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### The Role of Microfinance in Supporting Green Entrepreneurship in Vietnam

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#### Abstract

This research examines the role of microfinance in supporting green entrepreneurship in Vietnam, addressing the gap in previous studies that have largely overlooked the financial challenges and opportunities for sustainable businesses. The study aims to assess the accessibility, effectiveness, and limitations of microfinance for green entrepreneurs by conducting 18 semi-structured interviews with entrepreneurs, microfinance institutions (MFIs), and policymakers, along with field observations of four green businesses. The findings reveal that while microfinance provides essential support, its impact remains limited due to

high-interest rates, short repayment periods, regulatory constraints, and limited financial literacy. However, successful case studies highlight that with targeted financial incentives, innovative funding models like impact investing and crowdfunding, and capacity-building programs, microfinance can be a powerful tool for fostering sustainable businesses. These results emphasize the need for policy reforms, public-private partnerships, and enhanced financial education to expand green microfinance, which could accelerate Vietnam's transition to a greener economy by making financial support more accessible and impactful.

**Keywords:** Financial Inclusion, Green Entrepreneurship, Impact Investing, Microfinance, Sustainable Finance

#### 1. Introduction

Green entrepreneurship has become a key driver of sustainable development, integrating environmental responsibility into business practices while fostering economic growth. By focusing on eco-friendly products, services, and production processes, green enterprises contribute to reducing carbon emissions, minimizing waste, and promoting resource efficiency. In Vietnam, where rapid industrialization has led to severe environmental challenges such as air pollution, deforestation, and water contamination, the need for green entrepreneurship has never been more pressing. According to the World Bank (2022) <sup>[10]</sup>, Vietnam's greenhouse gas emissions have increased by approximately 5% annually over the past two decades, highlighting the urgent need for sustainable business solutions. Despite this necessity, many green startups in the country face significant financing constraints, limiting their ability to scale operations and innovate.

Microfinance has been widely recognized as a critical tool for fostering entrepreneurship, particularly in developing economies. By offering small-scale loans, financial services, and capacity-building programs, microfinance institutions (MFIs) enable entrepreneurs to establish and expand businesses, especially in rural and underserved areas. In Vietnam, microfinance has played a pivotal role in supporting small and medium enterprises (SMEs), which account for over 98% of all businesses and contribute approximately 40% to the national GDP (General Statistics Office of Vietnam, 2023) <sup>[3]</sup>. However, traditional financial institutions often perceive green businesses as high-risk investments due to long payback periods, regulatory uncertainties, and technological challenges. As a result, green entrepreneurs struggle to secure funding, despite the growing demand for sustainable solutions.

Vietnam has demonstrated a strong commitment to green economic growth, aligning with global climate goals through various national policies and international agreements. In 2021, the Vietnamese government pledged to achieve net-zero carbon emissions by 2050 at the COP26 summit, signaling a shift toward sustainability-driven economic policies. Additionally, the State Bank of Vietnam (SBV) has introduced guidelines to promote green credit, urging financial institutions to integrate environmental, social, and governance (ESG) criteria into their lending practices (SBV, 2022) <sup>[8]</sup>. However, the extent to which

microfinance institutions actively support green entrepreneurship and the challenges they face in doing so remain underexplored.

Despite increasing awareness of environmental issues and government efforts to promote sustainability, green startups in Vietnam continue to face substantial financial barriers. A recent survey by the Vietnam Chamber of Commerce and Industry (VCCI, 2023) <sup>[9]</sup> revealed that 67% of green entrepreneurs cite access to finance as their primary challenge, compared to 45% of conventional entrepreneurs. Traditional banks often require collateral, which many small-scale green businesses lack, making it difficult for them to access credit. In contrast, MFIs offer more flexible lending mechanisms, including low-interest loans, micro-grants, and technical support, which could benefit green entrepreneurs. However, many MFIs remain focused on traditional economic activities such as agriculture and retail, with limited financial products tailored specifically for green businesses.

