

The Socialist Republic of Vietnam

# Study on Establishment of Financing Mechanism for the PPP Infrastructure Projects in Vietnam Final Report

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Japan International Cooperation Agency (JICA)

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## List of Abbreviations

Abbreviations	Official name (English)	Official name (Japanese)
ACB	Asia Commercial Bank	アジア商業銀行
ADB	Asian Development Bank	アジア開発銀行
AFD	Agence Française de Développement	フランス開発庁
BIDV	Bank for Investment and Development of Vietnam	ベトナム投資開発銀行
BOO	Build-Own-Operate	建設-運営-譲渡方式
BOT	Build-Operate-Transfer	建設-所有-譲渡方式
BTO	Build-Transfer-Operate	建設-譲渡-運営方式
BVIM	BIDV - Vietnam Partners Investment Management JSC	BIDV-ベトナムパートナーズ・インベストメント・マネジメント
CDM	Clean Development Mechanism	クリーン開発メカニズム
DCA	Development Credit Authority	開発信用保証メカニズム (USAID の債務保証機関)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH	ドイツ投資開発会社
EAIF	Emerging African Infrastructure Fund	新興アフリカインフラファンド (アフリカへの長期融資を行う金融機関)
EVN	Electricity Vietnam	ベトナム電力総公社
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH	ドイツ国際協力公社
HCMC	Ho Chi Minh City	ホーチミン市
HFIC	Ho chi minh city Finance and Investment State-owned Company	ホーチミン市インフラ金融・投資国家会社
IBRD	The International Bank for Reconstruction and Development	国際復興開発銀行
ICC	Indochina Capital	インドチャイナキャピタル
IDFC	The Infrastructure Development Finance Company Limited (India)	インフラ開発金融会社 (インドのインフラ専門ノンバンク)
IFC	International Finance Corporation	国際金融公社
IFF	Infrastructure Financing Fund	インフラストラクチャー・ファイナンス・ファンド
IIF	PT Indonesia Infrastructure Finance	インドネシアインフラ金融会社 (インドネシアのインフラ専門ノンバンク)
IL&FS	Infrastructure Leasing & Financial Services Ltd.	インフラリース金融サービス会社 (インドの民間プロジェクトファイナンス機関)
IRR	Internal Rate of Return	内部収益率
JBIC	Japan Bank for International Cooperation	国際協力銀行 (日本)
JETRO	Japan External Trade Organization	日本貿易振興機構 (日本)
JICA	Japan International Cooperation Agency	国際協力機構 (日本)
JSC	Joint Stock Company	合弁株式会社
KfW	Kreditanstalt für Wiederaufbau	復興金融公庫 (ドイツ)
LIBOR	London Inter-Bank Offered Rate	ロンドン銀行間取引金利
LOI	Letter of Intent	予備的合意書、意向表明書
MB	Military Bank (Vietnam)	ベトナム軍事銀行
MDBs	Multilateral Development Banks	国際開発金融機関
METI	Ministry of Economy, Trade and Industry (Japan)	経済産業省 (日本)

Abbreviations	Official name (English)	Official name (Japanese)
MOC	Ministry of Construction (Vietnam)	建設省 (ベトナム)
MOF	Ministry of Finance (Vietnam)	財務省 (ベトナム)
MOIT	Ministry of Industry and Trade (Vietnam)	産業貿易省 (ベトナム)
MOT	Ministry of Transportation (Vietnam)	交通省 (ベトナム)
MPI	Ministry of Planning and Investment (Vietnam)	計画投資省 (ベトナム)
NEXI	Nippon Export and Investment Insurance	日本貿易保険 (日本)
PFC	Project Finance Company	プロジェクトファイナンス会社
PPP	Public-Private Partnership	公民連携パートナーシップ
Proparco	Société de Promotion et de Participation pour la Coopération Economique	経済協力開発振興公社 (フランス)
PSIF	Private Sector Investment Finance	海外投融資
PVN	Petro Vietnam	ペトロベトナム石油総公社
PWRF	Philippines Water Revolving Fund	フィリピン上下水道整備基金
REVN	Vietnam Renewable Energy JSC	ベトナム再生エネルギー会社
SCIC	State Capital Investment Company (Vietnam)	国家資本投資会社
UBI	Urban Business – Infrastructure Investment, JSC	都市ビジネスインフラ投資会社
USAID	United States Agency for International Development	国際開発庁 (米国)
USD	United States Dollar	アメリカドル
VCB, Vietcombank	The Joint Stock Commercial Bank for Foreign Trade of Vietnam	ベトコムバンク、ベトナム外商銀行
VCBF	Vietcombank Fund Management	ベトコムバンク・ファンド・マネジメント
VDB	Vietnam Development Bank	ベトナム開発銀行
VEC	Vietnam Expressway Corporation	ベトナム高速道路公社
VIDIFI	Vietnam Infrastructure Development And Finance Investment	ベトナムインフラ開発金融投資会社
Vinalines	Vietnam National Shipping Lines	ベトナム海運総公社
VND	Vietnam Dong	ベトナムドン
WB	World Bank	世界銀行

## 1. Overview of the Study

### 1.1. Purpose of the Study

Currently, the Socialist Republic of Vietnam (hereafter, "Vietnam") needs to improve domestic infrastructure with the PPP (Public-Private Partnership) method, and needs to build a framework for investing domestic and overseas private-sector capital in PPP infrastructure projects, with the timing and conditions suitable for each project. In this regard, the Japan International Cooperation Agency (JICA) and the U.S. Agency for International Development (USAID) plan to jointly build a funding mechanism (Infrastructure Financing Fund, hereinafter referred to as "IFF") for PPP infrastructure projects, and to this end conducted the " Study on PPP Infrastructure Projects in Vietnam" (hereinafter called "The Previous Study") from October 2010 to June 2011. As a result, we confirmed the great need for a funding mechanism for infrastructure projects, and summarized the direction of the desired funding mechanism.

This study, based on the results of the Previous Study, collects information and performs analyses and studies in relation to the format for IFF establishment, the investment project candidate list, the fund manager selection criteria, and basic structural elements of funds, clarifies the requirements for IFF establishment and realization of investment in projects, and makes recommendations.

Through this study, a framework for funds provision in Vietnam can be achieved, and participation of JICA as a creditworthy and actual investor for schemes can be expected to boost stability for companies from Japan and other advanced countries, and to provide opportunities for active participation in infrastructure projects. Furthermore, since development of Vietnam's infrastructure can provide a business activities environment for businessmen considering an advance into Vietnam, it will promote the advance of private-sector companies, and increase business opportunities for private-sector companies.

### 1.2. Content of the Study

To achieve the afore-mentioned objectives, this study implements (1)review of the Previous Study results, (2)nomination of candidate projects assuming financing by IFF, (3)investigation of IFF organization format and operations policy, (4)summation of arguments regarding IFF particularities and additionalities, and (5)investment candidate proposals for IFF. Specific operations content is as listed below.

- (1) Review of Previous Study Results
- (2) Nomination of Candidate Projects Assuming Financing by IFF
  - (a) Preparation of long list for IFF candidate projects
  - (b) Preparation of short list
  - (c) Specific support for most promising project
- (3)Investigation of IFF Organization Format and Operations Policy
  - (a) Proposal related to fund organization format

- (b) Study related to fund operations policy
- (c) Support for selection of fund manager
- (4) Summation of Arguments regarding IFF Particularities and Additionalities
  - (a) Differences with other infrastructure funds in other countries or in Vietnam
  - (b) Differences with other funds in Vietnam
- (5) Investor Candidate Proposals for IFF
  - (a) Preparation of long list of investor candidates
  - (b) Screening short list based on the long list
  - (c) Proposal for agreement between investor candidates (core investor candidates) listed on short list

### 1.3. Operations Flow for the Study

The study was commenced in April 2012, and ran for ten months, until January 2013. At the outset of the study, we first (1) used a review of the Previous Study results to confirm the direction of this study operation, and then performed (2) nomination of candidate projects assuming financing by IFF, and (3) investigation of IFF organization format and operations policy. In addition, in succession to these operations, we commenced (4) summation of arguments regarding IFF particularities and additionalities, and (5) investor candidate proposals for IFF.

We performed on-site studies a total of six times, in April, May, June, August, October, and November.

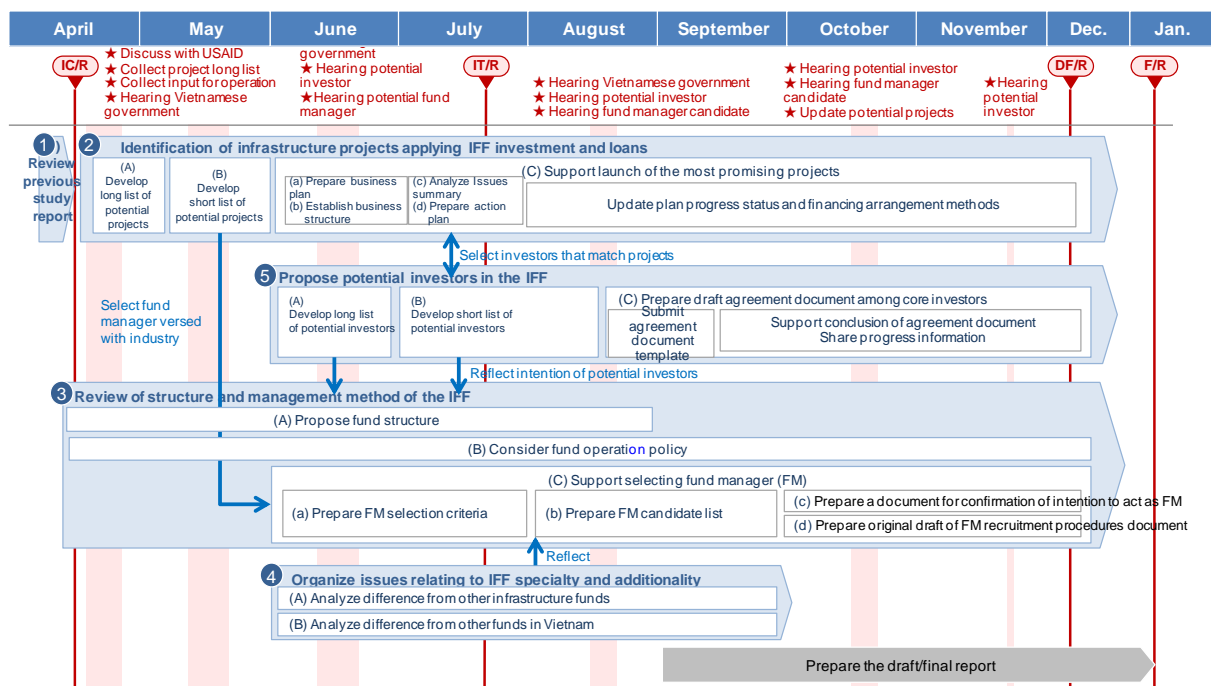


Figure 1.3. Operations Flow for the Study



### 1.4. Structure of the Study Team

In the performance of this project, we built a structure of (1) experts conversant with conditions in Vietnam in each infrastructure sector, (2) persons with practical and operational experience in establishing funds, and (3) experts capable of a firm grasp of local laws which is prerequisite regarding the project feasibility evaluations, and investor attraction. In addition, to perform the contacts and adjustments, etc., with local government institutions or companies, we also included the Japanese staff posted at our Vietnam office in the structure of the study team.

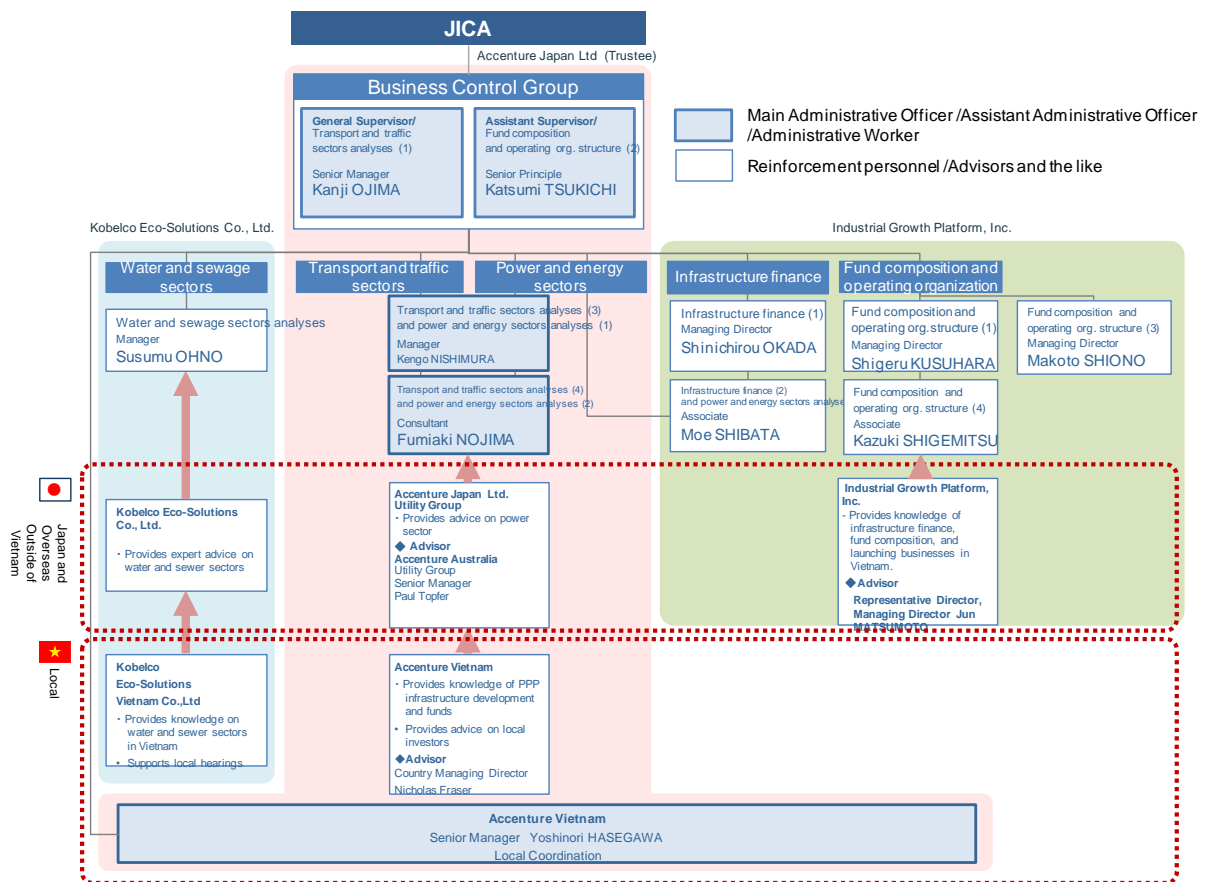


Figure 1.4. Structure of the Study Team

## 2. Review of Previous Study Results

In the Previous Study<sup>1</sup> conducted from October 2010 to June 2011, we confirmed the great need for a funding mechanism for infrastructure projects, and summarized the direction of the desired funding mechanism.

Since this study is performed based on the Previous Study, to grasp the study background we implemented a review of the study results related to (1) "moves for promotion of PPP infrastructure projects", and then in combination with items in this study, implemented a review of study results related to (2) "nomination of candidate projects assuming financing by IFF", a review of study results related to (3) "investigation of IFF organization format and operations policy", a review of study results related to (4) "summation of arguments regarding IFF particularities and additionalities", and a review of study results related to (5) "investor candidate proposals for IFF".

### 2.1. Review of Study Results related to 'Moves for Progress in PPP Infrastructure Projects'

First, in regards to the state of progress in each sector included in "Moves for Promotion of PPP Infrastructure Projects", in the Previous Study we listed the state of development, demand trends, and issues for the three sectors of transportation, water and sewer, and power and energy. We also grasped the state of progress for the Hanoi – Hai Phong Expressway, the Thu Duc Water Supply, and other individual PPP infrastructure development projects. Furthermore, a list of major PPP infrastructure development projects prepared for Vietnam in the past by the World Bank is also included. We decided to make use of these study results as basic information for studies by sector.

Table 2.1. Review of Study Results related to 'Moves for Promotion of PPP Infrastructure Projects

	Results from Previous Study	Survey Policy in This Study
Progress in Each Sector	<ul style="list-style-type: none"> <li>List status of preparedness, demand trends and issues regarding transport and traffic, water and sewer and the power and energy sectors.</li> <li>Understand individual PPP infrastructure work (Hanoi – Hai Phong Expressway and the Thu Duc Water Supply and others)</li> <li>Collect lists of past PPP infrastructure project(prepared by the World Bank)</li> </ul>	<ul style="list-style-type: none"> <li>Activities using results from Previous Study as fundamental information</li> </ul>
Legal System	<ul style="list-style-type: none"> <li>Organize amendments in the new BOT law</li> <li>Organize difference between PPP Pilot Law and the new BOT law</li> <li>Organize issues relating to the PPP Pilot Law</li> </ul>	<ul style="list-style-type: none"> <li>Particularly, get understanding of likelihood of implementing PPP Pilot Law that has not been implemented.</li> </ul>

<sup>1</sup> Study on PPP Infrastructure Projects in Vietnam (May 2011, JICA)

In addition, for the legal systems most closely related to Vietnam's PPP infrastructure projects, the Previous Study examines the content of the new BOT law revised in November 2009, and also contrasts the new BOT law with the PPP Pilot Law enacted in November 2010. Various issues have appeared in regards to the new PPP Pilot Law, including a lack of clarity in the range of public financing, and a lack of incentives for project proposers. In particular, in this study we used interviews, etc., to examine the direction of the PPP Pilot Law, to ascertain the new legal schemes for PPP infrastructure development.

## 2.2. Review of Study Results related to 'Nomination of Candidate Projects Assuming Financing by IFF'

Next, in regards to preparation of the Long List included in "Nomination of Candidate Projects Assuming Financing by IFF", in the Previous Study we examined government development plans in the transportation, water and sewer, and power and energy sectors. Moreover, we listed some examples taken from lists of specific projects in the development plans. In this study, we need to perform a more comprehensive, concrete investigation of investor candidates and other parties involved in IFF construction, as one step toward IFF establishment. To this end, and with reference to the Previous Study, we decided to make a comprehensive collection of project candidates from the project list in the Vietnam government's development plan, as well as from PPP infrastructure project lists currently under study by the Japan side and affiliated development support institutions, or by Vietnamese financial institutions and private-sector investors, and to prepare a Long List.

