

# SOLUTIONS TO DEVELOP GREEN CREDIT WITH THE PURPOSE OF STIMULATING CIRCULAR ECONOMY IN VIETNAM

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**Abstract:** *The article has systematized some general reasoning problems about green credit, developing green credit and circular economy, analysing advancing green credit situation in Vietnam in two aspects: Goals achieved and challenges encountered recently. Based on assessing developing green credit situation in Vietnam, author will propose some solutions with aim to foster circular economy in Vietnam.*

**Keywords:** *Green credit, circular economy, credit institution, bank.*

## 1. Introduction

In today's modern society, circular economy is regarded as an indispensable tendency in developing economy and exerting sustainable resources efficiently. Implementing circular economy fulfills Vietnam's international responsibility in environmental protection, climate change defense, with supporting business in which alleviating the risk of excessive products crisis, resources scarcity, promoting investment and technological innovation. The goal of developing a circular economy model has been concretized in the policies and directives of the Party and State. The Prime Minister has executed Conclusion No.678/ QD-TTG dated June 7, 2022, approving the project "Development of a Circular Economy in Vietnam", which clearly outlines the viewpoints, objectives and suggest some specific tasks and solutions that Ministries and Sectors need to implement in a coordinated manner. The proposal has mentioned the role of The State Bank in Vietnam in coordinating with ministries, sectors, and localities in developing financial and credit mechanisms to support circular economy projects in Vietnam, ensuring the suitability with the goal of green development, green bank and green projects. Therefore, the relationship between green credit and the development of a circular economy is highly interrelated and closely intertwined. Converting the traditional economy to the circular economy requires considerable expenditures for research and the implementation of new technologies, investment in green infrastructure, and capital for the production of environmentally sustainable products, etc. Hence, to facilitate the transition to a circular economy, it is crucial to establish an effective financial support mechanism, including solutions to green credit in order to meet demand the capital for industrializing the circular economy.

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## 2. Research methods

The article employs a combination of research methods such as secondary data collection, data analysis and processing, inductive and deductive reasoning to clarify the research problem. The secondary data sources were mainly collected from published papers in specialized scientific journals, electronic journals related to the field of finance and banking, as well as legal documents on financial, banking, and business activities.

## 3. Content Research

### 3.1. Theoretical basis

#### 3.1.1. The concept of green credit

In Vietnam, pursuant to Clause 1, Article 159 of the 2020 Law on Environmental Protection, effective from January 1<sup>st</sup>, 2022, the provisions regarding green credit are as follows: (1) Effective utilization of natural resources, (2) Response to climate change, (3) Waste management, (4) Pollution control and environmental quality improvement, (5) Ecosystem recovery, (6) Natural and biodiversity preservation, (7) Generating additional environmental benefits.

Green credit can be defined as financial loans extended by banks to projects that either present no significant risks or are specifically intended to promote environmental protection. In other words, credit facilities within grants, loans, and other forms of credit take into account their environmental impact and promote the sustainability of the environment [7] [8].

Green credit activities may involve loans offered at significantly lower interest rates than market rates, targeted at customers purchasing products that utilize renewable energy or contribute to environmental sustainability [9] [12].

In summary, according to the author, "green credit" can be understood as a type of credit provided by banks to business projects that do not pose risk to society or environment. In other words, green credit is considered as loans aimed at supporting production and business projects that either do not or minimally pose risks to the environment, contributing to the protection of the overall ecosystem.

#### 3.1.2. Green credit development

There is no consistent definition of "green credit development" in banking sector. However, the goal of "green credit development" is often aimed at: (1) restructuring and improving the green credit institutions within commercial banks and encouraging the development of credit activities that effectively invest in energy and resources with high added value; (2) identifying, evaluating, and investing in green projects that use natural resources more efficiently, reduce greenhouse gas emissions intensity, and contribute to effective climate change mitigation; (3) enhancing residents' standard of living, building eco-friendly lifestyle by creating more occupations from green credit-funded projects; (4)

contributing to the elimination of poverty and the reduction of poverty without the high expenditure of over-exploiting natural resources such as minerals, water, forests, and air; (5) helping developing countries achieve economic and social benefits, such as the improvement of clean, sustainable energy and food security.

