Vietnam utility-scale solar

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The development process for ground-mounted utility scale solar projects in Vietnam is laborious, time-consuming, expensive and still largely difficult to navigate for foreign developers without entering a strategic partnership, in whatever form, with a local Vietnamese counterpart.

Developing ground mounted, utility scale solar projects in Vietnam is not straightforward, and even more so for foreign developers. However, with the right local strategic partner, advice and thorough preparation, attractive opportunities can be realized.

Image: Waaree Energies

Permitting & licensing process: The development process is governed by plenty of administrative procedures and related legal documentation in many different fields, such as investment and enterprise, national and provincial planning, electrical connection, land and environment, to name just a few. Local legal support is mostly required to navigate the time-consuming permitting and licensing process that can easily take one to two years to reach a ready-to-build (RTB) status. Major milestones, that in many cases require the involvement of local technical consultants to prepare the correct format and liaise, and lobby with relevant authorities, in this process include:

Land identification, availability, and costs: Solar power still requires plenty of land - with current state-of-the art systems in Vietnam typically larger than 8,000 m2/MW of installed capacity. For a developer, it can be hard to find suitable land plots in proximity to potential grid connection points that are feasible from a planning, technical and economic point of view. The cost of land can be high in Vietnam and often land use rights are split between many single owners making the whole process, including public hearings, cumbersome and risky.

Regulatory uncertainty: Due to the speed of solar market development in Vietnam and its varying policy drafts, turnarounds on draft decisions and delayed announcements, it poses a significant risk for developers and investors to deploy resources. Examples include: (a) many changing drafts of the FIT phase 2 but only finalization in April 2020, leaving developers and investors in the dark for 10 months; and (b) the initial announcement of the introduction of competitive selection processes, then announcing a turnaround and continuation of FIT models, and finally reversing the decision again in favor of the competitive selection processes.

Model PPA and bankability: The revised mandatory model PPA, effective from August 2020 onwards, still does not address many commercial and legal issues, giving investors and lenders cause for concern, some major points include:

Limited access to project financing: To date, the project financing scene in Vietnam has seen a high involvement of local Vietnamese banks, some of which have received concessional loans from multi- and bilateral organizations for direct lending (interests 7-9%, tenures 10-15 years), while international banks, due to concerns of the risk allocation in the PPA, have played a smaller role and typically operate in cooperation with a local Vietnamese bank providing country- and offtaker risk cover.

Vietnamese banks (e.g. Vietinbank, Agribank, Techcombank, Vietcombank, BIDV, SHB, Military Bank, SCB, Maritime Bank, VP Bank, Eximbank, and Sacombank) traditionally lend to state-owned or well-established business. Interest rates typically exceed 10% and most cases are rather corporate financing than non-recourse project financing in which securities, other than the project itself, are pledged. The Asian Development Bank (ADB) and other international banks have provided several loans to large projects recently, such as:

Costs of development and risk-return ratio: Due to the extensive permitting and licensing process, related documentation requirements, and the required involvement of local service providers, costs of the development process are high, while chances of success vary widely according to the developer"s ability to lobby. Realistically achievable development premiums do not reflect well the underlying cost risks, effectively making the market for developers that do not aim for long-term ownership, unattractive.

Natural disasters: Vietnam is prone to a variety of natural disasters, including storms and typhoons (coastal regions are more at risk) from May to January, flooding mainly in the Mekong river delta area throughout the year, mudslides due to heavy rainfall especially in hilly areas, and rather rare earthquakes in the northwest.

Culture and language: Vietnam"s distinct culture and language can quickly make business dealings for outsiders unfamiliar with this business environment extremely difficult and frustrating. Cross-cultural skills are essential, and a local setup is vital in proving commitment and establishing local networks.

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