This study aims to explore how microfinance institutions support green entrepreneurs in Vietnam, identify key barriers and opportunities in fostering sustainable businesses, and analyze the perceptions of microfinance beneficiaries regarding the effectiveness of financial services in promoting green initiatives. Specifically, the research seeks to answer the following questions: How do microfinance institutions facilitate the development of green businesses in Vietnam? What are the challenges faced by green entrepreneurs in accessing microfinance? What are the best practices for integrating sustainability into microfinance programs to enhance support for green entrepreneurship?

This research contributes to the expanding field of green finance and entrepreneurship by providing empirical insights into the intersection of microfinance and sustainability in Vietnam. The findings have significant implications for policymakers, who can leverage them to design financial policies that strengthen green entrepreneurship. Additionally, microfinance institutions could use these insights to develop innovative financial products aligned with environmental objectives, while green startups can gain a better understanding of available financial mechanisms and strategies to overcome funding barriers. Given that Vietnam's green economy is projected to grow at an annual rate of 8-10% by 2030 (Ministry of Planning and Investment, 2023) <sup>[4]</sup>, fostering green entrepreneurship through improved financial access can accelerate the country's transition toward a low-carbon economy and enhance its environmental resilience.

## 2. Literature Review

### 2.1 Conceptualizing Green Entrepreneurship

Green entrepreneurship has gained increasing attention in recent years as a fundamental pillar of sustainable development. Green businesses, often characterized by their commitment to environmental responsibility and sustainability-driven innovation, aim to minimize negative ecological impacts while generating economic value. These enterprises operate across various sectors, including renewable energy, sustainable agriculture, eco-friendly manufacturing, and waste management. According to Schaltegger and Wagner (2011) <sup>[7]</sup>, green entrepreneurship is defined as the process of identifying and exploiting business opportunities that contribute to environmental sustainability while maintaining profitability. This approach not only

fosters economic growth but also plays a crucial role in climate change mitigation by reducing greenhouse gas emissions, promoting resource efficiency, and encouraging the adoption of cleaner technologies (York & Venkataraman, 2010) <sup>[11]</sup>. In the context of Vietnam, where environmental degradation has become a pressing issue due to rapid industrialization, green entrepreneurship provides a viable pathway toward achieving a low-carbon economy.

### 2.2 Microfinance and Sustainable Development

Microfinance has long been recognized as an essential tool for promoting financial inclusion and poverty alleviation, particularly in developing economies. Initially introduced as a mechanism to provide small-scale financial services to underprivileged populations, microfinance has evolved significantly over the past few decades. In Vietnam, microfinance institutions (MFIs) emerged in the late 1980s and have since expanded to serve millions of low-income individuals and small businesses (Nguyen & Rozelle, 2020) <sup>[5]</sup>. By offering microloans, savings programs, and financial literacy training, microfinance has enabled marginalized communities to engage in entrepreneurial activities, thereby enhancing economic resilience and reducing dependency on informal lending systems. The impact of microfinance on poverty reduction has been well-documented, with studies indicating that access to microfinance services leads to increased household income, improved education levels, and greater economic stability (Armendáriz & Morduch, 2010) <sup>[2]</sup>.

The intersection between microfinance and sustainability represents a growing area of academic inquiry. Traditionally, microfinance has focused on economic empowerment rather than environmental sustainability. However, recent trends indicate a shift toward integrating green finance principles into microfinance strategies. Green microfinance, which involves providing financial support to environmentally friendly businesses and projects, has emerged as a critical mechanism for fostering sustainable development (Allet, 2014) <sup>[1]</sup>. In Vietnam, several MFIs have begun offering specialized financial products aimed at supporting green entrepreneurs, such as low-interest loans for renewable energy projects, organic farming initiatives, and eco-tourism businesses. Despite these advancements, challenges remain in scaling green microfinance, including limited awareness among financial institutions, regulatory constraints, and the perceived financial risks associated with green enterprises (Rahman *et al.*, 2021) <sup>[6]</sup>. Addressing these challenges requires a concerted effort from policymakers, financial institutions, and entrepreneurs to create an enabling environment for sustainable microfinance solutions.