Green credit development is broadly understood as the increase in the outstanding green credit within the bank's loan portfolio, combined with the development of additional green credit products, while simultaneously enhancing the quality of green credit. Developing green credit helps increase the proportion of green credit in the bank's outstanding loans.

### *3.1.3. Circular economy*

The circular economy concept is officially used by Pearce and Turner (1990). It is used to refer to a new economic model based on the fundamental principle that "everything is an input for something else," which is completely different from the perspective of the traditional linear economy. The World Economic Forum (WEF) states that the Circular Economy is an industrial system that is restored or regenerated by intention and design. It involves the use of renewable energy, the elimination of harmful chemicals that hinder the ability to reuse materials, and the return of materials to the biosphere through superior design of materials, products, systems, and business models.

Thus, the Circular Economy encompasses activities such as design, production, and service provision aimed at extending the lifespan of materials and eliminating negative environmental impacts. This approach helps preserve quality of life through solutions such as waste recycling and the use of recycled materials as inputs to conserve natural resources. It also involves the management and efficient use of renewable natural resources and the implementation of waste management strategies through recycling to optimize value, based on the principle that the longer materials and resources are used, the greater the value derived from them.

The circular economy is an economic model in which design, production, and service activities are organized to extend the lifespan of materials and eliminate negative environmental impacts. Unlike the traditional linear economy model (extract, produce, consume, and dispose), the circular economy focuses on reusing, repairing, refurbishing, recycling, and remanufacturing products and materials.

### *3.1.4. The Role of Green Credit in Promoting the Circular Economy*

Green credit facilitates economic transformation toward sustainability, mitigates negative environmental impacts, and promotes the development of the circular economy. The crucial role of green credit in fostering the circular economy is demonstrated as follows:

Firstly, providing financial support for green projects, helping to minimize negative environmental impacts by encouraging resource-saving activities, recycling, and reuse, as well as waste reduction - key elements of the circular economy.

Secondly, encouraging Businesses to Invest in Clean and Sustainable Technology: Access to green credit with preferential interest rates motivates businesses to invest in environmentally friendly technologies, optimize production processes, and enhance material efficiency. This serves as a driving force for businesses to shift from a linear production model (produce - consume - dispose) to a circular model (reuse - recycle - regenerate).

Thirdly, minimizing Environmental and Social Risks for Projects: Green credit helps alleviate the pressure on natural resource depletion and reduce pollution by supporting energy-saving projects, waste treatment, and the use of renewable energy. This plays a crucial role in environmental protection and mitigating climate change.

Fourthly, promoting Policies and Legal Frameworks Supporting the Circular Economy: The development of green credit necessitates regulatory bodies to establish appropriate mechanisms and policies, enabling CIs to participate in funding the circular economy.

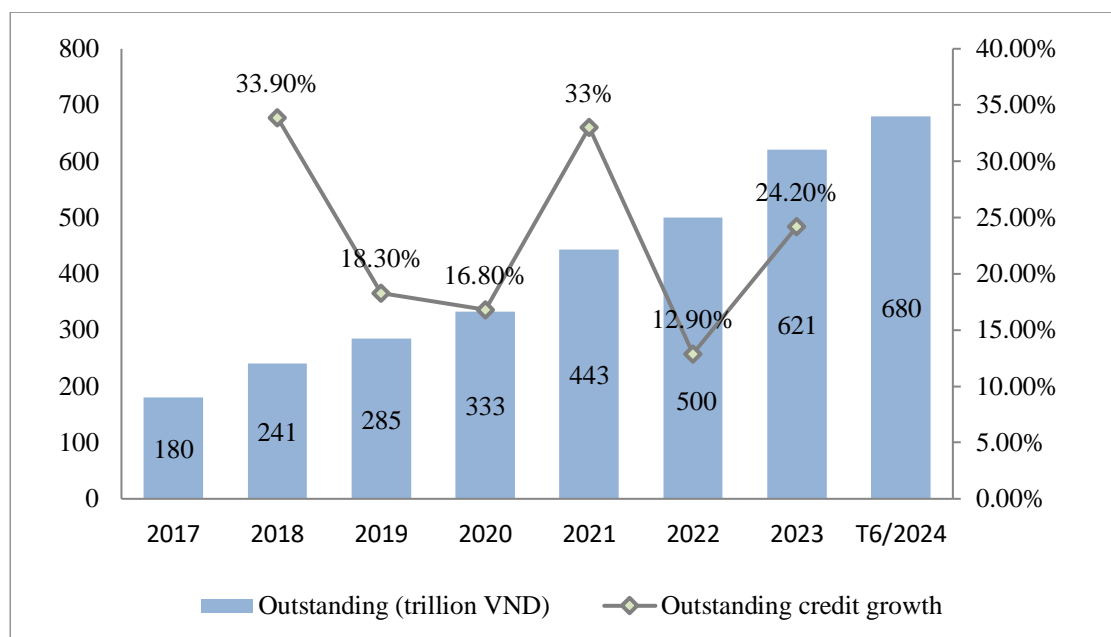
### ***3.2. Current status of green credit development in Vietnam***