Table 2.2. Review of Study Results related to 'Nomination of Candidate Projects Assuming Financing by IFF'

	Results from Previous Study	Study Policy in This Study
Prepare Long List	<ul style="list-style-type: none"> <li>Understand government development plans for traffic, water and sewer and the power and energy sectors.</li> <li>Include proposal list published in development plan as one of examples</li> </ul>	<ul style="list-style-type: none"> <li>Collect project candidates in development plans and the like; prepare long list</li> </ul>
Prepare Short List	<ul style="list-style-type: none"> <li>Submit "Risks" and "Feasibility" as viewpoint for narrowing down candidate project. As a breakdown of risks, submit construction risks, cash-flow risks, operating risks, sponsor risks, and policy change risks</li> </ul>	<ul style="list-style-type: none"> <li>Use evaluation axes of "timeliness" and "feasibility" to narrow down potential projects.</li> </ul>
Support Embodiment of Most Promising Proposals	<ul style="list-style-type: none"> <li>Outside of scope of Previous Study; not listed</li> </ul>	<ul style="list-style-type: none"> <li>Specify most promising projects from short list, and provide support for embodiment</li> </ul>

For preparation of the Short List, in the Previous Study we presented "risk" and "feasibility" as viewpoints for narrowing down the candidate projects. In this study, we combined "risk" and "feasibility" into "feasibility", and added the perspective of "timeliness" to evaluate each project. We used these two evaluation axes to narrow down the candidate projects, and prepared a Short List with emphasis on the viewpoint of specific support feasibility based on IFF.

Furthermore, as specific support for the most promising projects narrowed down from the Previous Study, in this study we designated the most promising projects and implemented information collection and adjustment for use in determination of investor candidates.

### **2.3. Review of Study Results related to 'Investigation of IFF Organization Format and Operations Policy'**

In regards to proposals related to the fund organization format included in "Investigation of IFF Organization Format and Operations Policy", in the Previous Study we proposed establishment of a fund in a Project Finance Company (PFC) format, in view of restrictions placed on financing by other than non-banks under Vietnam's Financial Institutions Law<sup>2</sup>, and also added some thoughts regarding the organizational structure and management system. In addition, with reference to the scale of the Indonesian IIF<sup>3</sup> and African EAIFF<sup>4</sup>, we have proposed establishment of a fund on the scale of USD 500 mil.

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<sup>2</sup> "It is restricted in Vietnam that those entities which are not financial institutions conduct loan operation according to the Law on Credit Institutions[ No.47/2010/QH12 of the National Assembly dated June 16, 2010]" page 114, Study on PPP Infrastructure Projects in Viet Nam (May 2011, JICA)

<sup>3</sup> Abbreviation for PT Indonesia Infrastructure Finance. A non-bank specializing in infrastructure established by the Indonesian government, the World Bank, IFC, ADB, and DEG.

<sup>4</sup> Abbreviation for Emerging Africa Infrastructure Fund. An institution providing long-term financing for private-sector infrastructure development projects in the sub-Saharan region of Africa, established by a joint organization of six European countries, European and South African development organizations, and other international institutions.

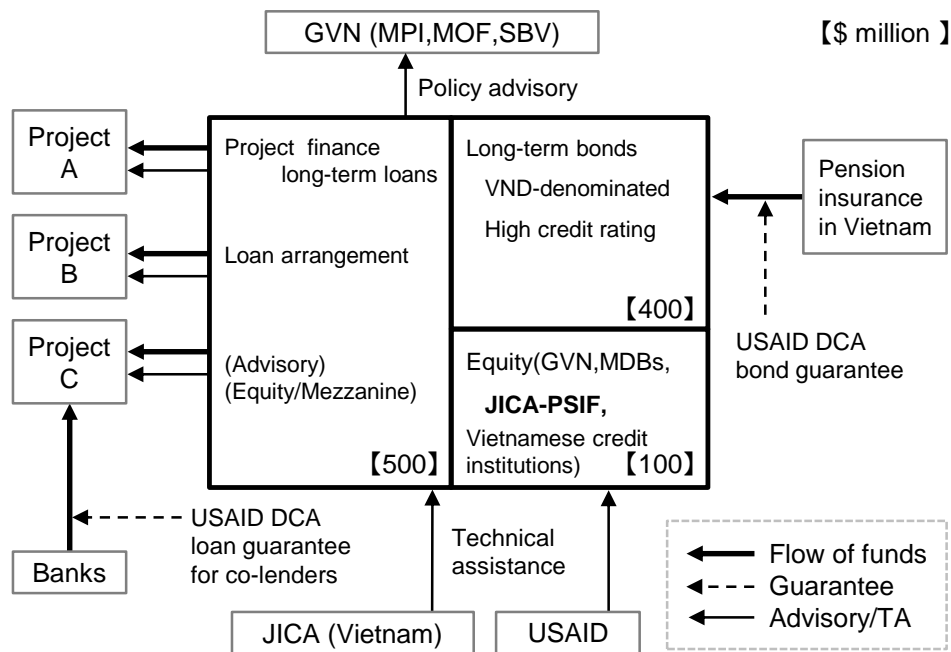


Figure 2.3. IFF Implementation Format Shown in the Previous Study

Meanwhile, we concluded that further study is needed into why the PFC format is a suitable organization format as the Previous Study did not conduct detailed examinations. In this study, we made comparisons with other options, examined the financing needs of candidate projects, and study and reflect the intentions of investor candidates, including JICA, and of fund manager candidates, as well as studied the legal restrictions, and then again submitted a proposal for a suitable fund organization format. For the scale of funding, we merely referenced the scale of similar funds, with the main thrust of the proposal reflecting the conditions of investment amounts and proportions, etc., available for specific projects and investors.

For studies of fund management policy, and particularly investment decision-making and governance, it appears that ordinary funds tend to use relatively standardized management systems and processes, and in the Previous Study we placed emphasis on credit risk, liquidity risk, reputation risk, and other risks that must be taken into consideration in fund management. Since it is possible that the design of the fund management policy can itself be the key to realization of the IFF, depending on the candidate project or on the investor candidate intentions, in this study we investigated fund management policies that adequately take the IFF particularities into consideration, and summarized them in a term sheet format.

In regards to support for selection of fund managers, the Previous Study indicated that persons who can show a detailed knowledge of Vietnam's domestic conditions and of international financial customs should be recruited. In this study, we also took this course, preparing standards for fund manager selection, and even preparing a proposal for a fund manager recruiting form.

Table 2.3. Review of Study Results related to 'Investigation of IFF Organization Format and Operations Policy'

	Results from Previous Study	Survey Policy in This Study
Propose Fund Structure	<ul style="list-style-type: none"> <li>Propose establishing fund in a Project Finance Company (PFC) format, and consider organizational structure and management system.                             <ul style="list-style-type: none"> <li>✓ Examine restrictions in financial institution laws in Vietnam.</li> </ul> </li> <li>For the fund size, propose USD \$500 million, using IIF (USD \$380 million) and EAIF (USD \$600 million) as references.</li> </ul>	<ul style="list-style-type: none"> <li>Propose appropriate fund structure after comparing with other options.                             <ul style="list-style-type: none"> <li>✓ Examine and reflect candidate proposals and intentions of potential investors, including JICA, and potential fund manager.</li> </ul> </li> <li>Propose scale of fund from conditions such as fund needs of candidate proposals, amounts and ratios that can be invested by potential investors.</li> </ul>
Consider Fund Operating Policy	<ul style="list-style-type: none"> <li>Investment decision-making and governance policy have not been adequately debated.</li> <li>Submit types of risks that must be considered.                             <ul style="list-style-type: none"> <li>✓ Credit risks, liquidity risks, reputation risks, and others</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Consider in light of nature of candidate proposals, and intention of potential investors.</li> <li>Summarize using a term sheet.</li> </ul>
Support Selecting Fund Manager	<ul style="list-style-type: none"> <li>Indicate knowledge of conditions within Vietnam and international finance practices as requirements for candidates, using the business background of the Managing Director at InfraCo Asia as a reference.</li> </ul>	<ul style="list-style-type: none"> <li>Prepare fund manager selection criteria and prepare candidate list.</li> <li>Prepare proposal for fund manager recruiting form.</li> </ul>

## 2.4. Review of Study Results related to 'Summation of Arguments regarding IFF Particularities and Additionalities'

In regards to differences with infrastructure funds in other countries, and with other such funds in Vietnam, included in "Summation of Arguments regarding IFF Particularities and Additionalities", the Previous Study presented a number of individual examples as case studies. These examples included VinaCapital, an infrastructure fund in Vietnam, as well as infrastructure funds in other countries such as IL&FS<sup>5</sup> in India, IIF in Indonesia, and EAIF in Africa, and also cases of project finance not based on infrastructure funds, such as Australia's Trans Urban Group and India's IDFC<sup>6</sup>. In this study, we again examined these other infrastructure funds, with reference to the Previous Study, and elucidated the differences.

We also conducted comparative studies of the differences with other funds in Vietnam.

Table 2.4. Review of Study Results related to 'Summation of Arguments regarding IFF Particularities and Additionalities'

	Results from Previous Study	Study Policy in This Study
Difference from Infrastructure Funds in Other Countries and Vietnam	<ul style="list-style-type: none"> <li>Examine the VinaCapital example, which is an infrastructure fund in Vietnam.</li> <li>Examine the IL &amp; FS, the IFF, and the EAIF examples, which are infrastructure funds in other countries.</li> <li>As examples of other project financing, examine the Transurban Group in Australia, and IDFC in India.</li> </ul>	<ul style="list-style-type: none"> <li>Because Previous Study did not go further after listing up individual examples as case studies, examine other infrastructure funds and organize the differences.</li> </ul>
Difference from other funds in Vietnam	<ul style="list-style-type: none"> <li>Outside of scope of Previous Study; not listed</li> </ul>	<ul style="list-style-type: none"> <li>Examine other funds in Vietnam, and organize the differences.</li> </ul>

<sup>5</sup> Abbreviation for Infrastructure Leasing & Financial Services Ltd. Corporation established by the Central Bank of India, and the State Investment Fund. Has also received capitalization from IFC and Orix, etc.

<sup>6</sup> Abbreviation for Infrastructure Development and Finance Corporation, Ltd. A private-sector project finance institution established by the Government of India, international institutions, and private-sector corporations in India.

**2.5. Review of Study Results related to 'Investor Candidate Proposals for IFF'**

In regards to preparation of an investor candidate long list included in "Investor Candidate Proposals for IFF", the Previous Study made reference to such examples as IDFC in India and IIF in Indonesia, and then proposed that major domestic financial institutions in Vietnam should be included in efforts that center on the government of Vietnam, and the IFC, ADB, and other aid institutions. In this study, we prepared a Long List after grasping wider, more comprehensive ranges of investor candidates, and then prepared a Short List. Furthermore, we prepared a proposal for agreement between investor candidates, and also provided the screening required for determining the core investor candidates, to prepare for progress toward realization of specific steps.

Table 2.5. Review of Study Results related to 'Investor Candidate Proposals for IFF'

	Results from Previous Study	Study Policy in This Study
Prepare Long List of Potential Investors	<ul style="list-style-type: none"> <li>Proposed it is preferred that the major financial institutions in Vietnam be included centering on Vietnamese Government and supporting institutions, using India's IDFC and Indonesia's IIF as examples.</li> </ul>	<ul style="list-style-type: none"> <li>Prepare a new long list of investor candidate, as it did not grasp exhaustively.</li> </ul>
Screening and Short Listing Based on Long List	<ul style="list-style-type: none"> <li>Outside of scope of Previous Study; not listed</li> </ul>	<ul style="list-style-type: none"> <li>Prepare short list of investor candidate.</li> </ul>
Prepare Agreement Documentation With Potential Investors in Short List	<ul style="list-style-type: none"> <li>Outside of scope of Previous Study; not listed</li> </ul>	<ul style="list-style-type: none"> <li>Prepare agreement document with core investor candidates.</li> </ul>



### 3. Nomination of Candidate Projects Assuming Financing by IFF

#### 3.1. Method for Nomination of Candidate Projects

##### 3.1.1. Scope of Candidate Projects

For this scope of this study, we targeted the three sectors of transportation, water and sewer, and power and energy that were targeted in the Previous Study for a survey of investment needs. With consideration for the need on the Vietnam side for large-scale development of new infrastructure, we also targeted "Greenfield projects (new construction phase) as an infrastructure development stage. These are set as part of the scope of this study, and are not intended to be excluded from other Brownfield (operation phase) projects, or from IFF investment targeting of projects in other sectors.

In addition, while excluded from the scope of the study, in order to deepen the possibilities for investment from IFF in other sectors, we added the study of the hospital and industrial park projects (2-3 projects) that were in the study proposal from JICA.

Table 3.1.1. Scope of Candidate Projects in this Study

Targeted Sectors		Target Projects			
		Green-field projects		Brown-field projects	
		New Installation Phase	Expansion Phase		
Transport and traffic sectors	Airports	<b>Scope of Study</b>			
	Harbors				
	Railroads				
	Roads				
Water and sewage sectors	Waterworks				
	Sewer				
Power and Energy Sectors	Thermoelectric power plants				
	Hydroelectric power plants				
	Wind power plants				
Hospitals			<b>Additionally examine two to three cases</b>		
Industrial Complex					
Distribution Facilities					
Education Facilities					
⋮					

### 3.1.2. Process for Nomination of Candidate Projects

For the nomination of candidate projects, we first concentrated on the infrastructure projects listed by public organizations, financial institutions, and business companies both inside and outside Vietnam, and prepared a "General List" consisting of 312 projects. Next, we set outward elimination conditions to prepare a Long List of 160 projects, and then extracted nine projects with "timeliness" and "feasibility" for a Short List.

Furthermore, we specified five projects as being the most promising, for have particularly high "timeliness" and "feasibility", and for also having investment needs with IFF. For these five projects, we provided concrete support in the form of preparation of materials for investors so that the IFF investment financing studies could begin. Note that this nomination process was performed based on information as July 2012.

Table 3.1.2. Process for Nomination of Candidate Projects

Nomination Processes	No. of Projects	Extracting Conditions
General List	312 projects	<ul style="list-style-type: none"> <li>Must be an infrastructure project targeting development inside Vietnam, proposed by public organizations, financial institutions and business companies inside and outside of Vietnam.</li> </ul>
Long List	160 projects	<ul style="list-style-type: none"> <li>Must be a project that will be in operation from 2014 and beyond.</li> <li>Must be a BOT/PPP project.</li> <li>Must be a transport and traffic, water and sewer, and power and energy-sector project. (Additionally examine two to three projects in the hospital and industrial complex sectors.)</li> </ul>
Short List	9 projects	<ul style="list-style-type: none"> <li>Must be a project having "timeliness" for IFF input.</li> <li>Must be a project having "feasibility" that will generate reasonable returns.</li> </ul>
Most Promising Projects	5 projects	<ul style="list-style-type: none"> <li>Must be a project with particularly high timeliness and feasibility.</li> <li>Must be a project having financial needs for IFF.</li> <li>Must be a priority project for both Japan and Vietnam (additional point elements)</li> </ul>

### 3.2. Preparation of General List

To obtain a comprehensive grasp of the candidate infrastructure projects, as Stage 1 in the candidate project nomination process, we prepared a "General List" based on a) MPI PPP Pilot project list, b) JICA and other PPP infrastructure F/S projects, c) Project lists of relevant ministries and agencies, and of development aid institutions, and d) Project lists of private-sector investors, and other information sources both in Vietnam and abroad.

While we also attempted to collect information from domestic financial institutions in Vietnam, we were unable to obtain comprehensive information about the candidate projects held by each institution, either because no such list had been prepared, the target project was outside the scope of the study, or sharing of information was not allowed for reasons of confidentiality.

Table 3.2. Information Sources Used in Preparation of 'General List'

Issuing Institution	Information source name
a) PPP Pilot project list prepared by the Vietnam Ministry of Planning and Investment (MPI) PPP Task Force.	
MPI	<ul style="list-style-type: none"> <li>• PPP Pilot project</li> </ul>
b) Projects listed in the cooperation preparation study (PPP infrastructure, etc.) now being implemented by the JICA Private-Sector Collaboration Office, and other PPP infrastructure projects now under study by the Japan side	
JICA METI JETRO	<ul style="list-style-type: none"> <li>• Feasibility Study on PPP Infrastructure projects (F/S)</li> <li>• Study on PPP Infrastructure Projects in Vietnam (Previous Study)</li> <li>• Niviet Industrial Part Basic Information Gathering Confirmation Survey Final Report</li> <li>• Feasibility Study on PPP Infrastructure projects</li> <li>• Vietnam Infrastructure Map</li> <li>• Power Survey Map (including Appendix "Power Station Project EPC, Contractor, and other Agreement")</li> </ul>
c) PPP infrastructure projects now under study at relevant Vietnam ministries and agencies, and at relevant development aid institutions	
MPI MOT MOIT  Quang Ninh Province ADB IFC	<ul style="list-style-type: none"> <li>• NMT project catalogue</li> <li>• Detailed Information on Transport Projects Planned for 2011 – 2015</li> <li>• National Power Development Plan between 2010 and 2020, with orientation toward to 2030</li> <li>• Van Don Economic Zone Development Plan</li> <li>• Press Release</li> <li>• Project Preparatory Technical Assistance List</li> <li>• Scoping of Infrastructure Investment Opportunities in Mekong Region Infrastructure Projects (F/S)</li> </ul>
d) PPP infrastructure projects now under study at Vietnam's financial institutions, and by private-sector investors	
VIDIFI VEC PetroVietnam REVN GIZ Vinalines	<ul style="list-style-type: none"> <li>• Overall Introduction Projects Called for Investment</li> <li>• Expressway projects in Vietnam by year 2020</li> <li>• Partnership Opportunities with PetroVietnam 2012</li> <li>• Project list on REVN's website</li> <li>• Status of Wind Power Development and Financing of These Projects in Vietnam Investment Demand for Handling Equipment</li> <li>• Port Development Projects 2006-2010</li> </ul>

### 3.3. Preparation of Long List

Next, we set four outward knockout conditions to perform screening on the 312 infrastructure projects that had been collected for the General List, and created a Long List consisting of 160 projects (see "Appendix 1: Candidate Projects Long List").

Specifically, if determined to be (1) a project planned to be completed within 2013 (development timing), (2) a project where funding is provided through ODA (finance method), (3) a project other than in the transportation, water and sewer, or electrical energy sectors (target sector), or (4) a project that is not looking for investment based on foreign capital (other intrinsic information), we excluded it from the Long List.