## 3. Research Methodology

This study employed a qualitative research methodology to examine the role of microfinance in supporting green entrepreneurship in Vietnam. The research was conducted using semi-structured interviews, document analysis, and field observations to gain an in-depth understanding of how microfinance institutions provide financial and non-financial support to green enterprises. The focus was on capturing the experiences of green entrepreneurs, microfinance representatives, and policymakers, as well as assessing the operational realities of businesses that have benefited from microfinance.

## Data Collection Methods

**Interviews:** A total of 18 semi-structured interviews were conducted with three distinct respondent groups: (i) Green entrepreneurs (10 participants) who have received microfinance support, representing various sectors such as organic agriculture (4 participants), renewable energy (3 participants), and eco-tourism (3 participants); (ii) Microfinance institution representatives (5 participants) from organizations that actively fund green businesses, including two state-owned MFIs and three private MFIs. (iii) Government and policy officials (3 participants) from the State Bank of Vietnam, the Ministry of Planning and Investment, and the Vietnam Chamber of Commerce and Industry (VCCI) responsible for green finance policies.

The interview structure followed a semi-structured format, allowing respondents to elaborate on key issues while ensuring consistency across interviews. Each interview lasted approximately 45 to 60 minutes and was conducted either in person or via video conferencing, depending on participants' availability.

The selection criteria for green entrepreneurs included: (i) Currently running a business with an explicit environmental sustainability component; (ii) Received microfinance support from an MFI within the past five years; (iii) Located in Vietnam, representing diverse geographic regions (Hanoi, Ho Chi Minh City, Da Nang, and rural provinces such as Bac Ninh and Lam Dong).

For MFI representatives, selection criteria included: (i) Experience in financing green enterprises or involvement in loan assessment for environmentally sustainable projects; (ii) Affiliation with a registered microfinance organization in Vietnam.

For policymakers, interviewees were selected based on their direct involvement in green finance policy formulation or implementation.

The interview questions focused on access to finance, loan terms, challenges in obtaining microfinance, the impact of funding on business growth, and recommendations for improving financial accessibility for green businesses. MFI representatives provided insights into loan evaluation criteria, risk assessment for green businesses, and institutional challenges in financing sustainable enterprises. Policymakers discussed current regulatory frameworks, policy gaps, and potential incentives for expanding green microfinance.

**Field Observations:** Field observations were conducted at four green enterprises that received microfinance funding. These included: (i) An organic vegetable farm in Lam Dong Province that utilizes microfinance loans for eco-friendly irrigation systems and sustainable crop production; (ii) A solar energy startup in Ho Chi Minh City that received funding to install solar panels for residential and commercial use; (iii) An eco-tourism business in Da Nang focusing on low-impact tourism with sustainable accommodation and waste management practices; (iv) A recycling and waste management company in Hanoi that used microfinance to scale up its plastic waste collection and processing operations.

During the field visits, business operations, financial management strategies, and environmental impact measures were observed. Specific attention was given to how microfinance loans were utilized, whether businesses faced operational constraints, and how they managed financial sustainability. In addition, interactions with employees and

customers provided further insights into the effectiveness of microfinance in facilitating business expansion and sustainability.

## Data Analysis

All interview recordings were transcribed and analyzed using thematic analysis to identify recurring themes related to financial accessibility, institutional challenges, loan repayment capacity, and sustainability outcomes. A coding system was applied to categorize responses into distinct themes such as barriers to green finance, best practices in microfinance, and policy recommendations. Additionally, a cross-case comparison of the field observations was conducted to highlight differences in financial utilization and business performance across different sectors.

