ICED Evidence Library

Case Summary: Viability Gap Financing, Vietnam

Tags: Investment, Infrastructure, Energy, Programme Design, Case Study

Infrastructure & Cities for Economic Development

Photo: Flickr/Danebrian

The Programme

The Private Infrastructure Development Group (PIDG) through its Technical Assistance Facility (TAF) offers the Viability Gap Funding (VGF) – an innovative financing instrument designed to offset part of the up-front preparation costs of pro-poor infrastructure investments in challenging environments. TAF provides technical assistance and capacity building to the PIDG facilities to make their projects commercially viable. An example of how the VGF financing instruments can work in practice is provided by the Coc San Hydropower project in Vietnam, which was revitalised following a US$5 million grant by TAF in 2013. The VGF can be pioneering instrument to bridge the gap in funding of an infrastructure project at the time of financial close. Nevertheless, TAF experience with this instrument has been mixed. Of the three grants approved until 2015 only the Coc San Hydropower project has achieved its intended results.

Design Features

Significant risks are associated with the VGF; however, several measures to limit the risks of misuse of VGF grants were set-up as follows:

The VGF grant application support. TAF provides early assistance to PIDG facilities accessing VGF grants; for example, assistance with developing a concept note to inform the VGF application.

Rigorous procedure for the evaluation of VGF applications. An independent panel of experts evaluate all VGF applications before TAF donor approvals to ensure rigorous assessment of the value of each project.

Pro-poor project selection criteria. The VGF applications were evaluated based on the integration of pro-poor considerations.

Risk sharing. VGF grants are disbursed only after investors commit equity to the project to ensure that they share the risks.

Limited grant size. VGF is limited to no more than 15% of the total capital cost of a project. This ensures that private capital is genuinely at risk to performance.

Key Results

In 2012, InfraCo Asia Development (IAD) became a majority shareholder of the local developer, the Lao Cai Renewable Energy (LCRE), in order to revitalise the Coc San hydropower project, which came to a halt in 2011.

TAF provided US$5 million VGF grant to IAD to enable the project become financially viable. The grant enabled IAD to commission an environmental and social impact assessment (ESIA) to meet IFC standards, with specific considerations for pro-poor benefits.

TAF through its VGF contributed to IAD in securing US$23 million debt financing from Saigon and Hanoi Commercial Bank, which together with equity finance, enabled the project to reach financial close.

Potential benefits following completion of the project include: **130,000 people benefiting from reliable and affordable power**; **250 jobs created** during construction, and **40 permanent positions**; **reduction in carbon emissions by 76,000 tons per annum.**

Lessons Learnt

The VGF remains a complex and risky grant – only one out of three grants approved until 2015 has come to a financial close.

Significant preparatory work is necessary: To mitigate risks associated with the VGF funding provider, an adequate time and resources must be allocated to develop project concept notes and financial models.

Effective cooperation: A close cooperation between the project facility and the VGF scheme is necessary to determine the appropriate grant size, ensure an effective disbursement process, and monitor expected outputs.

The VGF instrument has mixed results: TAF has limited portfolio of interventions. It’s too early to draw a conclusion on the effectiveness and replicability of the VGF instrument. A further evidence is required before replicating this instrument to other infrastructure programmes.

The summary was prepared based on the “Technical Assistance for Viability Gap Financing: Coc San Hydro Power Plant” case study, which was developed as part of an evidence review for Department of International Development to inform its new Cities and Infrastructure for Growth programme. The Viability Gap Funding described in the case study is offered by Private Infrastructure Development Group through its Technical Assistance Facility.

If you want to find out more about this case study, please contact iced.programming@uk.pwc.com or read the full case study on the ICED website.