Table 3.3. Knock-out Conditions in Preparation of Long List

Viewpoint of Extraction	Extracting Conditions	Specific Extraction Methods (Knockout Conditions)
① Timing for Preparations	Must be a project presently being planned, and has margin for IFF input.	■ Exclude projects for which construction will be completed within 2013.
② Finance Methods	IFF requires participation by private sector, and it must be a project implemented using the BOT/PPP methods.	■ Exclude projects where funding is provided through ODA.
③ Targeted Sectors	Must be a project of the three targeted fields of IFF (transport and traffic, water and sewer, and power and energy) determined according to the JICA private sector alliance section policy.	■ Exclude projects other than the three sectors; transport and traffic, water and sewer, and power and energy (such as urban development, logistic facilities and the like).
④ Others, Unique Circumstances	As a presumption of investments by IFF, there must be no unique problems that would interfere with progress of the project.	■ Exclude projects where the business owner is not seeking for investment based on foreign capital.

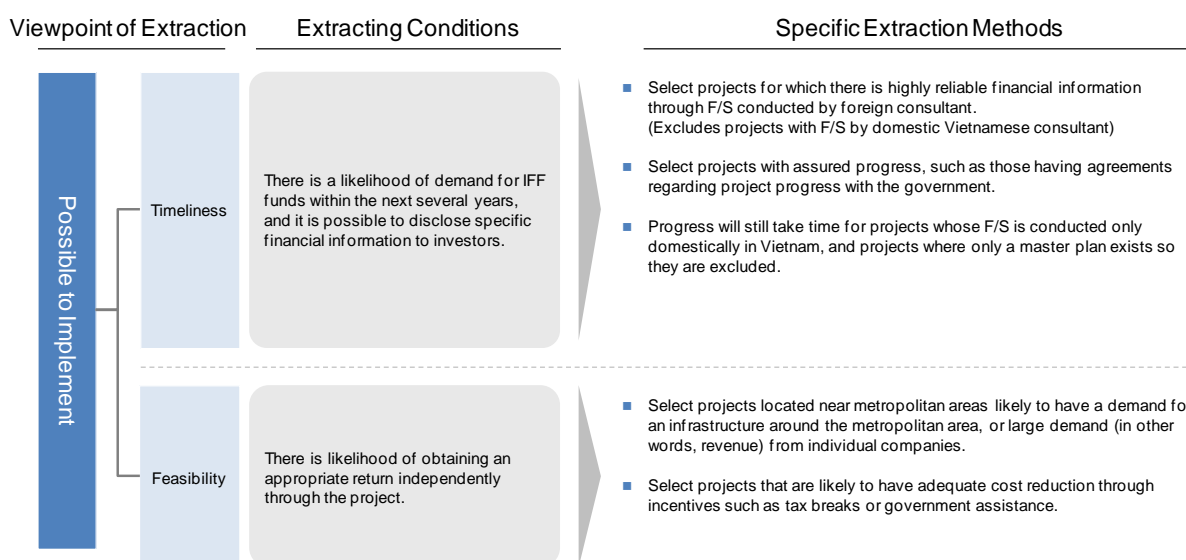
### 3.4. Preparation of Short List

#### 3.4.1. Method for Short-Listing

We performed evaluations of "timeliness" and "feasibility" for each project in the list of 160 projects included in the Long List, and extracted a Short List of projects with a high probability of realization that satisfy both conditions.

"Timeliness" refers to evaluation of whether forecasts can be made of the generation of demand to IFF for finance within the next several years, and whether specific financial information can be provided to investors. In addition, "feasibility" refers to evaluation of whether a suitable return can be independently obtained in the project.

Table 3.4.1. Short-listing Method



#### 3.4.2. Short List Projects

As a result of evaluations of the 160 Long Listed projects, we prepared a Short List of one airport project, four highway projects, one water supply project, two power station projects, and one hospital project, for a total of nine projects, extracted as projects satisfying "timeliness" and "feasibility" (the project Short List was not publically disclosed).

#### 3.4.3. Finance Needs of Projects on Short List

When we studied the IFF financing needs for these nine Short Listed projects, we found that needs existed for both Debt and Equity. In addition, we clarified that the need for IFF financing does not exist in large-scale projects where the assumed IFF size is USD 500 million and the total project expenses reaches around USD 1,000 million.

### 3.5. Specific Support for Most Promising Projects

#### 3.5.1. Selection of Most Promising Projects

We subjected the Short Listed nine projects to another evaluation of "timeliness" and "feasibility" graded in three levels (high, medium, low), and extracted the projects whose evaluations were at least "high" or "medium" for both factors. We then selected three highway projects, one power station project, and one hospital project, for a total of five projects, as the most promising projects with an apparent need on the project side for IFF financing.

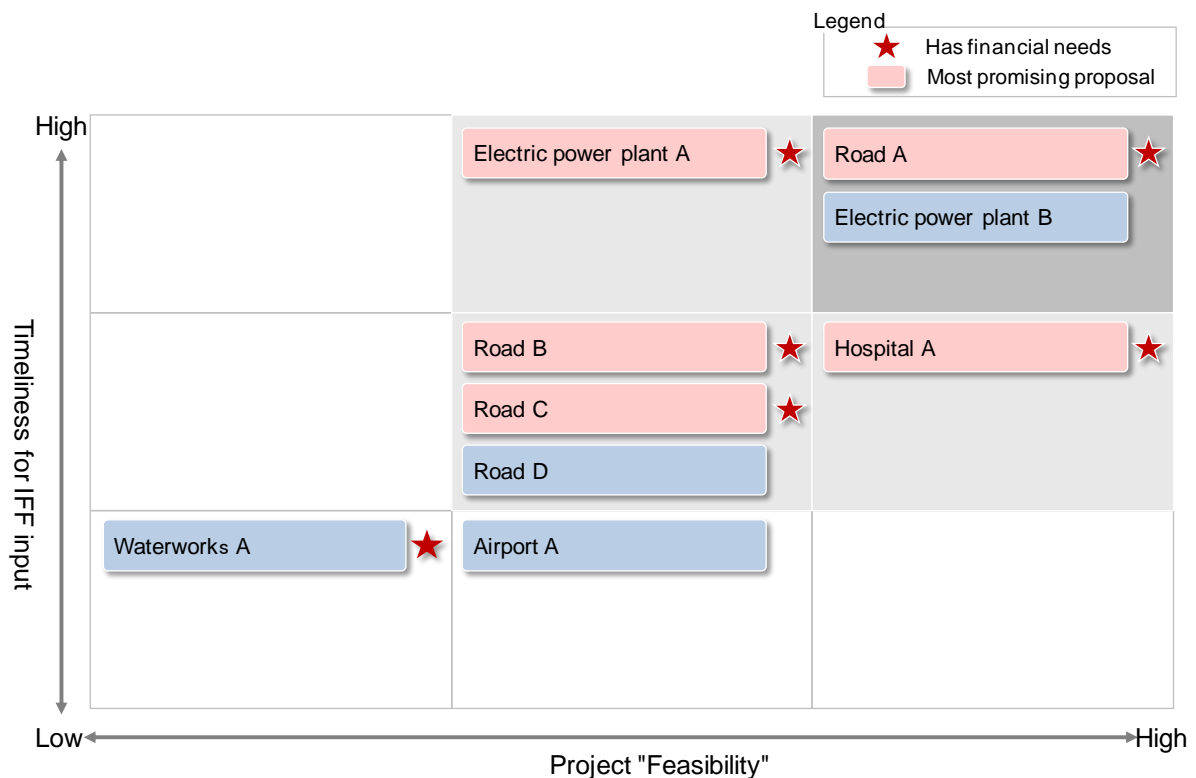


Figure 3.5.1. Selection of Most Promising Projects

For "timeliness", we performed evaluations from the perspective of targeting projects within one to two years after establishment of the IFF, with forecasts of demand for IFF financing within the ensuing one to two years, to determine whether specific financial information that can be presented to investors is available. We classified cases where there are factors for additional points as "high", cases where there are no factors for additional points nor risks for point deduction as "medium", and cases with risks for point deduction as "low".

In addition, for "feasibility" we performed evaluations from the perspective of IFF obtaining a suitable return from individual projects, to determine whether suitable returns can be forecast for individual projects. For the evaluation metric, we set cases with Equity IRR > 20% or Project IRR > 15% as "high",

cases with Equity IRR 15 to 20% or Project IRR 10% to 15% as "medium", and cases with Equity IRR < 15% or Project IRR < 10% as "low".

For financing needs, from the perspective of identifying projects capable of securing investment from IFF, we selected projects other than Airport A, Highway D, or Power Station B, which were so large in scale as to not need the financing. As a result, while Power Station B had a high evaluation in both "timeliness" and "feasibility", it was not selected as a most promising project because of the lack of financial needs.

### **3.5.2. Specific Support for Each Project**

As support for the five most promising projects, we prepared materials for investors that would enable an immediate start to studies into IFF investment financing ("Materials for Investors" is not publically disclosed).

The Materials for Investors lists basic information about the project, the financing structure, project profitability, issues in project implementation, and action plans for their resolution.

## 4. Investigation of IFF's Fund Structure and Operations Policy

### 4.1. Proposals related to Fund Structure

The fund structure of IFF normally takes a shape in line with management policy based on fund managers and investors (particularly anchor investors), and is determined with consideration for the legal regulations, etc., of the target country. While we cannot confirm the structure, since the fund managers and investors are not yet determined when the current study is performed, we compared several promising proposals of structures, and submitted a proposal for the most realistic and promising proposal.

Specifically, of the proposals related to the (A) fund organization format in the project instructions,

- a) Vietnamese legal regulations related to fund structure and management (regulations for foreign capital, foreign loans, and funds transfer that could place restrictions on fund structure and management, and taxation and regulations, etc., on capital gains and dividends),
- b) Strengths and drawbacks of multiple options related to Private Equity (PE) funds, debt funds, investment companies, revolving funds, and other fund structures
- c) Possibility of multiple options for fund procurement such as investments, bonds, loans, and other, through analysis of the Vietnam government bond market, and of public and private sector investors,

We first investigated the respective main discussion points, which are the four points below.

- Organization format (Fund Format vs. Company Format) (main discussion points in b)
- Procurement and financing method (Equity vs. Debt) (main discussion points in c)
- Fund domicile (Offshore vs. Onshore) (main discussion points in a and b)
- Currency (Vietnam Dong vs. US Dollar) (main discussion points in a)

Items other than the four main discussion points above, which are related to fund organization formats, are listed in "4.2.1. Investigation of Fund Management Policy", in term sheet format aligned with fund management policy.

#### 4.1.1. Structure (Fund vs. Company)

The assumed structures of the IFF can be divided broadly into two classifications, a fund (Ex.: member's fund) and company (Ex.: investment holding company). Characteristics of the two types are as shown below. (The figures in the next and following pages do not show more than general pattern diagrams, and the intent of the fund manager or anchor investor can be sufficient for adjustment such as establishment of an intermediary corporation or fund.)



At any rate, whether choosing the fund or the company, if financing for the IFF is received from the investor, we believe that this should be sufficient for incorporation into a USAID debt guarantee scheme<sup>7</sup>.

**Fund:**

If IFF is established in a form of fund, the IFF procures Equity (for a Debt fund, procures Debt) from investors, including JICA. With this fund as seed money, the investment target is selected by decision of the fund manager (as well as by decision of the investment committee) for investment of Equity (for a Debt fund, of Debt) in individual projects. Note that, since the USAID debt guarantee scheme does not target Equity, it cannot be applied to the Equity fund shown in the figure below.

For the fund format, since the Equity provider and Debt provider demand return and degree of risk allowance basically differ, many funds specialize in one or the other. However, there are also cases where funding is procured in both Equity and Debt, with investment possible in either Equity or Debt. In this case, its external function bears no difference from the company format.

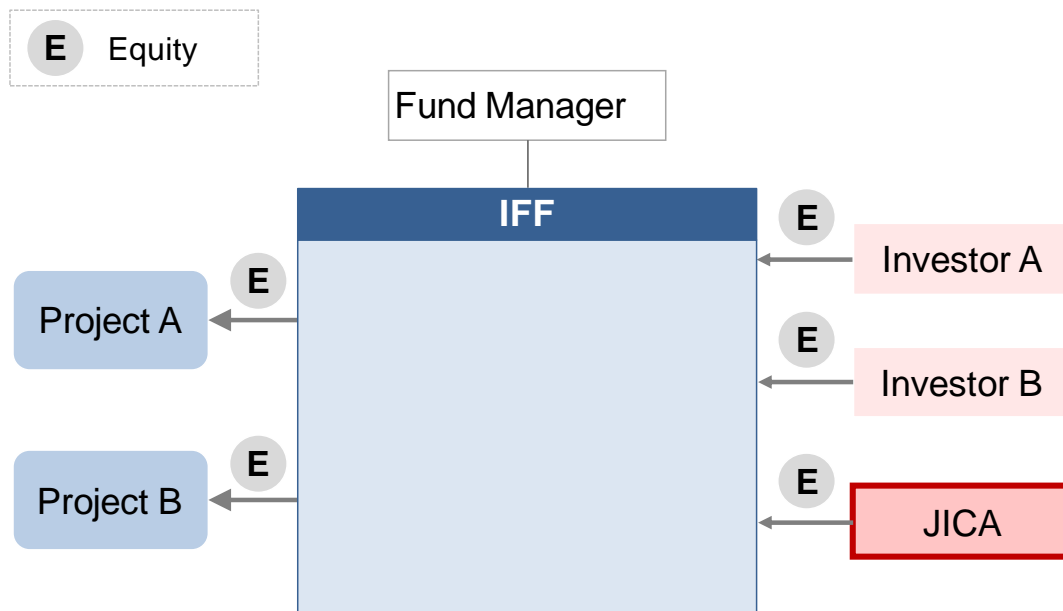


Figure 4.1.1.1. Assumed Fund Structure (Equity Fund)

<sup>7</sup> The Development Credit Authority (DCA) is an initiative for performing credit guarantees that was set up within USAID in 1999, and provides credit guarantees for reduction of risk when private-sector financing is invested in development projects in emerging nations. The scheme offers guarantees to private-sector finance institutions of up to 50% of the actual loss amount, over a maximum period of 20 years. It can handle both loans denominated in the local currency and loans denominated in foreign currency.

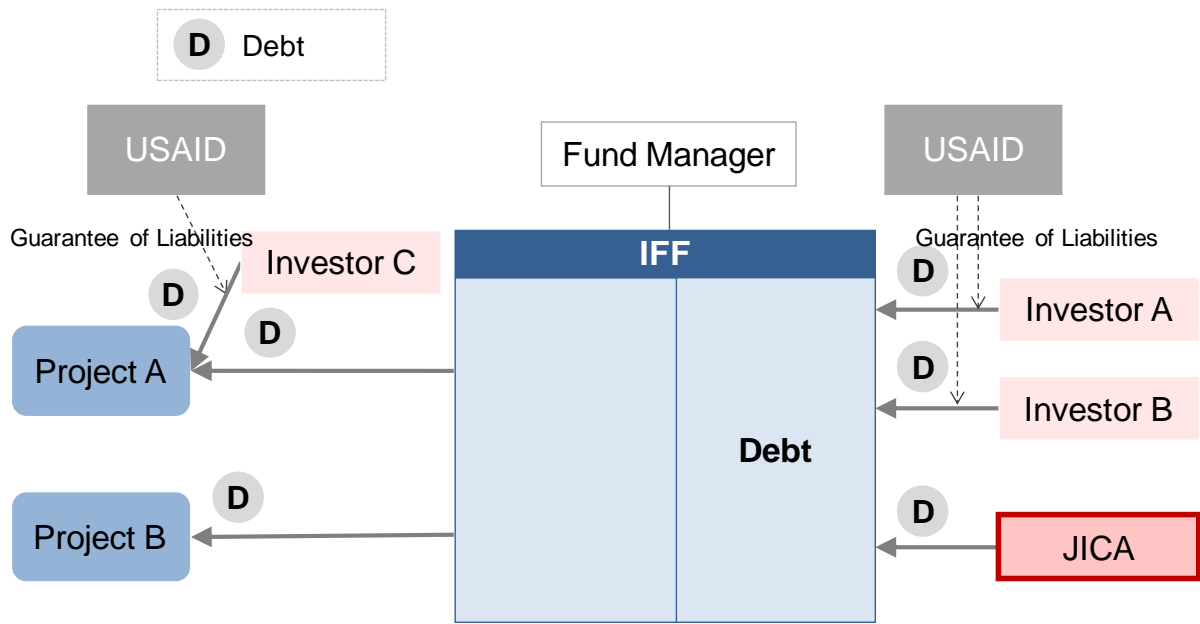


Figure 4.1.1.2. Assumed Fund Structure(Debt Fund)

**Company:**

If IFF is established in a form of company, the IFF holds a balance sheet, and procures Equity and Debt from investors, including JICA. With this fund as seed money, the investment target is selected in accordance with decision-making processes within the IFF company (assumed to be the board of directors, etc.), for investment of Equity or Debt in individual projects.

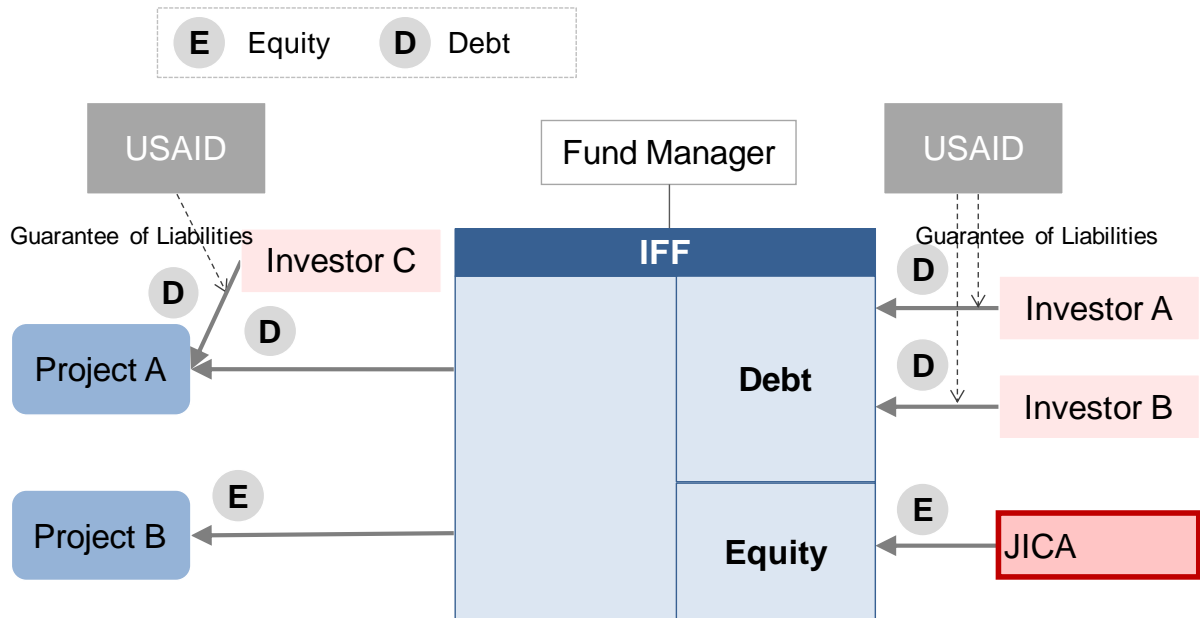


Figure 4.1.1.3. Assumed Company Structure

We compared the ordinary differences between the company structure and fund structure in six areas, including a) duration period, b) launch speed and operations flexibility, c) governance, d) taxation, e) investment, and f) other.