## 4. Findings and Discussion

### 4.1 Current Role of Microfinance in Green Entrepreneurship

The findings indicate that microfinance plays a crucial but still limited role in supporting green entrepreneurship in Vietnam. The interview data reveal that microloans remain the primary financial product offered to green businesses, with loan amounts typically ranging from 50 million to 500 million VND (approximately USD 2,000–20,000). In addition to loans, a few MFIs provide grants for environmentally sustainable projects, particularly those related to renewable energy and organic agriculture. Moreover, some institutions offer technical assistance programs, helping entrepreneurs improve their financial literacy, business management, and compliance with environmental regulations.

Several green entrepreneurs highlighted the positive impact of microfinance on their business growth. One organic farmer in Lam Dong Province stated, "Without microfinance, I wouldn't have been able to afford the transition to organic farming. The loan allowed me to invest in better irrigation systems and organic fertilizers." Similarly, the founder of a solar energy startup in Ho Chi Minh City explained, "The microloan we received helped us complete our first set of solar panel installations. However, the financial support was not enough to scale up quickly."

Despite these benefits, accessing microfinance remains a complex process for many green entrepreneurs. The interviews revealed that loan approval rates for green businesses are lower compared to traditional businesses, primarily due to higher perceived financial risks. An MFI representative acknowledged this concern, stating, "Many green businesses are still new and don't have a proven track record. Our institution is cautious when approving loans because we need to ensure repayment feasibility." Another challenge cited by entrepreneurs was the lengthy application process, with one eco-tourism business owner in Da Nang remarking, "It took months to get approval for a relatively small loan. The paperwork and requirements were overwhelming."

### 4.2 Challenges in Microfinance for Green Businesses

#### Institutional Barriers

The study identified regulatory constraints and a lack of awareness about green finance as major institutional barriers. Policymakers interviewed admitted that Vietnam's financial regulations do not yet provide strong incentives for MFIs to prioritize green businesses. A representative from

the State Bank of Vietnam explained, "There is currently no mandatory requirement for MFIs to allocate a certain percentage of their portfolio to green projects. As a result, most institutions focus on conventional lending." Furthermore, many MFI employees lack expertise in assessing the risks and potential of green businesses, leading to a conservative lending approach. One loan officer admitted, "We don't have specific training on evaluating sustainability projects. We often rely on traditional risk assessment models, which do not always favor green enterprises."

### **Financial Constraints**

Financial constraints were another recurring theme in the interviews, with high interest rates and short loan repayment periods posing significant challenges. Many microfinance loans for green businesses carry annual interest rates of 12–18%, making them relatively expensive compared to government-backed loans. An entrepreneur in the waste management sector in Hanoi expressed frustration, stating, "The interest rates are too high for a business like ours. We are trying to promote recycling, but the financial burden makes it difficult to scale."

Additionally, the short repayment periods—often ranging from 12 to 24 months—were seen as unrealistic for green businesses that require longer return-on-investment cycles. A solar energy entrepreneur noted, "Renewable energy projects take time to generate revenue. A one-year repayment period is simply not feasible for us." Some MFIs acknowledged this issue but cited liquidity constraints as a reason for maintaining short repayment terms.

### **Entrepreneurial Challenges**

Beyond financial and institutional barriers, entrepreneurial challenges were also evident. Many green entrepreneurs lack business skills, particularly in financial planning, marketing, and investment management. Several MFIs pointed out that many loan applicants struggle to develop solid business plans, making it difficult for financial institutions to justify lending. One MFI officer explained, "A well-structured business plan increases the likelihood of loan approval. Unfortunately, many green entrepreneurs lack the necessary financial expertise to present their cases effectively."

Another critical challenge is limited market access for green products and services. Entrepreneurs in the study reported difficulties in competing with conventional businesses that offer cheaper alternatives. An organic agriculture business owner in Bac Ninh commented, "Consumers are still hesitant to pay a premium for organic food. This uncertainty makes it harder for us to forecast revenue and secure financing." Similarly, a recycling business owner shared, "We face competition from informal waste collectors who operate outside the regulatory framework. This affects our profitability and financial stability."

