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

Dr. Michael DiGregorio

Vietnam Country Representative

The Asia Foundation

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
Grants	5%	0%	0%
Concessional loans/credit lines	45%	20%	0%
Credit enhancement	95%	5%	0%
Subordinate or hybrid debt	5%	5%	0%
Equity	50%	10%	0%
On-bill financing, leasing	15%	5%	5%
Senior debt & refinancing	85%	5%	0%
Aggregation & Securitisation	15%	20%	0%

Soft tools	Good experience	Limited experience	Concept only
Project TA to developers	0%	0%	0%
Due Diligence	95%	5%	0%
Green MRV	0%	0%	20%
Policy Coordination	60%	15%	0%
Pipeline curation	100%	0%	0%
Financing TA for investors	35%	0%	5%
Investor liaison	40%	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 NGO-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								
	Breadth and depth of investment capacity in green sectors								
	Ability to target green financing priorities								
Attracting funding	Ability to attract domestic public capital								
	Ability to attract international public capital								
	Ability to attract existing and new sources of private capital								
Technical capacities	Ability to deploy 'soft' informational tools								
	Ability to deploy 'hard' capital /financing tools								
	Ability to rapidly scale investment levels to meet green financing needs								
Institutional structure	Political feasibility within Vietnamese political context								
	Adaptability to changing market conditions and sectoral needs								

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