Since investment normally puts emphasis on the investment returns, the fund is more common because of its taxation benefits. On the other hand, the company can be of permanent duration, and has the benefit of easily attracting even those strategic investors (mainly business companies) who dislike "funds" that give the impression of cash investments.

In addition, in regards to taxation, where the fund (even if onshore) is exempted from tax on its investment returns, the company is targeted for corporate tax.

Furthermore, in regards to the investment structure, while the fund essentially allows investment using Debt in the form of corporate bond purchase, unlike banks it cannot provide loans. On the other hand, a point of difference is that the company is capable of providing loan-based financing.

Table 4.1.1.1. Comparison of Fund and Company

Comparison items	Fund		Company	
	Evaluation	Reason	Evaluation	Reason
a) Duration period	Good&Bad	<ul style="list-style-type: none"> <li>For the fund structure, the duration period is 10–20 years, and the investment period is limited to 5–7 years. However, it is still capable of responding to projects long-term through the formation of a No.2 fund.</li> </ul>	○	<ul style="list-style-type: none"> <li>This is a structure with a permanent existence, and funding procurement for infrastructure projects can be matched even for long terms of 20–30 years, etc.</li> </ul>
b) Launch speed and operations flexibility		<ul style="list-style-type: none"> <li>Use of internal rules and governance structures, etc., standardized as so-called "funds" throughout the world enables the launch speed to be shortened.</li> <li>Highly flexible methods have been established as ordinary "fund" operations.</li> </ul>	Δ	<ul style="list-style-type: none"> <li>While able to newly build in various mechanisms, new construction of internal regulations and governance system rules, etc. (upon agreement between the shareholders) is required.</li> <li>Since there is no established method for operations, this also must be newly constructed as well (upon agreement between the shareholders).</li> </ul>
c) Governance	○	<ul style="list-style-type: none"> <li>Since responsibility is assigned to the fund manager for investment operations, there may be cases where governance by investors may be difficult to apply. However, adjustment is possible by setting up the investment committee.</li> </ul>	○	<ul style="list-style-type: none"> <li>A chief executive selected by the investors makes the investment decisions, enabling governance by investors.</li> <li>Investors can utilize authority in accordance with voting rights.</li> </ul>

d) Taxation	○	<ul style="list-style-type: none"> <li>• Pass-through can be used to avoid corporate tax and pay only the income tax applied profit dividends.</li> </ul>	Δ	<ul style="list-style-type: none"> <li>• While domestic corporations are targeted for corporate tax (25%), a foreign corporation is not targeted for taxation in Vietnam. (Foreign corporations are taxed in their base location.)</li> </ul>
e) Overseas remittances	○	<ul style="list-style-type: none"> <li>• If in the Caymans or some other offshore location, remittances of foreign currency may be performed without being subjected to regulations, etc.</li> </ul>	○	<ul style="list-style-type: none"> <li>• If in the Caymans or some other offshore location, remittances of foreign currency may be performed without being subjected to regulations, etc.</li> </ul>
f) Investment	○	<ul style="list-style-type: none"> <li>• While loans cannot be provided, purchase of securities (including corporate bonds) is acceptable.</li> </ul>	○	<ul style="list-style-type: none"> <li>• Loan financing is allowed.</li> </ul>
g) Other	Δ	<ul style="list-style-type: none"> <li>• Since this is structure familiar to financial investors, it is easy to attract institutional investors or other financial investors.</li> <li>• On the other hand, strategy investors such as business companies, etc., ordinarily tend to strongly dislike "funds". (This is because they carry strong impressions of financial investment.)</li> </ul>	Δ	<ul style="list-style-type: none"> <li>• Strategy investors such as business companies, etc., are familiar with investing in "companies".</li> <li>• On the other hand, financial investors such as institutional investors, etc., ordinarily dislike the "company" structure. (This is because, unlike the special purpose funds, "companies" have the risk of being unable to limit the risk profile, because they can engage in various businesses.)</li> </ul>

In view of these differences, we confirmed the intentions of the anchor investor candidates and of the promising fund manager candidates.

From the anchor investor candidates, we found that decisions divided into cases where the fund method was preferred and cases where the company structure was preferred, while from the fund manager candidates, we found that selection of the fund vs. company was a perfunctory item in most cases, with basically no problem with either structure. Nevertheless, the fund structure was more common, and was preferred because of greater flexibility in capital calls, dividends, and other operations.

Table 4.1.1.2. Main Intentions of Anchor Investor and Fund Manager Candidates

		Comments on Structure	
		Fund Format	Company Format
Anchor Investor	<ul style="list-style-type: none"> <li>It is understood that fund format gives flexibility in handling regulations and the like on business operations and establishment. (Anchor investors A)</li> <li>In the past there were problems with fund investments related to India, so investments into fund format must be examined. (Anchor investors B)</li> </ul>	<ul style="list-style-type: none"> <li>The government organization is a tax-exempt entity. For company formats, returns are realized after taxes, so there is a disadvantage in losing the amount of tax in comparison with the pass-through fund format. (Anchor investors A)</li> </ul>	
Fund Manager Candidate	<ul style="list-style-type: none"> <li>The fund format gives flexibility in terms of operations, so it is easy to operate.</li> <li>If established offshore, such as in Singapore, it is easy to acquire funds.</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>	

Based on the above, at the present time we will be selecting the fund method due to the strong intentions of the fund managers and anchor investors.

In general, however, what is important for the investment decisions of investors is the investment strategy (project search, investment, operation, and EXIT), and the capabilities of the fund manager who will be executing it, and selection of the investment structure is not a basic item with a large effect on investment decisions. Therefore, in project operations we shall leave it as an item to be determined after determination of the fund manager and anchor investor.

### 4.1.2. Procurement and Provision Methods (Equity vs. Debt)

From the perspective of risk return the possible combinations from the perspective of risk return are the two shown below.

- (1) Equity procurement, Equity investment
- (2) Debt procurement, Debt investment

Figure 4.1.2. IFF Financing and Provision Methods

		Methods for Procurement of IFF Funds	
		Fund Procurement Through Equity (See Note)	Fund Procurement Through Debt
Methods for Providing Funds From IFF	Provide Funds Through Equity (See Note)	<ul style="list-style-type: none"> <li>Because this is high-risk/high-return funding, implement this if the funds are from a donor with a high level of risk tolerance, in Vietnam where the country risk is high.</li> </ul>	<ul style="list-style-type: none"> <li>Normally this is not implemented because the risk/return profiles are different.</li> <li>It is conceivable to cover debt recovery risks with the IFF Equity portion, but it is not practical even for donor-type institutions.</li> </ul>
	Providing Funds Through Debt	<ul style="list-style-type: none"> <li>Normally this is not implemented because the risk/return profiles are different.</li> <li>Investments at the expected benchmark rate of return cannot be assumed even with equity funds from donors that tolerate comparatively low returns.                             <ul style="list-style-type: none"> <li>✓ "It is extremely difficult to cover equity fund risks using debt because of the risk-return relation. Unless there is some degree of gain of returns commensurate to the risks, we cannot agree to this scheme." (Anchor investors B)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Interest rate in Vietnam is high; adequate trading is not established in the market.</li> <li>If the IFF can provide a more advantageous risk profile than normal project financing, it is possible for debt to provide this at a level that is lower than the market interest rate. (For example, in addition to the 50% credit guarantee by USAID bear the debt recovery risks within the scope of the IFF equity portion.)</li> </ul>

Note: Includes Mezzanine

Of these, in "(2) Debt procurement, Debt investment", the usual situation is that IFF can pay the interest, as a requirement demanded by banks and other Debt providers. Nevertheless, no dividend source (Ex.: dividend from investment project) is envisioned at the time of the IFF launch, and since meeting that requirement is practically impossible, the hurdle for establishment is very high. (Note: For cases where Debt includes interest payment. While other possibilities may also include no-interest loans or Debt that does not initially generate interest payments, this is not common and since these essentially have a high Equity feel, we are excluding such from the Debt category.)

Therefore, in the IFF, first we start up with "(1) Equity procurement, Equity investment", and then, after a certain period in a state where interest payments are stable, or in other words, at the "Step 2" stage where stable dividends from the investment project can be expected, the "(2) Debt procurement, Debt investment" function is added, with an eye toward expanding the fund size (Note: While it is not impossible to use the initial investment Equity for an interest payment until it reaches the stage capable of interest payments, this cannot be considered to be sound fund management, and we therefore exclude it). In this case, if recovery of the Debt principal is impossible, we assume that the risk can also be covered by the Equity. At any rate,

when a Greenfield infrastructure project like the IFF in an emerging country that is not a member of the OECD, or in other words, an infrastructure project requiring allowance of an extremely high level of risk, is the investment target, a policy that could be taken is to, first, establish an Equity fund centering on funding from donor-type investors, followed by steady expansion of the fund's shares to private-sector investors as performance accumulates. Or as seen in Korea (see Table 5.1.4.2), introduction of a bold investment priority policy guarantee backed by the local government is needed.

In addition, if implementing the fund organization in the Cayman Islands or some other non-Vietnam location (offshore), there is a selection branch for expanding the fund size using additional procurement in Equity, which is selected in accordance with the financial situation or by investor intentions at the time of "Step 2".

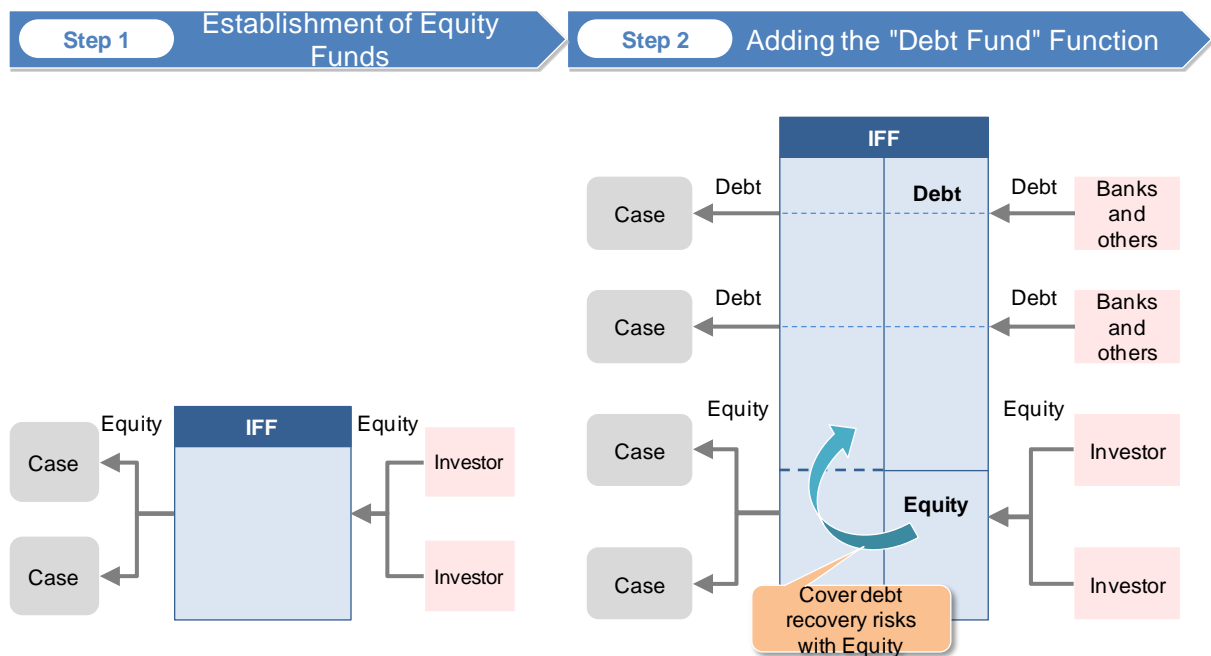


Figure 4.1.2. Steps for Realization of IFF Financing

#### 4.1.3. Fund Domicile (Offshore vs. Onshore)

As shown below, "onshore" (Vietnam domestic) domiciled funds would be unable to perform flexible fund operation because of application of capital recall and fund remittance regulations, and are therefore not practical in terms of operations. Therefore, we will settle for an "offshore" fund domicile that allows flexible fund operation and is also the more common type.

Table 4.1.3. Vietnam Legal Regulations Related to Fund Domicile

	Offshore	Onshore
Capital Call	<ul style="list-style-type: none"> <li>Generally, the capital call method can be used, so it can be flexibly set.</li> </ul>	<ul style="list-style-type: none"> <li>There are restrictions to the timing of contributions, and installment payments. Only one-time payment can be set.</li> </ul>
Money Transfer Regulations	<ul style="list-style-type: none"> <li>No particular regulations regarding international money transfers.</li> </ul>	<ul style="list-style-type: none"> <li>Foreign investors can annually transfer earnings obtained in Vietnamese <i>Dong</i>, but they must submit documentation that provides evidence when transferring money.</li> </ul>
Taxation	<ul style="list-style-type: none"> <li>Foreign investors are not subject to corporate income tax or taxes for money transfers for profits sent outside of Vietnam. Also, there is no tax withholding for dividends on foreign investors.</li> </ul>	<ul style="list-style-type: none"> <li>Corporate tax (25%) is imposed</li> </ul>

#### 4.1.4. Currency (Vietnamese Dong vs. US Dollar)

In regards to currency, since the cash flow generated from the infrastructure is denominated in the local currency (for IFF, the Vietnamese dong), the fund structure is ordinarily denominated in the local currency, or in the US dollar that is the international standard currency and the most common fund currency. If in the case of the former, the investor side assumes the currency exchange risk, and if the latter, the fund assumes the exchange rate risk (however, in the final result, fund risk becomes investor risk).

As for the intentions of anchor investors other than JICA, since we have previously performed funding support to newly emerging countries, and assumed the exchange rate risk, it did not matter whether denominated in the Vietnamese dong or US dollar.

Furthermore, in this study we confirmed the legal restriction conditions related to currency. For funds denominated in dongs, the Foreign Exchange Law in Vietnam (hereafter, Foreign Exchange Law), the Foreign Exchange Law Detailed Enforcement Regulations (hereafter, Decree 160), and the Detailed Enforcement Regulations for Overseas Investment in Vietnamese Corporations (hereafter, Decree 78) have been applied, to establish strict overseas remittance regulations, as shown below.

##### Main Regulations for Dong-Based Funds

- When a foreign investor:
  - Must send overseas remittances by way of a direct investment account denominated in a foreign currency
  - If profits are held in Vietnamese dong, an overseas remittance must be sent within 30 days



after conversion to a foreign currency (Article 11 - Foreign Exchange Law and Article 13 - Decree 160)

2. When a Vietnamese domestic investor:

- If investing outside of Vietnam, a foreign currency must be used (Article 17 – Decree 160)
- For all transactions related to foreign investment, a foreign investment account denominated in a foreign currency must be established, and this account must be used (Article 14 – Foreign Exchange Law and Article 18 - Decree 160)
- Overseas direct investment must be performed, mainly for machinery, facilities, resources and materials, intangible assets, and other legal assets (Article 7 - Decree 78)
- A direct investment account denominated in a foreign currency must be used for overseas remittances (Article 24 - Decree 78)

Since at the present time the legal framework essentially does not allow remittances of Vietnamese dong to outside of Vietnam, in view of these legal regulations, a fund denominated in Vietnamese dong cannot be established offshore. On the other hand, since foreign investors are legally allowed to convert Vietnamese dong obtained inside Vietnam (investment profits) into foreign currency (US dollars, etc.), and to carry it out of Vietnam, there is no problem with investing in Vietnam using US dollars.

However, we have heard that there have been times when procurement of US dollars inside Vietnam was difficult, and it is true that, even under the PPP Pilot Law, there are restrictions on US dollar procurement for projects other than those approved by the Prime Minister, which cannot obtain foreign exchange conversion guarantees.

With consideration for these various conditions, as noted in the preceding section " Fund Domicile (Offshore vs. Onshore)", we temporarily decided to set the IFF fund domicile offshore, and to use denomination in US dollars to enable remittances of currency from Vietnam to outside the country. In future, we shall examine the US dollar procurement conditions in the markets, and the legal support conditions, including the PPP Pilot Law, and then make a final decision at the time of fund establishment.

#### **4.2. Investigation of Fund Operations Policy**

As with selection of the investment structure, the IFF operations policy is generally consigned to the fund manager and anchor investors. Since the fund manager had not yet been determined at the time of this study, we asked about the anchor investor intentions and collected their intentions. The management policies already agreed upon by involved parties are shown below in term sheet.

The various conditions listed in the term sheet are actually set at the stage when the fund manager confirms, and are determined in consultation and negotiation between the fund manager and anchor investors. The items listed below are draft proposals for this consultation and negotiation. Some of the various conditions, including the investment target sector, investment period, investment regulations, and the compensation standard for paying the fund manager, have been mostly agreed between involved parties,

which include some of the investor candidates and fund manager candidates, etc. Regarding the IRR, assuming the loan procurement interest rate in Vietnam is currently at a standard of around 15%, and if the Equity investment IRR is at a standard generally unchanged from that, some were of the opinion that Debt should be provided and the funding be firmly recovered. We have proposed a draft version of the term sheet based on the above, as shown below.