### **4.3 Opportunities and Best Practices**

Despite the challenges associated with financing green businesses, the study identified several opportunities and best practices that could enhance the role of microfinance in fostering green entrepreneurship in Vietnam. The findings highlight successful case studies of green entrepreneurs, innovative financial models that expand access to funding, and policy recommendations to strengthen the microfinance

ecosystem for environmentally sustainable businesses.

### **Case Studies of Successful Green Entrepreneurs Supported by Microfinance**

Interviews with green entrepreneurs revealed several success stories where microfinance played a critical role in establishing and expanding sustainable businesses. One such case is a solar energy startup in Ho Chi Minh City, which successfully scaled its operations using microfinance. The founder explained, "We started with a \$10,000 microloan, which allowed us to install our first set of solar panels for small businesses. Within two years, we expanded to residential projects and secured additional funding." The business has since installed over 500 solar panel systems, reducing energy costs for local businesses and contributing to Vietnam's renewable energy targets.

Another example is an organic tea farm in Lam Dong Province, which transitioned from conventional farming to organic production with the help of microfinance. The owner shared, "When we applied for a loan, the MFI provided not just funding but also training on sustainable farming techniques. This helped us improve productivity while maintaining environmental integrity." The farm has since become a supplier for major retailers, demonstrating the potential for green businesses to achieve both financial success and environmental benefits.

A third success story comes from a waste management company in Hanoi, which used microfinance to expand its plastic recycling operations. The CEO explained, "Without access to microfinance, we would not have been able to invest in better recycling equipment. Now, we process over 10 tons of plastic waste per month." By integrating microfinance with sustainability initiatives, these businesses illustrate the transformative potential of targeted financial support for green enterprises.

### **Innovative Financial Models**

Beyond traditional microfinance, the study identified emerging financial models that have proven effective in supporting green entrepreneurship. Impact investing, which prioritizes both financial return and environmental impact, has gained traction in Vietnam. A representative from a leading microfinance institution explained, "We are beginning to see investors who are willing to accept lower returns in exchange for measurable environmental outcomes. This shift is encouraging for green startups."

Blended finance, which combines public and private funding sources, is another promising approach. A policymaker from the State Bank of Vietnam described how this model could be applied: "Government-backed guarantees and subsidies can help de-risk green investments, making them more attractive to private investors and microfinance institutions." Several MFIs have already started experimenting with partnerships between banks, international organizations, and local businesses to provide long-term, low-interest financing for sustainable projects.

Crowdfunding has also emerged as a viable alternative, particularly for small-scale green entrepreneurs. An eco-tourism entrepreneur in Da Nang successfully raised funds through a local crowdfunding platform, explaining, "Microfinance helped us get started, but crowdfunding allowed us to expand our ecotourism initiatives without taking on additional debt." These alternative financing approaches complement traditional microfinance, expanding the range of options available to green businesses.

### **Policy Recommendations to Enhance Microfinance's Role in Green Entrepreneurship**

The study's findings suggest several policy recommendations to strengthen the microfinance ecosystem for green entrepreneurs. First, there is a need for targeted financial incentives to encourage MFIs to support environmentally sustainable businesses. A policy expert from the Vietnam Chamber of Commerce and Industry (VCCI) suggested, "The government should introduce interest rate subsidies or tax incentives for MFIs that allocate a certain percentage of their portfolio to green businesses."

Second, capacity-building programs for both entrepreneurs and financial institutions could improve outcomes. One loan officer emphasized, "Many MFIs lack expertise in evaluating green businesses. Training programs on sustainability risk assessment would help us make more informed lending decisions." Similarly, green entrepreneurs would benefit from business development training, with an MFI representative noting, "We find that many green startups struggle with financial planning. Strengthening their business skills would enhance their ability to secure and manage funding."

