



Reducing Financial Risk to Renewable Energy Investments in Vietnam: Building a Green Finance Institution

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The VBF, representing 8 chambers of commerce, has proposed regulatory and permitting changes as a means of leveraging private sector investment in renewable energy

- Revision of *model PPAs* for wind and solar utilities, including those with dispatchable battery energy storage. “Take or pay” model will make FITs irrelevant, lower cost of renewables and reduce capital costs.
- Endorsement of a “*sleeve*” model for DPPA rather than “*synthetic*” model
- Remove limits on “*behind the meter*” industrial solar rooftop, including behind the meter *micro grids* (ex. within IZs)
- Encourage *residential rooftop* through use of two way meters as billing method
- Publication of a roadmap for the *market pricing of electricity*
- Allow the private sector to invest in *grid infrastructure* to improve stability and capacity

But even if these regulatory and permitting issues can be resolved, financial risks remain

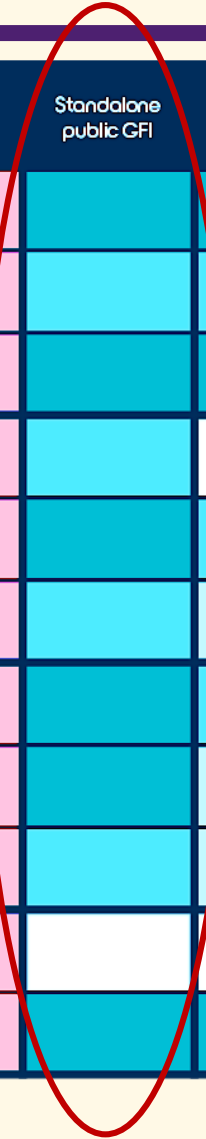
- Most investors prefer *non-recourse* project funding while lenders prefer corporate *balance sheet* funding. This mismatch limits leveraging and raises capital costs for power providers.
- Investors face *foreign exchange risks* as FITS are paid in VND and will need to be exchanged for foreign currency and repatriated without guarantees.
- The prevailing *short tenure of loans* requires investors to periodically roll over domestically originated loans in uncertain regulatory, interest rate, and fee structure environments.
- *Interest group capture and corruption* raise the costs for investors and limits their willingness and capacity to meet other environmental and social goals
- Only a very *limited set of tools for green finance*, predominantly loans and risk sharing facilities, have been tested in Vietnam, principally through ODA.
- Investors do not consider *green bonds*, often promoted by MDPs and Development Banks, a viable option for *project funding* in Vietnam though *foreign originated green bonds* could be a means of *aggregating* project funding.

One result: Banks stick to what they know

Hard tools	Good experience	Limited experience	Concept only	Soft tools	Good experience	Limited experience	Concept only
Grants	5%	0%	0%	Project TA to developers	0%	0%	0%
Concessional loans/credit lines	45%	20%	0%	Due Diligence	95%	5%	0%
Credit enhancement	95%	5%	0%	Green MRV	0%	0%	20%
Subordinate or hybrid debt	5%	5%	0%	Policy Coordination	60%	15%	0%
Equity	50%	10%	0%	Pipeline curation	100%	0%	0%
On-bill financing, leasing	15%	5%	5%	Financing TA for investors	35%	0%	5%
Senior debt & refinancing	85%	5%	0%	Investor liaison	40%	20%	0%
Aggregation & Securitisation	15%	20%	0%	Market signalling	70%	5%	0%

Some of the best options for a GFI are not currently feasible within Vietnam's political and regulatory systems

Criteria		Standalone public GFI	Standalone NCO-led GFI	Offshore GFI	SBV GFI unit	National Policy Bank GFI unit	State-owned bank GFI unit	State-invested bank GFI unit	Commercial bank GFI unit
Green focus	Priority of/mandate for green investment	High	High	High	High	High	High	High	High
	Breadth and depth of investment capacity in green sectors	High	High	High	High	High	High	High	High
	Ability to target green financing priorities	High	High	High	High	High	High	High	High
Attracting funding	Ability to attract domestic public capital	High	High	High	High	High	High	High	High
	Ability to attract international public capital	High	High	High	High	High	High	High	High
	Ability to attract existing and new sources of private capital	High	High	High	High	High	High	High	High
Technical capacities	Ability to deploy 'soft' informational tools	High	High	High	High	High	High	High	High
	Ability to deploy 'hard' capital/financing tools	High	High	High	High	High	High	High	High
	Ability to rapidly scale investment levels to meet green financing needs	High	High	High	High	High	High	High	High
Institutional structure	Political feasibility within Vietnamese political context	Low	Low	High	High	High	High	High	High
	Adaptability to changing market conditions and sectoral needs	High	High	High	High	High	High	High	High



In Vietnam, a hybrid public + private Green Finance Institution may be the most effective approach in the near term

HYBRID PUBLIC + PRIVATE MODEL

SBV GFI unit
provides technical assistance and market-making initiatives

+

State-invested commercial bank GFI unit
offers targeted financial support, demonstrates commercial green investment opportunities

- SBV could either provide tools and services directly or build other financial institutions' internal capacity

- GFI investment unit could be established within one key partner bank or within several/all state-invested banks

Increased capacity across the financial sector
Supporting the development of green project pipelines
Target public capital for risk management
“Halo” effect from growing portfolio of private investment in green sectors

Success requires independent, fair and transparent governance

- MPI and MOF agreement on independence and transparency
- Identification of financial tools and roadmap for introduction of new tools
- Clarity on institutional structure and impacts of VNGFI on bank regulatory capital requirements
- Private sector participation in board and board independence
- Identification of project pipelines free of interest group pressure
- Selection of host bank or banks
- Capacity assessment and staffing