Note that investors will need to study items such as those listed in the term sheet below, and assume a method for withdrawal from the fund (IFF). For the basic withdrawal method, there are two main methods, including a method to use an IPO or trade sale (sale to a third party) of the investment project to convert into cash and then distribute that cash, followed by liquidation of the fund, and a method to use an IPO or trade sale (sale to a third party) of the investment shares held by each investor in the fund, or of the fund itself, to convert into cash and withdraw.

The main risks respective to each of these two withdrawal methods are that, in the IPO, since a precondition of the IFF is that it is a minority investor, involvement in decision-making in operation of the IPO is limited, and the IFF cannot itself control the timing, etc., of the IPO. On the other hand, in trade sales, minority investments that do not hold management control rights are restricted in making purchases from the capital markets, so that the usual method is to sell the remaining shares to the project owner.

In addition, articles that allow beforehand for the fund's dissolution or a change in the fund manager, and may also allow terminating a LP's contract in midterm though the midterm cancelation would require GP's and other LP's agreements beforehand and also there are other requirement and risks such an approval of advisory committee, and risks of non-refund and cancelation charge, are needed for cases where the fund manager's operations performance (yield) falls way below the market average, or the fund manager has engaged in behavior in violation of the compliance rules for the fund, or when specific important persons involved in fund operation can no longer participate in operations for some reason.

Table 4.2. IFF Term Sheet (Draft)

<u>Terms</u>	<u>Descriptions</u>
<b>1. THE FUND</b>	Infrastructure Financing Fund
<b>2. Location of THE FUND</b>	[Cayman Islands]
<b>3. Company Style</b>	[Exempted Limited Partnership]
<b>4. Country Focus</b>	Vietnam
<b>5. Investment Target by THE FUND</b>	Including PPP projects, transport, water and sewerage, electricity and energy and other infrastructure improvement sectors in both greenfields and brownfields projects which meet INVESTORS' [JICA, and some other Anchor investors] required performance standards on environmental and social considerations.
<b>6. Term of THE FUND</b>	[Fifteen (15)] years
<b>7. Investment Period</b>	[Ten (10)] years
<b>8. Term of Extension</b>	[Up to five extensions of up to one year]
<b>9. Investment Approach</b>	
<b>a) Early Stage</b>	Equity investment in common stock, classified stock, and other equity.
<b>b) Late Stage</b>	Through collecting debt from several debt providers, debt investment in interest-bearing bond, convertible bond, bond with warrant.
<b>10. Investment Restrictions</b>	<ul style="list-style-type: none"> <li>i) No more than USD [100] mil. may be invested in any single investment;</li> <li>ii) no more than 20% of Commitments may be invested in any single investment;</li> <li>iii) no more than 50% of voting rights may be held in any single investment;</li> <li>iv) no more than 30 - 50% of Commitments may be invested in any projects in brownfields;</li> <li>v) no more than 50% of Commitments may be invested in any single sector;</li> <li>vi) no investment will be guaranteed in any investment projects;</li> <li>vii) no investments will be made in any other funds;</li> </ul>

	viii) no investments will be made in real estate except to the extent the real estate is as an integral part of an infrastructure investment;
	ix) no investment which does not fulfill INVESTORS' required performance standards on environmental and social considerations will be made
<b>11. Target IRR of the projects to invest</b>	10 - 30%
<b>12. General Partner ("GP")</b>	[TBD]
<b>13. Limited Partner ("LP")</b>	INVESTORS. And, some Japanese companies and Japanese financial institutions expected to be the strategic investors.
<b>14. Liability of Limited Partner</b>	The liability of each LP shall be limited to the amount that it is required to contribute.
<b>15. LP's Aggregate Capital Commitments ("LP Capital Commitments")</b>	Approximately USD 100mil.
<b>16. Borrowing Limit of THE FUND</b>	Approximately USD 400mil (50% guarantee <sup>8</sup> , by USAID, expected to be available).
<b>17. GP's Capital Commitment ("GP Capital Commitment")</b>	[TBD]
<b>18. Capital Commitment</b>	The total amount of GP's commitment and LP's commitment
<b>19. Currency</b>	Vietnamese Dong (VND), but US Dollar (USD) is still an option. To be selected at the establishment of the fund, considering the availability of USD in the Vietnamese market
<b>20. Expected IRR of THE FUND</b>	i) Approximately 12% (USD basis) <sup>9</sup> ii) Approximately 20% (VND basis)
<b>21. Capital Call</b>	Additional equity investments by shareholders or partners will be requested upon a request of capital call by the GP.  However, if INVESTORS made a reasonable judgment about the investments did not satisfy their required performance standards on

<sup>8</sup> The 50% guarantee of realized loss for private lenders and bondholders on equal risk sharing basis as long as 20 years. The guarantee can cover both local and foreign currencies. Ceiling of 100mil. USD per country per fiscal year.

<sup>9</sup> The difference (8.0%) between the IRR in USD and VND basis is based on the difference between the risk free rates in the U.S. (10.50%) and in Vietnam (1.68%) as of August 23, 2012. (source: Bloomberg)

	environmental and social considerations, INVESTORS can deny the capital call.
<b>22. Collected THE FUND</b>	Proceeds of a sale of securities, and credit, income gain, and interest income.
<b>23. Reinvestment of Collected THE FUND</b>	[None]
<b>24. Date of Establishment of THE FUND</b>	
<b>a) 1<sup>st</sup> Closing</b>	The first closing is targeted to be on July 2013
<b>b) 2<sup>nd</sup> Closing</b>	The second closing shall be no later than 12 months after the first closing.
<b>25. Business Year of THE FUND</b>	Calendar year (From April 1 through March 31)
<b>26. Account Closing Date</b>	March 31
<b>27. Distributions</b>	Twice (in March, in September) a year
<b>28. Reports</b>	
<b>a) Reports</b>	Business report, balance sheet, income statement, calculation of distributions, status reports of each investment projects, valuation of each investment, and other reports requested by LP.
<b>b) Accounting Standard</b>	International Financial Reporting Standards (IFRS)
<b>c) Annual Accounts</b>	Annual accounts to all investors shall be audited by one of the "Big Four" internationally recognized accountancy firms within 90 days of the end of each accounting period.
<b>d) Quarterly Reports</b>	Quarterly reports to all investors within 45 days after the end of each quarter ending in March, June and September.
<b>29. Management Fee</b>	
<b>a) Investment Period</b>	[2.0] % of the aggregate Commitment to be paid quarterly in advance.
<b>b) After Investment Period</b>	[2.0] % of the uncollected Commitment to be paid quarterly in advance.
<b>30. Hurdle Rate</b>	[8%]

**31. Success Fee**

The distribution of Disposition Profits or Other Profits set forth in paragraph i) or ii) or Portfolio Securities and the deduction of incentive fee shall be made in the order of priority and in the manner provided below:

- i) 100% of the Distributable Amount to all LPs until the sum of the following sub-items is equal to the total Capital Contributions of all LPs:
  - the aggregate amount (the “Aggregate Distributed Amount”) of the Partnership Assets distributed to all LPs (including the Value at the Time of Distribution in the case of a distribution in kind); and
  - the amount to be distributed (the “Distributable Amount”) to all LPs (including the Value at the Time of Distribution in the case of a distribution in kind) pursuant to the preceding two paragraphs in the proposed distribution;
- ii) 100% of the Distributable Amount to the LPs until the balance of the total amount of the Aggregate Distributed Amount and the Distributable Amount after the deduction of the total Capital Commitments of all LPs is equal to the amount obtained by multiplying the total Capital Commitments of all LPs by [8]%;
- iii) [20]% of the Distributable Amount to the GP as an incentive fee and [100 - 20]% of the Distributable Amount to the LPs until the sum of a) the incentive fee paid to the GP pursuant to this paragraph prior to the proposed distribution and b) the incentive fee to be allocated to the GP pursuant to this item under the proposed distribution (such sum is hereinafter referred to as the “Aggregate Incentive Fee Amount”) is equal to [20]% of the sum of:
  - the balance of the sum of the Aggregate Distributed Amount and the distributions made to the LPs pursuant to items i) to iii) of this paragraph after the deduction of the total Capital Contributions by all LPs; and
  - the Aggregate Incentive Fee Amount;
- iv) [20]% of the Distributable Amount to the GP as an incentive fee and [(100 – 20)]% of the Distributable Amount to the LPs.

**32. Organizational Fee**

[TBD]

**33. Administrative and Operating Expenses**

- i) Management fee
- ii) Success fee
- iii) Expenses associated with investments
- iv) Expenses associated with collection of commitments
- v) Bank commission for remittance
- vi) Audit and accounting costs

**34. Other Expenses**

GP will be responsible.

**35. Investment Committee**

- |                                  |   |
|----------------------------------|---|
| <b>a)Members</b>                 | [TBD]   |
| <b>b) Decision Making Method</b> | More than two third of approval of the Investment Committee   |
| <b>c) Responsibility</b>         | <ul style="list-style-type: none"> <li>i) Approving the amount of due diligence costs</li> <li>ii) Approving investment</li> <li>iii) Approving borrowing</li> <li>iv) Exercising voting rights</li> <li>v) Approving exit from investment</li> <li>vi) Presenting the compliance behavior on INVESTORS' required performance standards on environmental and social considerations to obtain their approval for execution of every investment.</li> </ul> |

### 36. Advisory Committee

- |  |  |
|--|--|
| <b>a)Members</b>   | <ul style="list-style-type: none"> <li>i) Each person who will be nominated by each LP</li> <li>ii) A specialist such as lawyer or CPA who received unanimous approval of the Advisory Committee</li> </ul>  |
| <b>b) Decision Making Method</b>                             | Unanimous approval of the Advisory Committee   |
| <b>c) Matters which require Advisory Committee's Consent</b> | <ul style="list-style-type: none"> <li>i) Investment restrictions</li> <li>ii) Conflict of interest transactions between GP and THE FUND</li> <li>iii) Investment to GP's affiliate companies</li> <li>iv) Change of GP's shareholders</li> </ul>  |
| <b>d) Matters to take counsel from Advisory Committee</b>    | <ul style="list-style-type: none"> <li>i) The decisions to be purely made by Investment Committee though Investment Committee has to consult with Advisory Committee before they make investment decision</li> <li>ii) Accounting closing of the fun and valuation for each investment</li> <li>iii) Extension of THE FUND term</li> </ul> |

### 37. Others

INVESTORS can introduce investment projects to THE FUND.  
[The duty for GP to pay such referral fee to THE FUND should be discussed]

※ Content listed in brackets ( [ ] ) is a provisional listing.

### 4.3. Supports for Fund Managers Selection

#### 4.3.1. Preparation of Fund Manager Candidates List

Selection of a fund manager is one of the most important elements in the investigation toward establishment of a fund. In studying IFF fund manager candidates, we examined the intentions of JICA and the anchor investor candidates to obtain a comprehensive grasp of the candidates and, based on a list of 347 fund manager companies in the infrastructure sector found in Preqin, a global database, we performed screening as shown below to a Long List. In addition, we have added financial institution-related or government-related fund managers within Vietnam, which are not covered in Preqin, to the list as IFF fund manager candidates.

For screening of fund manager candidates, in interviews regarding investor candidates and fund manager candidates, since the vast majority stated that infrastructure investment experience in Vietnam should be mandatory for IFF fund manager candidates, we believe

- investment experience in sectors targeted for investment by the IFF, and in Greenfield and Brownfield projects,
- and possession of a base within Vietnam for performance of investment in Vietnam,

are important for becoming a fund manager candidate, and should constitute an absolute minimum requirement. Therefore, we performed the screening in the three steps below.

Screening 1:

- Engaged in investment in Vietnamese Greenfield infrastructure projects or Brownfield infrastructure projects.
- Engaged in investment in any sector targeted by the IFF (transportation, water and sewer, and power and energy).

Screening 2:

- Has a base in Vietnam.

Screening 3:

- To verify whether there were any omissions or errors in the 10 companies on the FM Long List selected in "Screening 1" and "Screening 2", we performed interviews with [each](#) anchor investor regarding each fund manager candidate.



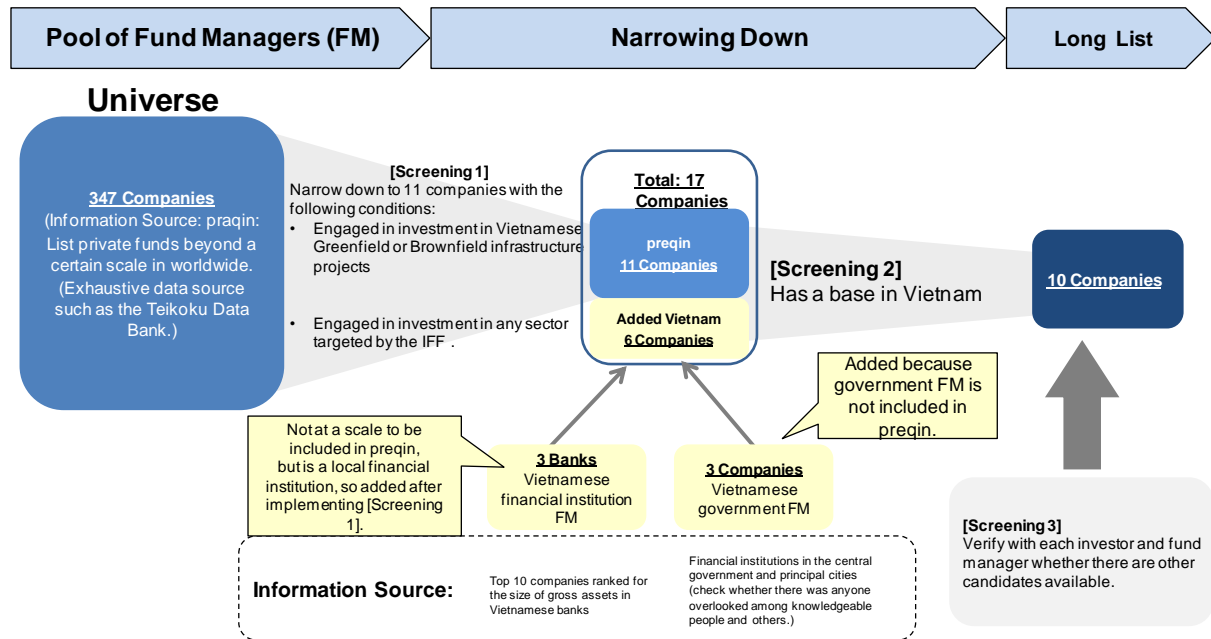


Figure 4.3.1. Screening Method for Fund Manager Candidates

Regarding the addition of financial institution-related fund manager candidates within Vietnam not covered in Preqin, out of the fund managers under the umbrella of the top 10 banks in the Bank of Vietnam total asset rankings, we selected three companies that satisfied the above screening standards, and had intentions to become an IFF fund manager.

In addition, regarding the addition of government-related fund manager candidates within Vietnam, we selected three companies serving as the Vietnam central government-related fund managers, and urban area-related fund managers implementing general infrastructure investment in the main cities of Ho Chi Minh City and Hanoi.

For the fund manager candidates list, to the four companies selected in the screening based on Preqin, we added six financial institution-related and government-related fund manager companies, for a total of 10 companies extracted.

#### 4.3.2. Criteria for Fund Manager Selection

In general, since infrastructure investment spans a long period of time, and involves large investment amounts and high risk, we believe that selection of a fund manager should be based on an assumption of detailed knowledge of Vietnam, with requirements for selection to include possession of a stable management foundation, and rich investment experience and operations experience.

In this study, as a result of interviews with multiple investment candidates, we classified the requirements for fund manager into three general requirements, "(A) Investment recovery skills", "(B) Fund

management and operations skills", and "(C) Fund procurement skills" (for the specific requirements, see the following section).

In addition, in infrastructure projects, and particularly in IFF engaged in investment in Greenfield projects, we confirmed that "experience with governments and donors" is one of the most important elements in "fund management skills". This is one point where differentiation arises in the selection of fund manager candidates.

As additional requirements to the above three items, to determine whether the fund manager has intentions as a GP to invest in the IFF, we added "(D) Commitment evaluation", and whether it is willing to work together with the anchor investors, "(E) Qualitative elements" as requirements.

#### **4.3.3. Pre-Evaluation of Fund Manager**

Out of the 10 companies extracted in the fund manager candidate list, for the nine companies that showed interest in the IFF fund manager (we had set a presumption that no response by the deadline be viewed as having no interest, and so we excluded VDB as having no interest in the project when it did not respond when we sent requests to the above-mentioned 10 companies for information), JICA performed direct interviews. In the interviews, we asked in greater detail about the five selection standards stipulated in the preceding section for selection of a fund manager and generally considered to be requirements for selection, including (A) Investment recovery skills, (B) Fund management and operations skills, (C) Fund procurement skills, (D) Commitment evaluation, and (E) Qualitative elements, and examined 14 items.

Of the 14 items, the intention to invest in the IFF in the "(D) Commitment evaluation" category is the most important item of evaluation that can serve as a guide for measuring the degree of commitment to risk sharing with investors, and to the IFF, and can be considered a "knock-out factor" in that fund managers not willing to invest capital should not be selected.

Table 4.3.3. Fund Manager Selection Requirements

Fund Manager Selection Criteria		Evaluation Items
Performance evaluation (quantitative evaluation)	(A) Investment recovery skill	(A-1) Investment record in Vietnam (A-2) Experience in IFF-targeted sectors (the three main areas (transport and traffic, water and sewer, and energy), and sub areas (industrial complexes and hospitals). (A-3) (Not a publicly-listed company investment) Experience in project investment (A-4) Total number of years of experience of investment team members (A-5) Investment record (IRR (%))
	(B) Fund management and operation skill	(B-1) Experience and ability to collaborate with government and donors (B-2) Reporting experience (B-3) Status of preparedness of organization
	(C) Fund procurement skill	(C-1) Size of fund to be managed (C-2) Reach record to potential investors
	(D) Commitment evaluation	(D-1) Intention for financial contribution to IFF
	(E) Qualitative evaluation (Interview Evaluation)	(E-1) Eligibility of responses to questions (E-2) Atmosphere of leader team (E-3) Is it someone you would want to work with

#### 4.3.4. Confirmation of Intention Document for Consignment of Fund Manager Operations

When anchor investor candidates, including JICA, make a decision to invest and move toward establishment of the IFF, to ensure that the institutional decision procedure progresses smoothly we plan to obtain a Confirmation of Intention document from the fund manager candidates as proof of expectations for the consignee of fund manager operations are attached.

