Vietnam: solar outlook 2018

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Vietnam has eluded solar developers for several years. Deals appear set to finally get done in 2018, if not on international developers' desired terms.

The Ministry of Industry and Trade (MOIT), which oversees the Department of Renewable Energy, has ambitious targets to raise solar power production from "a negligible level at present" to 850MW in 2020, 4,000MW by 2025 and 12,000MW by 2030 (equivalent to 3.3% of total generation capacity).

To spur that growth, MOIT has set the feed-in-tariff (FIT) at D2,086 ($0.12) but fixed the exchange rate, for an effective and still bankable FIT of $0.0935 per kWh. MOIT has also made modest efforts to make its much maligned PPA more palatable by, for example, increasing the number of model PPAs to three, from just one.

Crucial, if not deal-breaking, problems remain with the PPA however. There is still no 'take-or-pay' mechanism and the new PPA models do not address issues such as the absence of arbitration and termination clauses or guaranteed access to state utility EVN's grid.

Still, the level of investor appetite remains high. "Solar is a high priority for investors – there is a bit of a gold rush mentality ahead of the expiration of the current FIT on 30 June 2019," David Harrison, partner at Mayer Brown JSM's Ho Chi Minh City office told *IJGlobal*.

Local partners and financing

In the absence of internationally bankable PPAs, foreign banks are effectively shut out of the market and developers will need to tap the local banks, which are more comfortable with the structure of the PPA.

"Finding a local partner is critical, to navigate the regulatory environment and work with local banks," Harrison says.

With the $0.0935 per kWh set to expire at the end of June 2019, time is running out on foreign developers seeking local partners, according to one developer who has signed a memorandum of understanding on a solar farm.

"Plenty of foreigners are stumbling around because the looming expiry date is concentrating minds," he said. But, he warns, "it's too late to find a reliable local partner now and we will probably see more exits by foreigners over the next months."

In November 2017, Bangkok-based Symbior Solar became one of the first to officially pull out, cancelling its 30MW solar farm in Vietnam citing the "high start-up cost, regulatory issues, and an unbankble PPA."

Outlook 2018

The deals that are expected to get done in 2018, or at least by the 30 June 2019 FIT deadline, will most likely be by local developers and state-owned firms.

One of the most promising private sector project is Vietnamese conglomerate TTC's 150MW farms, backed by equity from the IFC and Singapore-based Armstrong South East Asia Clean Energy Fund. IFC and Armstrong own a combined 38% stake in TTC's farms.

"One solution to the financing conundrum is to obtain backing from an ECA or multilateral bank," points out Vaibhav Saxena, senior partner's associate at law firm VILAF.

The PPA has been sent to MOIT for approval but *IJGlobal* understands there have been delays on approval issuance for what will be Vietnam's very first solar park. The next hoped-for approval timeline is after the Vietnamese lunar new year holidays, which ends on 20 February.

That leaves open the question of how much solar capacity will be developed before the $0.0935 per kWh FIT expires in June 2019. One projection, seen as “widely optimistic”, doing the rounds in Vietnam is above MOTI’s target of 1,000MW by 2020, but some are more cautious.

“Although Vietnam has an advantage when it comes to abundant resources, especially solar power because Vietnam has a tropical climate… almost throughout the year, it remains to be seen whether the country will be able to tap into its potential,” says VILAF’s Saxena.