#### ***3.2.1. Achievements***

Currently, the legal framework governing green credit in Vietnam has been issued quite comprehensively, following international practices. Specifically, legal documents such as: Directive No.03/CT-NHNN dated March 24, 2015, from the State Bank of Vietnam (SBV) on promoting green credit growth and managing environmental and social risks in credit activities; Decision No.1552/QD-NHNN dated August 6, 2015, from SBV on the action plan of the banking sector to implement the National Green Growth Strategy until 2020; Decision No. 1604/QD-NHNN dated August 7, 2018, from SBV approving the Scheme for the development of green banking in Vietnam; and Decision No.1408/QD-NHNN dated July 26, 2023, from SBV on the action plan of the banking sector to implement the National Green Growth Strategy for the period 2021-2030. These are important legal foundations that have supported the development of green credit in recent years. Credit institutions have implemented and executed green credit policies in a relatively synchronized and effective manner. As of the end of June 2024, the outstanding green credit nationwide reached nearly 680,000 billion VND, accounting for approximately 4.5% of the total outstanding credit in the economy. Of this, the outstanding credit evaluated for environmental and social risks accounted for more than 21% of the total outstanding credit in the credit institutions system and increased by more than 20% compared to the same period in 2023. (Figure 1).

In 2017, only five credit institutions in Viet Nam were involved in providing green credit. By June 2024, the number had increased to 50 credit institutions with outstanding green credit, and the total outstanding amount reached nearly 680,000 billion VND. Green credit activities primarily focus on providing capital for sectors such as renewable energy and clean energy (accounting for about 45%) and clean, green agriculture (accounting for 30%). Credit for renewable energy has always been encouraged by the SBV. This is also one of the 12 green sectors that the SBV monitors in terms of

outstanding credit. Notably, credit institutions have actively carried out environmental and social risk assessments in their lending activities, with outstanding credit of about 3.2 trillion VND out of the total system outstanding credit of 15 trillion VND.



Source: State Bank of Vietnam - BIDV Institute of Training and Research, 2024

Figure 1. Outstanding Green Credit in Vietnam from 2017 to June 2024

From 2017 to 2023, outstanding green credit has increased continuously year by year, with each successive year seeing higher figures than the previous one. The encouraging results in green credit activities are attributed to credit institutions actively improving their internal regulations on managing environmental and social risks in credit activities and developing green credit products. Additionally, SBV has implemented favorable policies to support banks lending to sectors sensitive to the environment and climate (such as offering preferential loans, applying low interest rates, or interest rate subsidies, etc.). Credit institutions with a high proportion of green credit lending are also given priority in accessing preferential loan funds from international organizations and development partners.

### 3.2.2. Challenges

Despite the positive results achieved in recent years, green credit activities still face several challenges and obstacles that need to be addressed:

The legal framework for green credit in Vietnam is not yet fully developed, creating difficulties in implementing this activity in practice. Although commercial banks (CBs) have proactively developed and refined standards for assessing environmental and social risks, certain legal foundations to support green credit activities are still lacking. Additionally, the

sector-specific guidelines from relevant authorities on the classification of green industries and sectors with specific criteria are not yet comprehensive. This gap creates difficulties for CBs in selecting, appraising, evaluating, and monitoring green credit lending activities.