Since this document does nothing more than show interest in consignment of fund manager operations, and imposes no particular legal binding force on the fund manager side and anchor investor side, we used a simple letter format as shown on the next page.

In addition, regarding the timing for obtaining the intention confirmation document, we decided after consideration of the above acquisition objectives that immediately before institutional determination of the investment intentions of the anchor investor candidates would be the most suitable timing. Since a date for institutional determination of the anchor investor candidates has not been set at the present time (December 2012), we have not yet submitted a request to the fund manager for a Confirmation of Intention document, or initiated the acquisition.

If the fund manager has proposed a project and solicited investment, in considering investment in the IFF as a so-called "carry-in project", this process of obtaining a Confirmation of Intention document will not be necessary since there will be no need to again confirm the desire for fund management on the part of the carry-in fund manager.

Table 4.3.4. Confirmation of Intention Document for Consignment of Fund Manager Operations

xxxx xx, 2013

Japan International Corporation Agency  
Niban-cho Center Building  
5-25 Niban-cho, Chiyoda-ku, Tokyo  
102-8012 Japan

Attention: Office for Private Sector Partnership

Dear Sir or Madam,

Subject: Expression of Interest for the Infrastructure Financing Fund in Vietnam

I am submitting our Expression of Interest on behalf of (COMPANY NAME) for Japan International Corporation Agency's plan of the Infrastructure Financing Fund (IFF) in Vietnam.  
We have intention to apply to the Request for Proposal on fund manager selection of the IFF in the near future.  
We would like to ask for your kind notice of the commencement of the application process.

Sincerely yours,

SIGNATURE  
NAME AND POSITION  
COMPANY NAME  
ADDRESS

#### 4.3.5. Policy for Open Recruitment of Fund Manager

For basic policy regarding open recruitment of the fund manager, we adopted a draft proposal regarding the agent for open recruitment, reasons for open recruitment, contracted operations, open recruitment route, schedule, selection criteria, and assumption of costs.

First, we set anchor investors, including JICA, as the open recruitment agents, with the secretariat provisionally being the JICA Vietnam office. In addition, we had a screening committee consisting of anchor investors perform the screening.

For the reasons for open recruitment, we settled on the need for selecting the optimum fund manager and on the need for ensuring transparency by using investment from public institutions.

We settled on three areas for contracted operations, including a) investment in infrastructure projects in Vietnam, and recovery, b) fund establishment, operations management, and reporting to authorities, and c) recruitment of investors, and communication with investors.

For the schedule, we decided to perform screening in two stages, a First Screening in writing, and a Second Screening by interview. In addition, because of the need in the Second Screening for additional submission of the "Project Investment Plan (Form 6)" and "Financial Model (Form 7)", we decided to set the start date of the Second Screening to 30 days after the announcement of the First Screening results, to ensure adequate time between the First Screening and the Second Screening.

We defined the selection standards in "4.3.2. Standard for Fund Manager Selection", in five categories, including "(A) Investment recovery skills", "(B) Fund management and operations skills", "(C) Fund procurement skills", "(D) Commitment evaluation", and "(E) Qualitative elements".

Finally, for assumption of costs, we have defined the fund manager fees beforehand, and will not ask for submission of a fee proposal.

Note that the above basic policy is a draft proposal for the basic policy, and we will adopt an open recruitment procedure form with consideration for the intentions of anchor investors other than JICA.

Table 4.3.5.1. Basic Policy for Open Recruitment of Fund Manager

Policy		Policy	
<p><b>Agent for Open Recruitment (Who)</b></p> <ul style="list-style-type: none"> <li>Anchor investors including JICA</li> <li>Setup the head office in the JICA Vietnam office. (Tentative)</li> <li>The examination committee composed of the anchor investors will conduct FM examinations.</li> </ul>	<p><b>Schedule (When)</b></p> <ul style="list-style-type: none"> <li>Start open recruitment Day 0</li> <li>Close application period Day 20</li> <li>Announce first examination results Day 30</li> <li>Conduct second examination (interviews and the like) Day 60</li> <li>Announce second examination results Day 70</li> <li>Conclude contract Day 100</li> <li>First closing Undecided</li> <li>Note: Specific dates will be setup when formation is in sight.</li> </ul>		
<p><b>Reason for Open Recruitment (Why)</b></p> <ul style="list-style-type: none"> <li>This is a fund proposed by investors, so it is necessary to select an appropriate FM.</li> <li>Also, public institutions will make financial contributions, so selection of the contractor must be open.</li> </ul>	<p><b>Selection criteria (How)</b></p> <ul style="list-style-type: none"> <li>Investment recovery skills Infrastructure investment experience in Vietnam</li> <li>Fund operation and management skills Operating members, track record</li> <li>Fund procurement skills Likelihood to acquire a planned fund size (Submit commitment letter)</li> <li>Commitment evaluation Intention to contribute from own company</li> <li>Qualitative elements Compatibility with main investors (Evaluated at second examination)</li> </ul>		
<p><b>Contracted operation (What)</b></p> <ul style="list-style-type: none"> <li>Investment in infrastructure projects in Vietnam and recovery.</li> <li>Setup the fund, manage its operations and report to authorities.</li> <li>Recruit investors (to fill remainder portion left by anchor investors), communicate with investors.</li> </ul>	<p><b>Costs (How Much)</b></p> <ul style="list-style-type: none"> <li>FM fee is set in advance; not to be used as selection criteria.</li> <li>Anchor investors including JICA will bear responsibility for the costs for performing services toward establishing the IFF.</li> </ul>		
<p><b>Open Recruitment Route (Where)</b></p> <ul style="list-style-type: none"> <li>Notify directly to potential FM that have already been specified by email or other means</li> <li>Also, notify through a procurement website for anchor investors including JICA, procurement mail magazines and official publications.</li> </ul>			

For the information required for submission from prospective candidates, we will ask for information directly tied to the five evaluation categories defined in "4.3.2. Standard for Fund Manager Selection", and specifically define the seven forms shown below.

- Project Investment Experience (Form 1)
- Manpower (Form 2)
- Fund Management Experience (Form 3)
- Commitment to the IFF (Form 4)
- General Information (Form 5)
- Project Investment Plan (Form 6) [Submit before Second Screening]
- Financial Model (Form 7) [Submit before Second Screening]

Of these, since the two forms "Project Investment Plan (Form 6)" and "Financial Model (Form 7)" are used after the Second Screening, the submission timing is assumed to be after the First Screening has elapsed.

Table 4.3.5.2. Submission Request Information List in Open Recruitment

Evaluation category	Evaluation item	Submission request information
(A) Investment recovery skills	Investment experience in Vietnam	Project investment experience Project Investment Experience (Form 1)
	IFF target sector (main three regions (transportation, water and sewer, and energy), sub-regions (industrial parks, hospitals)) experience	
	Project investment experience (not investment in listed companies)	
	Investment experience (IRR (%))	
	Possession of specific pipeline expected to be profitable [Second Screening]	Project investment plan Project Investment Plan (Form 6) [Submit before Second Screening]
(B) Fund management and operations skills	Total experience in man-years of investment team members	Management structure Manpower (Form 2)
	State of organizational structure adjustment	Financial model Financial Model (Form 7) [Submit before Second Screening]
	Construction of financial model with reliability and feasibility [Second Screening]	
	Government and donor collaboration experience and skills	Fund management experience Fund Management Experience (Form 3)
Experience in reporting to domestic and overseas investors		
(C) Fund procurement skills	Fund size of managed fund	Commitment of the IFF Commitment to the IFF (Form 4)
	Experiencing in reaching investor candidates	
	Expectations of funding procurement from other investors	
(D) Commitment to the IFF	Commitment of the IFF	
(E) Compatibility with anchor investor (Qualitative elements)	Eligibility of response to questions	(Implement through interviews in the Second Screening)
	Leader and team atmosphere	
	Wants to work together with partner?	
Basic information	Corporate information	Corporate information
	Contact information	General Information (Form 5)

#### 4.3.6. Proposal for RFP of Fund Manager Selection

In line with the policy in the preceding section, we prepared a "Selection of Fund Manager Request for Proposal (Draft)" with the content below. In this preparation, we referenced the fund manager open recruitment procedure form in the "Philippine Infrastructure Fund" with a similar investment target and investor composition <sup>10</sup>(see "Appendix 2: Selection of Fund Manager Request for Proposal (Draft)").

##### 1. Introduction:

To promote infrastructure development in Vietnam based on the public-private collaboration method, JICA is studying financing mechanism for infrastructure development. List the history of a fund establishment, to launch the IFF in collaboration with other donor institutions.

<sup>10</sup> "GSIS-ADB-IFC Philippine Infrastructure Fund – Selection of Fund Manager – Request for Proposal" (January 2012)  
<http://www.gsis.gov.ph/downloads/bid/PIF%20RFP.pdf>

## 2. Purpose:

For consignment of IFF operations, list a summary of the open recruitment procedure form for anchor investors (JICA and other collaborating donor institutions) to recruit a fund manager.

## 3. Service to Be Provided:

Have the fund manager sign a "Investor Agreement (Fund Management Agreement) with investors, to implement evaluation, acquisition, management, and sale operations for the infrastructure project targeted for investment. Record the operations that the fund manager should implement to achieve the goal of around 12% (USD base) IRR.

## 4. Minimum Qualifications:

List the minimum conditions that the prospective candidate should satisfy, as shown below.

- Have experience with direct investment in infrastructure development projects
- Have an office/have plans for an office in Vietnam
- Have a fund management company registered in accordance with a suitable system
- Expect to be able to procure funds from other than the anchor investors
- Prospective candidate also has plans to invest in the IFF

## 5. Proposal Requirements:

Aside from the seven forms defined in the preceding section, list documents necessary for recruitment, including a cover letter and a commitment letter showing intention to invest in the IFF. In regards to the seven forms, note that the open recruitment procedure forms are separately attached.

## 6. Submission of Proposal:

List the recruitment form binding method, submission destination, and time schedule, as well as the possibility of changes in the open recruitment content by anchor investors, discard of imperfect recruitment forms, and other detailed methods and regulations for submission of recruitment forms.

## 7. Evaluation Process:

Perform screening in two stages, the First Screening and Second Screening. In addition, list the screening methods, including performing evaluation using the five elements of "(A) Investment recovery skills", "(B) Fund management and operations skills", "(C) Fund procurement skills", "(D) Commitment evaluation", and "(E) Qualitative elements", and selection of a prospective candidate with the maximum evaluation.

## 8. Other Provisions:

For fund management policy, including compensation and expenses, conform to the separately defined "IFF Fund Terms". In addition, list supplemental rules for this policy, such as adjustment allowed between the fund manager and the anchor investors.



#### 4.4. Other Precautionary Items

##### 4.4.1. Study of Effects of PPP Pilot Method

For the present legal framework in Vietnam for infrastructure development using private-sector funding, the new BOT Law (Decree 108) was enacted in 2009, and the PPP Pilot Law (Decision 71) was enacted in 2010, resulting in concurrent existence of similar programs. While there were no infrastructure development projects based on the framework in the PPP Pilot Law realized as of July 2012, we need to be cautious about the effect on the IFF when the law is actually applied.

To this end, we have conducted interviews with international aid institutions involved in infrastructure development in Vietnam, with the Vietnamese government, and with private-sector businesses, etc., and heard opinions regarding issues of the PPP Pilot Law, and its application. As a result, we found the existence of systemic issues and structural issues in the proportion assumed by the government, and in bidding policies, and elucidated opinions that some time will be required for application of the PPP Pilot Law, or that systemic revisions can be expected before the law goes into full operation.

While attention is focused on where the PPP Pilot Law is going in relation to establishment of the IFF, since the short-term outlook for when the PPP Pilot Law will be implemented remains unclear, we shall continue promoting studies on the assumption that it will have no particular effect on the IFF. Moreover, since no specific timeline has been announced for when the PPP Pilot Law may be implemented, it is difficult to say at the present time what the effect on the IFF may be.

##### 4.4.2. Study of Fund Closing Conditions

While we shall in future be promoting operations toward IFF operation, we are aware of the possibility that changes in political or economic situation, etc., could lead to such risks as failure to raise funds as planned, or failure to adequately collect projects targeted for investment. For example, in the case of the "Infrastructure Development Investment Project for Asia Region Countries" implemented by JICA in 1995, no more than 60 percent of the initially planned funding was raised and, with the effects of the Asian currency crisis, the number of investment projects fell far below the initial plans<sup>11</sup>.

For overseas investment finance policies at JICA, as well, we perform thorough checks regarding the provision of capital to funds, in such areas as the state of best sub-project accumulation, and planning for withdrawal from funds, etc.<sup>12</sup>. As a result, we need to decide beforehand what sort of conditions need to be cleared (e.g.: fund minimum size, etc.) to advance toward fund closing, and this awareness should be shared with fund managers, anchor investors, and government institutions.

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<sup>11</sup> "Post-Evaluation by Project: Overseas Finance Projects, Evaluation Results Table" (2010 Japan International Cooperation Agency)

<sup>12</sup> "Research and Evaluation Regarding the Overseas Investment Financing Stance" (2011 Japan International Cooperation Agency)

## **5. Summation of Arguments regarding IFF Particularities and Additionalities**

### **5.1. Differences with Infrastructure Funds in Other Countries, and Other Infrastructure Funds in Vietnam**

In the newly emerging countries of the Asia region that include Vietnam, a number of infrastructure funds are already in operation. For reference toward IFF development, we compared the differences with similar infrastructure funds, and obtained some hints.

#### **5.1.1. The Global Infrastructure Investment Market**

Pension funds or institutional investors, etc., concentrated mainly in the advanced nations have turned to infrastructure investment as one alternative to the slowdown in the global investment environment of stocks and bonds, etc., and the number of players engaged in infrastructure investment is increasing year-by-year. However, most of the infrastructure projects targeted for investment at the present time are dominated by cases in OECD member countries (and are Brownfield projects). On the investor side, as well, since there is a need to select investments that can be expected to offer the optimum return matching the risks, while considering all usable market information, investors always take a selective stance in investment decisions.

Jim O'Neil of the U.S. investment bank Goldman Sachs, who first coined the term "BRICs", has said that Vietnam, while not as large as the BRICs, can be considered to be one of the "Next 11" countries with potential to develop an extremely large influence. However, compared with the other Next 11 countries in Southeast Asia (Indonesia and Philippines), the growth rate in real GDP for the most recent 10-year period has showed a much greater tendency to stall in Vietnam (see Table 5.1.1.).

In addition, the bad debt problem is particularly serious for financial institutions in Vietnam, and the Wall Street Journal, Bloomberg, and others have been reporting the possibility that the country will need to seek support from the IMF. Therefore, in establishment and operation of the IFF, a suitable decision is needed that takes into consideration of the trends in this macro environment.

Table 5.1.1. Comparisons of GDP Growth Rates in Next11 Target Countries in Southeast Asia



Source : IMF

### 5.1.2. Overview of Infrastructure Funds in Other Countries

Since the IFF is an infrastructure fund centering on donor investment, we have extracted some examples of funds (India's The Infrastructure Development Finance Company Limited (IDFC), Indonesia's PT Indonesia Infrastructure Finance (IIF), and the Philippines' Philippines Water Revolving Fund (PWRF), etc.) that have attracted the investment of major donors, and targeting their investment in the infrastructure of emerging nations in the Asia region, and examine their characteristics.

Table 5.1.2. Overview of Infrastructure Funds in Other Countries

Target country/ Fund name/ Year established	Target sector/ Sub-project	Overview of main investors
<b>India</b> The Infrastructure Development Finance Company (IDFC) 1997	<ul style="list-style-type: none"> <li>• Transport, power and energy, communications sector, etc.</li> <li>• Greenfield project</li> </ul>	<ul style="list-style-type: none"> <li>• Established with India's Ministry of Finance as largest shareholder, and with Commercial Bank of India, ADB, IFC, Government of Singapore Investment Corporation, and Commonwealth Development Corporation as main shareholders</li> </ul>
<b>Indonesia</b> PT Indonesia Infrastructure Finance (IIF) 2010	<ul style="list-style-type: none"> <li>• Toll roads, power generation sector, etc.</li> <li>• Greenfield project</li> <li>• No investment performance as of May 2012</li> </ul>	<ul style="list-style-type: none"> <li>• Obtained financing of 50% each from ADB and World Bank through the Indonesian government (currency exchange guarantee)</li> <li>• Equity obtained from IFC, ADB, DEG, SMI (Indonesian government), SMBC</li> </ul>
<b>Philippines</b> Philippines Water Revolving Fund (PWRF) 2008	<ul style="list-style-type: none"> <li>• Water and sewer sector</li> <li>• Greenfield project</li> <li>• Local government authorities, water bureau</li> </ul>	<ul style="list-style-type: none"> <li>• Yen-based loan financing from JICA through the Philippines Development Bank (PDB) of 75% of funding</li> <li>• The remaining 25% is procured through financing from private-sector banks via the PDB. USAID has guaranteed 50% of the loans from the private-sector banks</li> </ul>
<b>China, India, and Southeast Asia</b> The Asian Infrastructure Fund 1994	<ul style="list-style-type: none"> <li>• Energy, transportation, communications sector, toll roads, etc.</li> <li>• Greenfield project</li> </ul>	<ul style="list-style-type: none"> <li>• Equity procured from a total of five financial institutions, including ADB and IFC</li> <li>• Fund scale is USD 780 million</li> <li>• GP is AIF Capital</li> <li>• Operations period is 10 years</li> </ul>
<b>ASEAN countries</b> China-ASEAN Investment Cooperation Fund (CAF) 2010	<ul style="list-style-type: none"> <li>• Toll roads, railways, container ports, airports, communications sector, etc.</li> <li>• Laemchabang Port Thailand's largest deep-water port, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• LP is IFC and others</li> <li>• Target fund size (first stage) is USD 1 billion, with final target size of USD10 billion</li> </ul>
<b>ASEAN countries</b> ASEAN Infrastructure Fund 2012	<ul style="list-style-type: none"> <li>• Each infrastructure sector</li> <li>• Greenfield, Brownfield project</li> </ul>	<ul style="list-style-type: none"> <li>• Debt fund</li> <li>• Financiers are each ASEAN country, and ADB</li> </ul>

While all of these are infrastructure funds performing investment in Greenfield infrastructure projects, in contrast to the Indonesian and Philippine examples where the funds are established with donor-type institutions as the investors, we can see that India has, in addition to the donor type, funds established by pension, casualty insurance, and other such institutional investors. The Indonesian IIF allows investment participation by the Indonesian government, which differs from the IFF, where investment by the Vietnam government cannot be expected. In addition, in the Philippine PWRP, more than half of the funding is obtained from yen-based loans through the Philippines Development Bank, which differs from the IFF where minority investment to the fund from overseas investment financing systems is presumed. Furthermore, in the PPP advanced nation of Korea, funds are established by private-sector investors, including pensions, life insurance, and other individual and overseas investors.

