CTF - IFC VIETNAM SUSTAINABLE ENERGY FINANCE PROGRAM

Comments/Questions from CTF TFC

		Comments/Questions	Responses
Japan	1.	Thank you for preparing the project documents for Vietnam Sustainable Energy Finance Program. Japan International Cooperation Agency has extended its concessional loan to EE and RE projects in Vietnam through Development Bank of Vietnam. We request the team to share the relative information of each project of the program with Japan International Cooperation Agency (contact point: Ms. Junko Morizane; Morizane.Junko@jica.go.jp) in order to avoid overlaps and maximize effective delivery of actions and supports.	Thank you for your support. We will coordinate with development partners including JICA in order to achieve maximum impact of the CTF program in the most efficient and effective manner.
Germany	2.	We noted that the original focus of the programm on small scale RE seems to have been changed to demand oriented EE of SME. As explained in our comments on the supplemental note we had serious concerns about the viability of this previous priority as a lack of donor financing does not seem to be the bottle neck, but rather the quality of project proposals, the experience of investors etc. Could you please confirm our impression about the change of priorities and explain whether you still intend to finance small-scale RE, possibly under which	In Vietnam the banking market is still fairly under developed and much of the longer term financing of projects is undertaken using short term deposits. In our discussions with various banks, they remain keen to lend to small scale renewable projects (in terms of sponsors), however often shy away based on the tenor. We would like to try and bridge that market gap, by allowing banks to partake in such project financings, provided they can hedge the maturity risk using an IFC/ CTF funding line. On the demand side, small scale EE solutions may often span to solutions that include both EE and some small scale RE, such as in industries or commercial buildings applications in biomass co-gen, and solar applications, etc

		conditions and advisory services, and to which extent in relation to the scale up of energy efficient and cleaner production investments.	Financing for SMEs is a much more familiar market segment in Vietnam; in these cases, the bottleneck is often the over reliance of collateral by the local banks assessing a projects' financial viability. Given that much of the EE and CP financing results in lower operational costs, the benefits of funding such projects are attained through increased cash flow rather than higher fixed asset ratios. By providing banks with the relevant incentives to view these types of projects – i.e. cash flow based lending proposals – we hope to slowly shift the market so as to make it more responsive to the end clients' needs.
France	3.	(i) Is there any condition on the use of the concessionality by the participating IF? Should they use it to limit collaterals for example? Is there any "condition" on the report of part of this concessionality on the end user (only the banks seem to benefit from the concessionality proposed)?	The conditions we put in place are: i) eligibility criteria of the asset portfolio; ii) portfolio ramp-up period; and iii) number of SMEs in the portfolio. We don't put conditions on the pricing to end-users as we want to leave it for the banks to decide based on their market context. The concessionality is mainly aimed at helping the bank to absorb some of the up-front costs they have to incur to start this new business. The concessionality is minimal, as we limit the ratio of IFC:CTF participation in every credit line.
	4.	(ii) The "output-based aid" system designed is interesting and in a way innovative. We would be interested in some more details regarding the process to define the objectives, to choose the partners, and the impact on the CTF.	Since industrial EE is identified as the area with the largest potential for GHG emission reduction, we target those banks in Tier 1 and Tier 2 group that have significant portfolio with manufacturing clients, and SME clients. The target banks also need to agree to put up their own resources for this program, beyond IFC/CTF funding.
	5.	(iii) Some actors have launched pilot project on the field in Vietnam with the banking sector, is there any specific study of these projects in order to try to replicate the	Very few pilot projects have been undertaken in the banking sector thus far. UNDP/GEF is the only partner that has attempted to work with commercial banks by putting in place EE guarantee facilities for SMEs in target sectors.

		lessons learnt from them?	The guarantee was less than 1.7mil USD, and was administered by Vietinbank, a state-owned bank. There was no fee charged for the guarantee, and Vietinbank was paid for administering the program. There was no TA provided to banks. After 5 years, we understand that not much progress has been made yet. Vietinbank set aside 14mil USD to lend for projects identified by UNDP/GEF, but the bank has disbursed only 300-400K to date. More recently, GEF funding has been used to support another private sector bank to encourage EE lending (GEF 1 mil USD, IFC 24 mil USD). Since this project is in its early stages, it is too early to report results. Another such program aimed at Cleaner Production projects was a small guarantee line (appx. 2mil usd) set up for 3 commercial banks known as the "Seco Green Credit Program". Without TA, the banks were not successful in identifying projects, and they didn't have resources to lend. So the program didn't make any progress after 3 years. JICA has very recently set up a lending program for EE projects, through Development Bank of Vietnam. Since this program is at inception, it is too early to report results. The lessons learned from the programs include: (i) commercial banks do need TA and significant support to develop this new business in a sustainable manner; (ii) commercial banks do need long-term resources to on-lend, and (iii) commercial banks face tough competition from other donor programs and state-owned policy banks, and therefore require incentives to enter this sector. So they do need incentives to do this, otherwise they will stay away.
	6.	(iv) What is the process to select the	Selection of partners will be based on the FIs being

		participating IF?	financially solvent and eligible for IFC financing, and would have sufficient internal resources to work with IFC team to design a investment and advisory program to promote this product in the Vietnam market. We review the banks in Tier 1, and Tier 2 groups, and classify them into potential groups. We then conduct sponsor reviews to make sure that these are banks with acceptable reputation and risk profiles. We then look at their portfolio and growth strategy to decide if EE finance would fit with their client base. Finally, we select the FI that demonstrates the most commitment to enter into this new sector of EE financing.
	7.	(v) The advisory service component (grant program) seems relevant to us, but would it be possible to have an idea of the way it will be allocated between banks and activities?	IFC has developed a standard package of TA to banks based on IFC's experience in other regions. The scale and duration and cost sharing of TA varies from bank to bank, and is based on results of IFC's appraisal of the banks capacity and needs.