

OPERATING AT THE FRONTIER: **BUILDING CAPACITY**



The Coc San Hydropower project goes to the heart of why PIDG exists: working across the infrastructure development lifecycle to de-risk projects and demonstrating to the private sector that successful investments can be made in a project that was once considered too risky. By exiting Coc San on commercial terms, InfraCo Asia is supporting PIDG's self-sustaining model.



BUILDING LOCAL CAPACITY

PIDG's strategy remains focused on encouraging more private sector funding into frontier activities and markets. The private sector will only invest in infrastructure projects which are financially sustainable, and when they have the confidence that the project is to be properly executed.

PIDG therefore plays an important role in creating the conditions in which that is possible, by supporting and building capacity, supporting early-stage projects to become bankable, and enabling projects to replicate and scale up.

By building local capacity, PIDG aims to enable countries to develop and fund their own infrastructure projects, as well as to facilitate investor confidence and investment flow into infrastructure projects in the targeted markets.



COC SAN HYDROPOWER: FROM DISTRESSED ASSET TO MARKETABLE RESOURCE

In November 2018, InfraCo Asia divested its stake in the 29.7MW Coc San Hydropower project to TEPCO, the largest electric utility company in Japan. This sale completed a six-year journey that resolutely proves PIDG's ability to de-risk infrastructure projects across the infrastructure development cycle, demonstrating to the private sector that successful investments can be made in the frontier markets in which it operates.

Located in Vietnam's Lao Cai Province, the \$44.5m Coc San project is owned and operated by Lao Cai Renewable Energy (LCRE), which is backed by Vietnamese and foreign private investment. It represents the first foreign direct investment in hydropower in the mountainous province of Lao Cai, which is situated in the rural, northern part of the country.

InfraCo Asia was first involved in 2012 when it was a distressed asset, having failed to secure long-term financing in 2011. InfraCo Asia provided the equity and leadership capital needed to help the project progress.

InfraCo Asia took a significant equity interest in the project and identified the need to completely restructure the Engineering, Procurement and Construction (EPC) contract and create a robust new financing plan. InfraCo Asia successfully brought the project to financial close in 2014.

InfraCo Asia's efforts to secure debt financing for Coc San included negotiating the terms of the restructure of the EPC contract to ensure greater transparency and higher bankability for lenders. By identifying and mitigating risks

early on, InfraCo Asia attracted private sector investment to a project that was once considered 'too risky'.

Collaboration with other PIDG companies was critical to the project's success. This included support from PIDG's Technical Assistance Facility (TAF), which funded an environmental impact assessment and provided the viability gap funding needed to facilitate financial close.

In mid-2014, as Coc San was nearing financial close, Vietnam's electricity regulator produced a draft proposal that if enacted, would have rendered the project unbankable and unviable from a commercial perspective. The proposal included severing the Consumer Price Index (CPI) link for tariff payments for any hydro project under 30MW that had not yet begun operations. On a broader industry level this change could have served to discourage investment as lenders and investors would not be comfortable with a flat tariff applied across 20 years. InfraCo Asia, supported by PIDG Owners, engaged with the government and through these negotiations managed to have the proposal repealed. This stakeholder management was instrumental to the project's ultimate success.

In 2016, Coc San began delivering clean power to the people of Lao Cai province under the direction of Nhu Quynh Tra, General Director of LCRE – one of the first women to take a lead role in Vietnam's renewable energy sector.

The operational plant is expected to provide clean, affordable power to 87,000 people and result in a reduction of 76,000 tonnes of carbon emissions.

Once the Coc San Hydropower plant was fully operational, InfraCo Asia quickly completed a refinancing with the

same local lender and managed to secure substantially improved pricing. The improved financing, along with an operating track record and timely payments from the offtaker, positioned InfraCo Asia to go to market to sell its remaining equity stake in the project. Following a competitive bid process which involved five parties submitting final bids in August 2018 and an extensive due diligence process the winning bidder, TEPCO, eventually bought InfraCo Asia's stake in the project.

Having created approximately 300 short-term jobs and over 30 long-term employment opportunities, Coc San continues to be run by LCRE, Coc San's Vietnam-based project company. It generates over 120GWh per year of clean energy and has been implemented to stringent international standards with respect to governance, environment, health and safety, and community relations.

Environmental studies carried out to IFC standards ensured the impact of the Coc San project – which is set amid beautiful terraced rice paddies – was minimal. Little land was lost by surrounding communities and there was no displacement of people.

The operational performance of the plant post-construction and PIDG's commitment to positive health, safety, environmental and social impacts, is what made TEPCO confident in PIDG's standards and led to its first investment in hydro-electricity outside of Japan. By divesting its equity stake, InfraCo Asia can now recycle the proceeds into future infrastructure projects.

Paving the way for future collaboration, InfraCo Asia has subsequently signed an MoU with TEPCO to collaborate on hydropower projects in south and south-east Asia, pairing InfraCo Asia's development capability with TEPCO's extensive hydropower experience.

SUPPORTING THE LOCAL COMMUNITY

LCRE, with the backing of its shareholders, has implemented two programmes to support local people:

- Community Development Programme: to date, the Community Development Programme has achieved the rehabilitation of three schools and the construction of an access road, enabling easier movement of farm produce. Scholarships continue to be provided to enable children to attend school and purchase books and uniforms, and LCRE recently sponsored a local community sports competition.

- Livelihoods Restoration Programme: designed to assist people whose land was impacted by the project to reinstate income-producing activities, this programme included the provision of training in construction, along with a project to improve crop yields, with support from local agricultural departments. The maize-cropping has been so successful in improving income that participating households are continuing this programme at their own cost. The programme also included the provision of breeding sows and goats, along with relevant training.