### 5.1.3. Differences in Risk and Returns for Investments

The main elements giving rise to differences in the risk and return between investments targeted by the IFF and investments in other countries' infrastructure funds include country risk, the level of risk in the investment target itself, including growth prospects, the ease of banking finance, and the investment-related regulations and the degree of preferential treatment in the country.

For example, in Turkey, also one of the Next11 countries alongside Vietnam, Mitsui-Sumitomo Banking Corporation (SMBC) serves as the lead financier for in a seabed tunnel development project that marks country's first major PPP project. Here, risk reduction measures accompany the financing, with the Turkish government providing compensation if the tunnel transit fee income fails to reach expectations. As a result, of the total project expenses of 1.2 billion dollars, funding to the amount of 1.0 billion dollars is provided, for a so-called high leverage (high loan to value (LTV))<sup>13</sup>.

As can be seen from the above, comparison of the IFF to infrastructure funds in other countries reveals a difference between funding being brought in from donor-related institutions only, and funding also being brought in from private-sector investors.

Note that Greenfield investment includes much risk that should be assumed by the public sector side (Ex.: land acquisition risk), and it is well-known that public vs. private risk assumption can be a strong determinant over whether private-sector investment will come in. Since investor differences are assumed to be traced to the differences in government support, in the next section we performed a comparison of government support.

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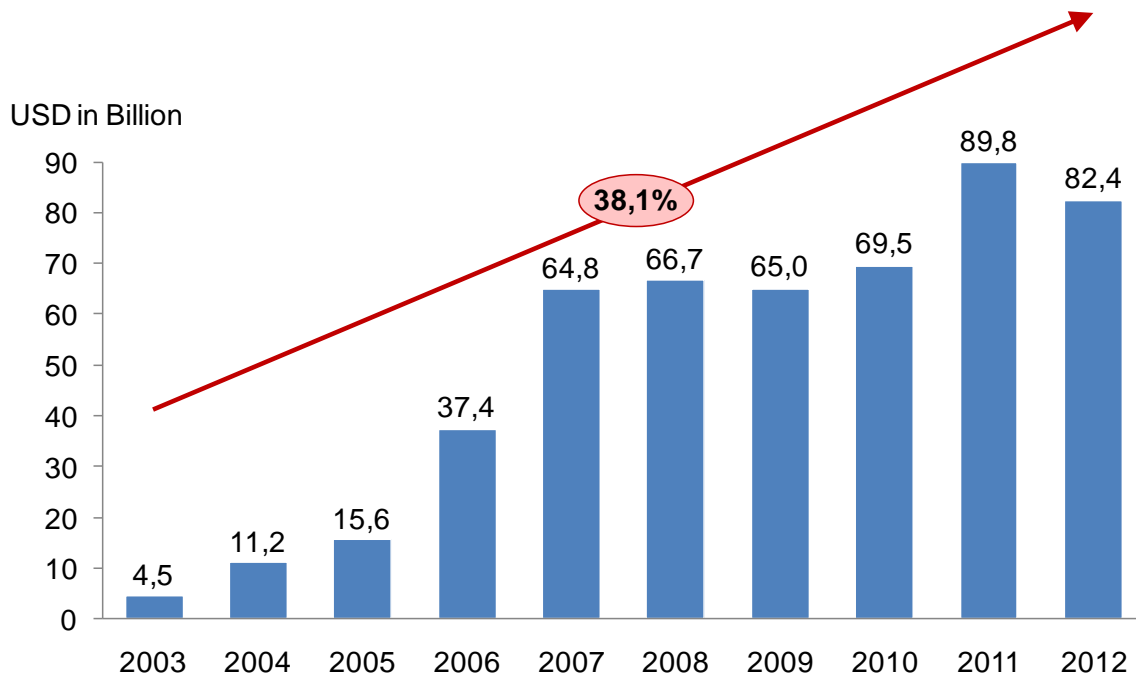
<sup>13</sup> Source: Nihon Keizai Shimbunsha (December 11, 2012)

**(Reference) Current State of Dry Powder in Universal Infrastructure Funds**

With operations in stocks and bonds currently stagnant, investment targeting Brownfield projects in advanced nations of the OECD is showing a rising trend among pension and institutional investors, etc., as long-term stability investments.

However, most of the projects targeted for investment by these investors are large-scale and presumed to come with expectations of high returns, and since such appealing deals basically involve a bidding process, there is no guarantee that an investment opportunity will be attained. In addition, pensions are showing signs of skipping provision of funding to infrastructure funds and instead going to direct investment, and with the increasingly severe competition, each fund is having more difficulty in using the funding held in hand. This can be considered as one of the reasons for the Dry Powder inevitably accumulated year after year.

Table 5.1.3. Dry Powder Trends in World Infrastructure Funds



Source: Preqin – DryPowderSummary

### 5.1.4. Differences in Government Supports for PPP Infrastructure Development

In India, Indonesia, and the Philippines, while there is some degree of difference in initial expenses, land acquisition, and project risks, etc., all risks attendant on Greenfield projects, a fixed level of government guarantees and assistance is provided. In the receipt of this government support, a fixed amount of time and labor is required for the procedures to obtain approvals for support from the local government. In considering the extremely high-risk investments, such as investment in Greenfield projects in newly emerging countries, however, compensation for initial expenses that cannot be covered by the private sector, etc., and fixed guarantees for project risks and other guarantees and assistance by local governments, can be considered an important factor in investor decision-making.

On the other hand, it must be admitted that the guarantees and assistance currently offered under Vietnam's PPP Pilot Law are inferior to these other countries.

As will be seen in the Korean example below, introduction of bold local government preferential investment guarantees, to reach the same level of government guarantees and assistance as these other countries, needs to be incorporated into the PPP Law.

Table 5.1.4.1 Comparison of Government Supports for PPP Infrastructure Development

		India	Indonesia	Philippines	Vietnam (PPP Pilot Law)
Gov. Guarantee / Aid	Initial costs	<ul style="list-style-type: none"> <li>Grant is given at one time, or paid in installments to the PPP project proposed by the government at the time of construction as a capital aid fund (VGF system).</li> <li>Government financial institutions provide long-term financing mechanism.</li> </ul> <p><b>Very Good</b></p>	<ul style="list-style-type: none"> <li>Financial aid by government possible (details will be publicized at the time of the investor recruitment)</li> </ul> <p><b>Good</b></p>	<ul style="list-style-type: none"> <li>Government can directly contribute to project companies</li> </ul> <p><b>Good</b></p>	<ul style="list-style-type: none"> <li>When Prime Minister approves the application of PPP pilot law to the project, the project costs will be borne up to 30% of the total investment.</li> </ul> <p><b>Good&amp;Bad</b></p>
	Land expropriation	<ul style="list-style-type: none"> <li>The risk for land expropriation will be borne by the government. (If delayed, an extension of the project period is allowed.)</li> </ul>	<ul style="list-style-type: none"> <li>The government will expropriate land before recruiting vendors.</li> </ul> <p><b>Very Good</b></p>	<ul style="list-style-type: none"> <li>None</li> </ul> <p><b>Bad</b></p>	<ul style="list-style-type: none"> <li>Support a portion of the costs for eviction and relocation.</li> </ul> <p><b>Good&amp;Bad</b></p>
	Project Risks	<ul style="list-style-type: none"> <li>Provide appropriate indemnification if business agreement is terminated partway due to the reasons from government side.</li> </ul> <p><b>Good</b></p>	<ul style="list-style-type: none"> <li>If funds cannot be recovered with infrastructure usage fees, provide financial aid.</li> <li>Provide a government guarantee in the form of compensation and the like.</li> <li>Public utilities charges are initially set and adjusted later so that investment and operating funds are covered.</li> </ul>	<ul style="list-style-type: none"> <li>Provide direct aid (bearing a portion or exempting all operation maintenance fees and providing facilities) limited to 50% of the total operating costs.</li> <li>Provide government guarantee and the like in order to increase the trust.</li> <li>Guarantee the risk of default (including monetary responsibilities.)</li> </ul>	<ul style="list-style-type: none"> <li>Government guarantee and government involvement will be considered for each case.</li> <li>Give supply of materials and purchasing guarantee of produced items by government.</li> <li>Give priority usage rights of public equipment</li> </ul> <p><b>Good&amp;Bad</b></p>
	Exchange rate fluctuations	<ul style="list-style-type: none"> <li>Does not apply. (Utilize domestic swap markets to hedge risks privately.)</li> </ul> <p><b>Bad</b></p>	<ul style="list-style-type: none"> <li>Does not apply. (However, it is possible to provide a two-step loan in foreign currency via a government financial institution.)</li> </ul> <p><b>Good&amp;Bad</b></p>	<ul style="list-style-type: none"> <li>Does not apply. (However, it is possible to provide a two-step loan in foreign currency via a government financial institution.)</li> </ul> <p><b>Good&amp;Bad</b></p>	<ul style="list-style-type: none"> <li>Does not apply. (However, it is possible to provide a two-step loan in foreign currency via a government financial institution.)</li> </ul> <p><b>Good&amp;Bad</b></p>
	Exchange rate	<ul style="list-style-type: none"> <li>None</li> </ul> <p><b>Bad</b></p>	<ul style="list-style-type: none"> <li>None</li> </ul> <p><b>Bad</b></p>	<ul style="list-style-type: none"> <li>None</li> </ul> <p><b>Bad</b></p>	<ul style="list-style-type: none"> <li>There are legal regulations, but there is almost no guarantees that have been implemented.</li> </ul>
Others	<ul style="list-style-type: none"> <li>Promote the establishment of funds with the purpose of investing in infrastructures.</li> </ul> <p><b>Very Good</b></p>	<ul style="list-style-type: none"> <li>Support the acquisition of certification, and part of the construction works.</li> </ul> <p><b>Good</b></p>	<ul style="list-style-type: none"> <li>Give support through government legal experts.</li> <li>The army and police will cooperate to guard the facility until construction is completed.</li> </ul> <p><b>Good</b></p>	<ul style="list-style-type: none"> <li>None</li> </ul> <p><b>Bad</b></p>	
	Tax breaks	<ul style="list-style-type: none"> <li>Investment to the infrastructure field is exempted from corporate tax.</li> </ul> <p><b>Good</b></p>	<ul style="list-style-type: none"> <li>There are tax break measures for projects that are approved by government agencies in the jurisdiction and local governments.</li> </ul>	<ul style="list-style-type: none"> <li>There are exemptions from real-estate ownership tax and preferential treatment in local taxes.</li> </ul> <p><b>Very Good</b></p>	<ul style="list-style-type: none"> <li>There is preferential treatment for corporate taxes and duties.</li> </ul> <p><b>Good</b></p>

Source: "Adaptive Type and Japanese Technical Use-type Industry Distribution Infrastructure Development Program for the Global Environment (Survey for Yen Loan Formats and Others and Evaluation Project Report on the Mobilization of Private Resources for Infrastructures and Others" (2010 Ministry of Economy, Trade and Industry)  
 "Overview and of PPP-related Legal System in Vietnam, and Considerations for Operation" (2011 Japan Knowledge Center Seminar Text); JETRO homepage.  
 "Basic Information Collection Survey Workshop for Promoting Direct Foreign Investment in PPP Infrastructure Projects in India" (2011 JICA/PwC)  
 "Republic Act 7718 (Philippines BOT law) and Implementation Rules and Regulations"

**(Reference) Example of Government Support for Infrastructure Projects in Korea**

When establishing an infrastructure fund, guarantees and assistance by the government for infrastructure projects is an extremely important point of discussion.

For example, in Korea, a model for PPP, an incentive program for private-sector investment was implemented under a revised PPI Law (the so-called PFI Law), as shown below, resulting in successfully attracting infrastructure funds and other private-sector investment. ◦

**Table 5.1.4.2 Incentive (Risk Reduction) Program for Private-Sector Investments Regulated under the Korean PPI Law (PFI Law)**

Gov. Guarantee / Aid	Initial costs	<ul style="list-style-type: none"> <li>If a private company that is contributing in a specific case obtains contributions from a financial investor such as a fund and the like, the duty of the private company to contribute is exempt for only the amount of the contribution from a financial investor.</li> </ul>
	Land expropriation	<ul style="list-style-type: none"> <li>When it has been judged necessary to promote the project, the right of eminent domain of the land will be given to the concessionaire.</li> <li>The concessionaire can assign land purchasing, land compensation, and support for resettlement of the residents to a public enterprise.</li> </ul>
	Project Risks	<ul style="list-style-type: none"> <li>When construction and operation of a project becomes impossible due to force majeure, including natural disasters, the concessionaire can request the public entity to buy back the project (including incidental projects).                             <ul style="list-style-type: none"> <li>- During construction: When construction is suspended beyond six months or more, or the project costs have risen to 50% or higher due to force majeure, including natural disasters.</li> <li>- During operation: When operation is suspended beyond six months or more due to force majeure, including natural disasters, or restoration costs are 50% or more than the initial project costs.</li> <li>- When construction and operation are suspended because of a delay in performing obligations by a public enterprise defined by the concession agreement, or obligations were not fulfilled without a valid reason</li> </ul> </li> </ul>
	Exchange rate fluctuations	<ul style="list-style-type: none"> <li>Fluctuation of within <math>\pm 20\%</math>: Concessionaire's risk</li> <li>Loss for concessionaire because of fluctuations of <math>\pm 20\%</math> or higher: Fee adjustments or indemnification by government.</li> <li>Profit for concessionaire because of fluctuations of <math>\pm 20\%</math> or higher: Fee adjustments or returning profit to government.</li> </ul>
	Currency Exchange	<ul style="list-style-type: none"> <li>None</li> </ul>
	Others	<ul style="list-style-type: none"> <li>For (Solicited Projects): 90% (If actual revenue is 90% or less than planned revenue, public enterprise will indemnify, or conversely, excess will be returned to the public enterprise when 110% or more.)</li> <li>For (Unsolicited Projects (planned by private entity): 80% (If 80% or less, the public enterprise will indemnify, when 120% or more, excess will be returned to the public enterprise.)                             <ul style="list-style-type: none"> <li>- However, these are general guidelines. Actual amounts will be negotiated for each project. Rates will fluctuate according to the period. (Initial five years: 90%; subsequent five years: 80%; the next five years: 70% and so on. 2006 guideline was amended; for Unsolicited Projects guarantee was abolished, and for Solicited Projects the rate and periods were reduced.</li> </ul> </li> <li>Concessionaires are allowed to implement incidental projects such as housing construction and the development of tourism facilities and others in order to effectively implement the project.</li> </ul>
Tax breaks	<ul style="list-style-type: none"> <li>The concessionaire can record 10% of the investment amount as costs. (Presently in 2006, it is 5%.)</li> <li>The tax rate for income from interest from bonds issued by the concessionaire is 15% (normally 22%).</li> <li>Acquisition tax and registration tax are exempted for BOT projects.</li> </ul>	

However, the Korean government went through much travail to reach this point. While the PPI Law (the so-called PPP Law) was enacted in 1994, its application was seen in only five projects. In the midst of this situation, Korea was struck by the 1997 Asian crisis, and was forced to come under IMF management, leading to difficulties in procuring fund, while at the same time there was a need for infrastructure development in preparation for the 2002 Japan-Korea World Cup.

As a result, the Korean government analyzed the reasons for why PPI application was not more widespread, and based on this analysis, in 1999 implemented the following revisions:

1. Clearly switch from public-led to private sector-led projects
2. Private-sector activity for the objective of improving efficiency through promotion of originality and ingenuity
3. Invite foreign investment through construction of systems conforming to post-crisis international standards



Based on these revisions, the PPI Law was completely overhauled. Moreover, with incorporation of many incentives in the form of a minimum income guarantee program to encourage private-sector investment, the number of applicable projects jumped dramatically, and the infrastructure development program was a success. The number of projects after revision jumped dramatically from the pre-revision 1994 initial count of five projects to a grand total of 458 projects by the end of 2007 (BTO method 170 projects, BTL method 288 projects)<sup>14</sup>.

Moreover, the guidelines regulating the incentive content and open recruitment process are updated annually, enabling the Korean government to skillfully keep up to date with changing conditions.

#### **5.1.5. Investment Regions of Other Infrastructure Funds in Vietnam**

As a result of interviews with fund managers and various surveys, we found that, while there are many funds performing infrastructure-type corporate investment, funds engaged in direct investment in Greenfield projects, both past and present, and including funds where donor-type investors provide anchor investments, etc., are limited in number. At any rate, in the main investment sector for the IFF, the risk assumed by private-sector investors is very high in the continued absence of government support, and since this is a region where reasonable returns are difficult, formation of funds based only on private-sector investors is a difficult situation. Therefore, it is significant that we can establish an IFF that centers on donor-type investors.

### **5.2 Funds (Other than Infrastructure Funds) in Vietnam**

We have prepared an overview on the main funds other than infrastructure funds in Vietnam (the largest in Vietnam in terms of Net Asset Value or assets).

Basically, these funds are growth investments (growth-targeted investments) targeting growing companies listed on the stock exchange in Vietnam. Since investments on listed company totally differ from the infrastructure project investments performed by the IFF, in terms of both liquidity and risk, we cannot really obtain any direct suggestions from them.

So saying, however, the order of appearance in most countries and regions is, for the first stage, the appearance and development of PE (Private Equity) funds / VC (Venture Capital) funds, followed in the second stage by the arrival of infrastructure funds as the need arises among investors for diversification of investment portfolios.

Therefore, we believe that we can say that Vietnam has already passed through this first stage with the appearance and development of PE (Private Equity) funds / VC (Venture Capital) funds and, as explained above, since a number of infrastructure funds have already appeared, the groundwork has been laid for entry into the second stage.

