consistency and avoid unwanted overlap. Regarding guidance, it is necessary to increase the level of detail and gradually move from incentive to mandatory, to help banks take more specific action steps in the process of building and maintaining green banks.

Third, it is necessary to continue to research and implement measures to create real motivation to encourage Commercial Banks to actively participate in the green banking development process. Many solutions have been applied globally by World Banks (Central Banks) to promote green credit and the development of green banking. This includes reducing required reserves corresponding to the level of green lending, increasing total outstanding loans for banks actively participating in green credit, applying policies to reduce funding interest rates for banks with Actively assess environmental risks when providing credit. At the same time, increase mandatory reserve ratio and liquidity requirements for banks lending to projects that cause great damage to the environment. These accumulated experiences are good points that Vietnam can learn and refer to in its green banking development journey.

Fourth, it is necessary to synchronously develop green financial markets, especially green bond markets, and focus on developing relationships with institutional investors. This will create a solid basis for banks to mobilize green capital from the market. To ensure diversification in capital mobilization, Commercial Banks also need to focus on expanding new capital sources for their green banking strategy. In addition, it is necessary to focus on developing medium and long-term capital sources for green credit, by cooperating with international financial organizations such as the World Bank (WB), International Finance Organization (IFC), Asian Development Bank (ADB), and other reputable partners. These capital sources not only provide funding but also play an important role in supporting banks to focus credit resources on environmentally friendly projects.

Fifth, to promote demand for green credit, it is necessary to implement synchronous support policies to help businesses access it more easily. Supportive policies such as tax reduction, fee exemption, flexible loan process, and adjustment of collateral conditions need to be implemented at the same time. This will help create a more favorable business environment, encouraging businesses to pay attention and participate in green projects. To support businesses investing in green projects, it is necessary to continue to improve administrative procedures and build a transparent and favorable investment environment. Thanks to these policies, risks related to green projects will be reduced, creating assurance and convenience for businesses, and will also promote the development of projects that are beneficial to the environment and increase growth. Increase business interest in green credit.

Finally, it is necessary to strengthen the ability to evaluate and appraise green investment projects for banks and credit institutions. This requires strengthening the capacity of credit officers, while encouraging research and establishing a specialized department on green investment in the bank. At the same time, specialized financial products and tools must be built to support green investment to create a strong financial foundation, from capital mobilization to risk management, helping banks and other organizations Credit institutions have the ability to actively contribute to the development and promotion of green investment.

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### Conclude:

The article delves into the important factors affecting the development of green banking in the current era. Through analysis of policy and regulation, customer perception and behavior, risk management and performance, financing and investment, as well as innovation and technology, we see that the success of Green banking depends not only on generating profits but also on promoting sustainable and social development.

Understanding and managing these factors is important to build a sustainable financial system, while helping green banks contribute positively to solving environmental and social problems. Cooperation between governments, international organizations, businesses and communities is key to achieving this goal.

With the need for green banking growing in a world facing growing environmental and social challenges, continuing to research and advance the factors that impact them is a priority. head. Only through solidarity and community action can we build a sustainable future for the next generation.

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