Third, improving regulatory frameworks could create a more supportive environment for green microfinance. A policymaker from the Ministry of Planning and Investment highlighted the importance of integrating green finance into Vietnam's national development strategy, stating, "If green finance becomes a regulatory priority, MFIs will be more inclined to offer specialized financial products for sustainable businesses."

Finally, fostering collaboration between financial institutions, government agencies, and international organizations could enhance the effectiveness of green microfinance. Several interviewees emphasized the need for multi-stakeholder partnerships to mobilize funding and share best practices. An impact investor explained, "Microfinance alone cannot meet the demand for green financing. We need stronger collaboration between private investors, development banks, and government agencies."

### **5. Conclusion and Recommendations**

This study highlights that while microfinance plays a crucial role in supporting green entrepreneurship in Vietnam, its impact remains limited due to financial, institutional, and entrepreneurial challenges. The findings reveal that green entrepreneurs struggle with high-interest rates, short loan repayment periods, and complex application processes, while microfinance institutions face barriers such as regulatory constraints and limited expertise in assessing sustainability projects. Despite these challenges, successful case studies demonstrate the transformative potential of microfinance when combined with technical assistance and innovative financial models such as impact investing, blended finance, and crowdfunding. To scale up sustainable microfinance initiatives, policy reforms, capacity-building programs, and stronger multi-stakeholder collaborations are needed. By integrating financial incentives, regulatory support, and alternative financing mechanisms, Vietnam can expand access to green microfinance and accelerate the transition toward a more sustainable and inclusive economy. Addressing these barriers will be essential in unlocking the full potential of microfinance for green entrepreneurship.

To enhance the role of microfinance in supporting green entrepreneurship, the Vietnamese government should introduce stronger financial incentives for microfinance institutions (MFIs) that prioritize environmentally sustainable businesses. This could include interest rate subsidies, tax incentives, and risk-sharing mechanisms to encourage MFIs to allocate a greater portion of their loan portfolio to green enterprises. Additionally, simplifying regulatory procedures for green microfinance could help reduce administrative burdens, making it easier for both lenders and borrowers to access funding. A policymaker from the State Bank of Vietnam emphasized, "If we provide financial incentives and regulatory support for MFIs, they will be more willing to take on the perceived risks associated with green businesses." Establishing a national green finance framework that integrates microfinance into Vietnam's broader climate and sustainability policies would further strengthen the sector's development.

In addition to government support, greater private sector participation in sustainable finance is essential. Encouraging commercial banks, impact investors, and development organizations to collaborate with MFIs could expand financial resources available for green entrepreneurs. Blended finance models, which combine public and private funding, can help mitigate risks and attract more investors to the sector. A representative from a microfinance institution explained, "Partnerships with private investors allow us to offer lower interest rates and longer repayment terms, making loans more accessible to green businesses." Additionally, promoting green crowdfunding platforms and social impact bonds could provide alternative financing channels, reducing dependence on traditional microloans. By fostering a more diverse and inclusive financial ecosystem, Vietnam can create a sustainable funding landscape for green enterprises.

Finally, enhancing financial literacy and capacity-building programs for green entrepreneurs is critical to improving their ability to secure and effectively manage microfinance. Many green business owners struggle with developing strong business plans, financial forecasting, and accessing markets, limiting their success. MFIs and government agencies should collaborate in providing targeted training programs that equip entrepreneurs with the necessary skills to navigate the financial landscape. One loan officer noted, "Many applicants have innovative ideas but lack the financial knowledge to present viable business plans. Training programs would increase their chances of securing funding." Establishing business incubators and mentorship programs focused on sustainability could further support green entrepreneurs in scaling their ventures. By investing in financial education and technical assistance, Vietnam can strengthen the long-term success of green businesses and maximize the impact of microfinance in driving sustainable economic growth.

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