Investment in green sectors such as renewable energy, clean energy, etc., often requires long payback periods and significant investment costs. This presents a challenge for the credit institution system, as the funding sources of credit institutions are primarily short-term.

The policies supporting the development of green credit in recent years have not yet addressed the issue of funding sources for credit institutions to implement green credit activities. Currently, the financial resources for green credit at credit institutions mainly rely on international funding programs and projects, such as the Green Credit Trust Fund (GCTF) of the Swiss Government, the International Finance Corporation (IFC), and the Asian Development Bank (ADB). These external resources can only play a role in promoting development in the early stages. In the long term, banks need to collaborate with enterprises to access green funds in the green bond market. This is also the approach being followed by Singapore and India.

Challenges from customers using green credit funds: The awareness of environmental protection issues among borrowing enterprises is still limited, which leads to violations of environmental regulations and penalties. This affects the progress of projects utilizing green credit funds and poses potential risks in debt recovery for credit institutions.

### ***3.3. Solutions to the development of green credit***

To contribute to the promotion of the circular economy in Vietnam, it is necessary to implement solutions for developing green credit activities. Based on the difficulties and obstacles encountered in providing green credit in recent times, the author proposes the following basic solutions:

Firstly, SBV should continue to develop and improve legal documents to guide the implementation of green credit policies for credit institutions (CIs); cooperate with organizations, departments, and ministries to establish criteria and standards for green projects; and guide CIs in developing and implementing environmental risk assessment criteria. Additionally, the SBV should research, develop, and implement appropriate mechanisms and policies with specific incentives for green credit activities to encourage CIs to increase lending in this sector in the coming period.

Secondly, CIs should continue to mobilize medium- and long-term financial resources to fund green credit activities. CIs need to proactively access international green funds from foreign organizations through ministries, departments, and agencies, or directly approach financial institutions, non-governmental organizations, and the Green Credit Trust Fund (GCTF established by SECO in Vietnam); they should also raise funds through green bond issuance to finance green projects, renewable energy, and energy efficiency.

Thirdly, CIs need to regularly monitor and supervise the management of environmental and social risks associated with green credit loans provided to customers.

Monitoring should be accompanied by efforts to raise customer awareness regarding environmental protection and limit credit issuance for projects with adverse environmental and social impacts. Additionally, periodic checks will encourage individuals and businesses to operate their production and business activities safely, effectively, and in line with the intended purpose.

Fourthly, CIs should continue to raise awareness about the expansion of green credit within the economy, laying the foundation for the promotion of a green economy in other areas of production and business. CIs need to recognize this as an urgent area that requires effective implementation. Successful execution will depend on CIs enhancing the professional expertise in green economics among credit officers at commercial banks.

Fifthly, CIs should diversify their green credit products. In particular, for business clients, CIs should design various green credit products tailored to the needs of different types of businesses, such as creating loan packages with different terms and interest rates, based on environmental protection criteria or loan value. This will help develop green credit activities and increase the competitiveness of credit institutions.

Sixthly, enterprises need to enhance their awareness of the circular economy, focus on investing in research and applying environmentally friendly technologies, and develop circular economic models. In addition to transitioning to a circular economy model, businesses should also familiarize themselves with loan conditions and procedures while strengthening relationships with CIs to access funding for green investment opportunities.

#### **4. Conclusion**

Faced with the significant challenges of the consequences of climate change, Vietnam has implemented solutions to mitigate the damage caused by natural disasters, ensure environmental protection, and promote sustainable economic development. Among these, green credit is considered an effective solution to promote the circular economy. It is viewed as a financial resource that drives the restructuring of the economy with the aim of using natural resources efficiently and reducing harm to the environment and society. One of the key links in implementing this strategy is the banking financial system. In this regard, the banking system will determine the investment capital for socio-economic development projects, supporting economic sectors with policies that promote sustainable development through green credit policies.

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