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<sup>14</sup> Source: Nomura Research Institute "Introduction to Infrastructure Funds" (2010)

Table 5.2. Overview of Domestic Funds (Other Than Infrastructure Funds) in Vietnam

	<b>VinaCapital</b>	<b>Dragon Capital</b>	<b>Indochina Capital</b>	<b>IDG Ventures Vietnam</b>
Fund Name	Vietnam Opportunity Fund Limited	Vietnam Enterprise Investments Limited	Indochina Land Holdings 2 L.P.	IDG Ventures Vietnam
Type	PE	PE	PE	VC
Date Established	September, 2003	July, 1995	November, 2006	2004
Net Asset Value	USD 750mil.	USD 433mil.	USD 265mil. (Size of Assets)	Could not be confirmed with HP or others
Contributor	Institutional investor and others	Institutional investor and others	Institutional investor	International Data Group
Nationality/Format	Cayman Fund	Cayman Fund	Cayman Fund	Vietnam Fund
Targeted Sectors	Multiple (real estate) consumption commodity and others)	Multiple (finance, foods, drinks, real estate and others)	Real Estate	Technology, Media, Communications
Investment Targets	Publicly listed/unlisted shares, real estate and others	Publicly listed/Unlisted shares	Real Estate	Unlisted shares
Period	Five years	Undefined	Seven years	Undefined
Exit strategy	Trade Sales IPO	Trade Sales IPO	Trade Sales IPO	Trade Sales IPO

Source: Created by survey team based on JETRO Ho Chi Minh Office "Industry Analysis in Vietnam" (2010) and each company's homepage.

### 5.3 Hints for Future IFF Establishment

In cases where the investment target is infrastructure projects in newly emerging countries that are not members of the OECD that require allowance for extremely high risk, such as the IFF Greenfield infrastructure projects, we believe that introduction of government guarantees at the level seen in India or Indonesia to attract private-sector investors is desirable in Vietnam as well. This is because project risk individually arising for each project targeted for investment can vary by country or sector, so that government guarantees in the form of minimum income guarantees, etc., covering these many varied risks are necessary, and even for boosting attractiveness for obtaining bank loan, as stated above, government guarantees are still the most effective method. On the other hand, the current guarantee program offered by the Vietnamese government for PPP infrastructure development does not adequately provide the level of government guarantees described above. In view of this situation, when studying establishment of the IFF we believe that a realistic step would be to first establish an Equity fund that centers on funding from donor-type investors, and then after accumulating solid performance to steadily expand the fund shareholding to include private-sector investors.

Therefore, based on the above, we believe that establishment of the IFF will promote introduction of private-sector fund to Vietnam's domestic infrastructure projects, and the role-sharing structure of government and private-sector will help facilitate the transition from government-led to private sector-led. While the Vietnamese government and some international financial institutions, etc., are forecasting that the Vietnamese economy will move toward resumption of moderate growth in 2013, in consideration of the macro-economic situation in Vietnam, with a domestic economy that is at the present time confronted by the government's fiscal deficit, the deepening problem of bad bank loans, the timing for establishment of the IFF will require careful study with constant benchmarking of when the local economic conditions turn for the better.

## 6. Investor Candidate Proposals for IFF

### 6.1. Preparation of Long List of Investor Candidates

#### 6.1.1. Selection of Promising Investor Categories

In the selection of promising investor categories, the fact the IFF investment targets are Greenfield infrastructure projects in Vietnam needs to be considered. In other words, promising investors must fulfill three conditions:

- Investors with high risk tolerance
- Investors with extra investment capacity
- Investors who can handle low returns

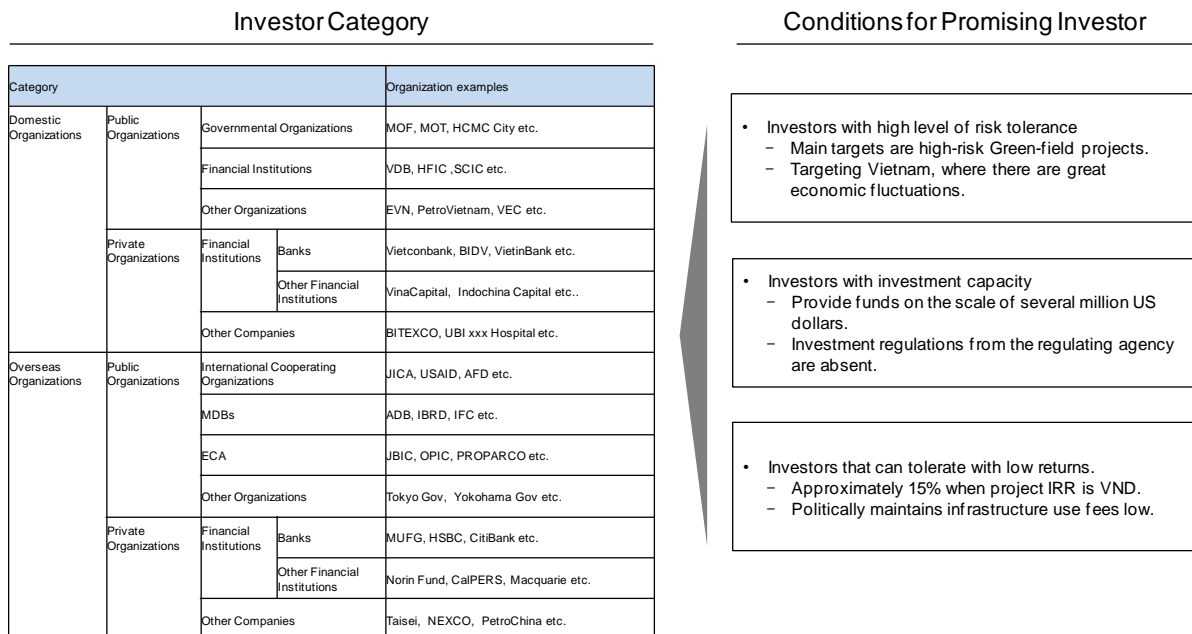


Figure 6.1.1. Selection of Promising Investor Categories

As a result of consideration of these three conditions, we selected aid organizations from various countries, MDBs (multilateral development banks), ECAs (export credit associations), and other government-affiliated financial institutions as the most promising investor categories.

Table 6.1.1. Selection of Promising Investor Categories

Organization Class			Evaluation	Reason	
Domestic Organizations	Government Organization	Administrative Agency	Bad	Funds are strained chronically; investment to IFF is difficult.	
		Financial Institution	Good&Bad	Has little capacity for investment. However, if it becomes the IFF fund manager, it can contribute a portion.	
		Other Institutions	Bad	Often becomes main operator of sub-projects. Low possibility of investment to IFF.	
	Private Companies	Financial Institution	Banks	Good&Bad	If fund operating company that is its subsidiary becomes the IFF fund manager, it can contribute a portion.
			Other Financial Institutions	Good&Bad	Has little room for investment. However, if it becomes the IFF fund manager, it can contribute a portion.
		Other Companies	Bad	Often becomes main operator of sub-projects. Low possibility of investment to IFF.	
Overseas Organizations	Government Organization	Each Country Aid Organization	Good	Investor that can agree to the gist of infrastructure development for the purpose of expansion of the Vietnamese economy and has a high level of risk tolerance, so it can invest in IFF although the return is small.	
		MDBs (Multilateral Development Bank)	Good	Investor that can agree to the gist of infrastructure development for the purpose of expansion of the Vietnamese economy and has a high level of risk tolerance, so it can invest in IFF although the return is small.	
		ECA (Export Trust Body)	Good	Investor that can agree to the gist of infrastructure development for the purpose of expansion of the Vietnamese economy and has a high level of risk tolerance, so it can invest to IFF if there is some return.	
		Other Institutions	Bad	Has a low-level of risk tolerance, and will be difficult to invest in infrastructure development in Vietnam. Also, would be difficult to obtain the benefit effects for the local residents and businesses from IFF.	
	Private Companies	Financial Institution	Banks	Bad	Investor requires high returns, so would be difficult to invest in IFF with high risks, but low returns.
			Other Financial Institutions	Bad	Investor requires high returns, so would be difficult to invest in IFF with high risks, but low returns.
		Other Companies	Bad	Low level of risk tolerance, so would be difficult to invest in IFF with high risks, but low returns. However, can strategically invest as an entry ticket to Vietnam.	

### 6.1.2. Preparation of Long List of Investor Candidates

For the government-related financial institutions selected as promising investor categories, we studied the individual institution names and then prepared a Long List of investor candidates.

### 6.2. Preparation of Short List of Investor Candidates

To become an IFF investor, the investor candidate institution must have investment and financing skills. Furthermore, since the IFF investment target is a Vietnamese infrastructure project, a base in Vietnam, and knowledge of and commitment to Vietnam are needed. From this perspective, we extracted the candidates from the Long List in the preceding paragraph that have investment and financing skills, and also have a base in Vietnam, to prepare a Short List (the investor candidate Short List is not publically disclosed).

### **6.3. Proposal for Agreement between Investor Candidates (Core Investor Candidates) Listed on Short List**

An agreement in the form of an investment contract is ordinarily drawn up as a result of negotiations that reflect the respective determination and intent of the fund manager and investors. Therefore, at the stage of this study, where the fund manager and (anchor) investors have not yet been decided, we have decided to show the following as results of this study.

1. Memorandum of Discussion (draft): An agreement on the IFF concept, and on continuation of the studies between anchor investors.
2. IFF Terms Sheet (draft): A collection of IFF terms of various categories (proposal) as a result of this study. A draft used during consultation and negotiations for the fund manager and for the anchor investor.
3. Investment Project Limited Liability Association Model Agreement ("Model Agreement"): A draft agreement signed by the fund manager and investors (not limited to the anchor investor, but extended to include all investors). The above 2 "Summary of Terms of Infrastructure Financing Fund (DRAFT)" is confirmed in consultation and negotiations between the fund manager and anchor investor, and shall constitute the final investment agreement that reflects the model agreement.

## 7. Actions for Fund Operations

### 7.1. Actions of Relevant Parties for Fund Operations

Towards fund operation, JICA, the fund manager, and investors other than JICA are expected to take following actions shown on the next page.

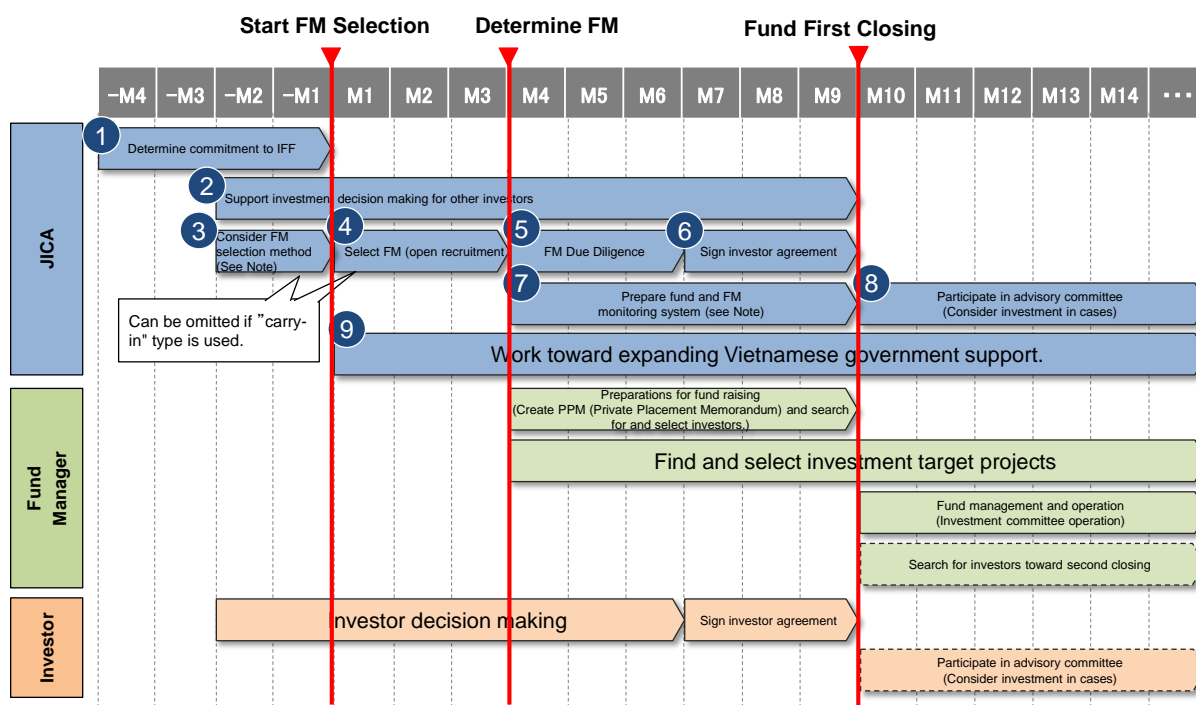
First, within JICA, a) determine the commitment to the IFF, and at the same time, b) provide support for decision-making at other investors and c) study the fund manager selection method. Later, d) start open recruitment of the fund manager, with selection in the fourth month (M4). Also perform e) due diligence on the fund manager and f) sign an investor agreement, and then g) create a fund and fund manager monitoring framework, while consulting with other anchor investors.

In addition, if it is decided, following the fund manager's proposal, to make investment in infrastructure funds that are similar to the IFF, then the c) study of the fund manager selection method and d) selection of the fund manager (open recruitment) actions may be omitted. In addition, since e) due diligence on the fund manager is conducted ahead of schedule a) determine the commitment to the IFF and b) provide support for decision-making to other investors can proceed simultaneously.

Meanwhile, the actions of the fund manager can start immediately after selection in the fourth month (M4), with preparation of fund-raising, and nomination and selection of investment target projects. For investors other than JICA, what is needed is a decision for investment at this point in time, and signing an investment agreement.

If operations have progressed smoothly, perform the first closing in the 10th month (M10) after the end of this study. The fund manager performs fund management and operation, and JICA and other investors h) propose investment in projects through participation in advisory committee.

While not directly related to the fund establishment, to boost the profitability of infrastructure development projects, we believe that i) unceasing effort to expand Vietnamese government support is important. As noted in "5.1.4. Differences in Government Supports for PPP Infrastructure Development", this is because incorporating the same levels of government guarantees and assistance as in Indonesia or India into a PPP Law, etc., is important for encouraging private-sector investors.



Note: Consult with anchor investors as required.

Figure 7.1. Actions of Relevant Parties for Fund Operations

## 7.2. Detailed JICA Actions for Fund Operations

Among actions taken for fund operation, on the next page we show the detailed JICA actions aimed at the first closing of the fund.

For "(1) Decision to commit to IFF", JICA shall first determine the investment in the IFF, and then align an official cooperation with other investors for the IFF organization (see Table 7.2.2.), and then obtain agreement from the relevant ministries and agencies.

For "(2) Support for investment decisions to other investors", work on other investors to encourage their participation in the IFF.

For "(3) Study of FM selection method", prepare a draft proposal for an open recruitment form based on "4.3.6. Proposal for RFP of Fund Manager Selection". Based on this draft, make detailed adjustments to the open recruitment method with other anchor investors.

For "(4) FM selection (open recruitment)", perform the entire process, from issuing the open recruitment forms, through the first and second screenings, and on to notification of the final selection results.

In "(5) FM due diligence", perform direct interviews with fund managers, interviews with other relevant persons, and also a final screening of documents, etc., to determine whether consignment of the IFF operations to the selected fund manager is suitable.



For "(6) Signing of investor agreement document", review the PPM (Private Placement Memorandum) proposal adopted by the fund manager, and sign the investor agreement document (Fund Management Agreement) and settle the account.

For "(7) Creation of fund and FM monitoring framework", map out management rules for the Investment Committee, and monitoring rules for the investment project.

For "(8) Participation in Advisory Committee", prior to an Advisory Committee meeting, review the agenda presented by the fund manager and map out the counter-plan and then present it at the meeting, to ensure that JICA investment policy is incorporated into the IFF.

For "(9) Work for expansion of Vietnamese government support", summarize proposals suggesting expansion of Vietnamese government support for infrastructure investment, and transmit these proposals through various routes to the Vietnamese government side. If the Vietnamese government understands the necessity, it is possible to provide technical support for establish the system.

For these actions, expert knowledge related to infrastructure development and fund establishment is necessary, and we assume that many man-hours will be required. While utilizing knowledge from external body and man-hours, JICA will make the decisions as needed, and take many layers of actions toward fund operation.

Table 7.2.1. Detailed JICA Actions for Fund Operations (Proposed)

Action	Detailed action
(1) Decision to commit to IFF	Decide within JICA to commit to IFF
	Obtain agreement from relevant ministries and agencies
(2) Support for investment decisions to other investors	Interview the intentions for participation in IFF
	Encourage participation in IFF
(3) Study of FM selection method	Prepare draft proposal for open recruitment procedure form
	Adjust RFP with anchor investors
(4) FM selection (open recruitment)	Issue RFP
	First screening for FM candidate
	Send notification of FM first screening results
	Second screening for FM candidate
	Send notification of FM final selection results
(5) FM due diligence	Perform FM due diligence (FM interview)
	Perform FM due diligence (relevant persons interviews)
	Perform FM due diligence (document screening)
(6) Signing of investor agreement document	Review draft proposal for investor agreement prepared by FM (including PPM (Private Placement Memorandum))
	Agree on investor agreement and make final decision
(7) Creation of fund and FM monitoring framework	Adopt management rules for Investment Committee
	Adopt monitoring rules for investment project
(8) Participation in Advisory Committee	Review agenda for Advisory Committee
	Prepare plan in response to proposal for Advisory Committee
	Participate in Advisory Committee
(9) Work for expansion of Vietnamese government support	Draw proposals related to expansion of government support
	Issue proposals related to expansion of government support
	Provide technical support to the Vietnamese government related to expansion of government support

Table 7.2.2. Agreement between Anchor Investors related to Collaboration in Fund  
Composition Study (Draft)

<p style="text-align: center;"><b>Collaboration Agreement</b> among Investor A, <i>represented by a representative A</i>; Investor B, <i>represented by a representative B</i>; and Japan International Cooperation Agency (JICA), <i>represented by a representative C</i> to discuss in setting up an infrastructure fund in Vietnam</p> <p><b>1. Purpose</b></p> <p>Investor A, Investor B and Japan International Cooperation Agency, together hereinafter referred to as the “Parties”, desire to enter into this Collaboration Agreement (the Agreement) to formalize the intention to collaborate for establishing an infrastructure fund in Vietnam.</p> <p><b>2. Nature of Collaboration</b></p> <p><u>Objective:</u> The objective of the collaboration is to assist Vietnam to meet infrastructure development needs and contribute to an increase in the economy’s competitiveness and growth.</p> <p><u>Rationale:</u> While public sector budget resources and official development assistance (ODA) are making significant contributions to the development of infrastructure in Vietnam, it is also important to leverage domestic and international capital markets to attract private investment, as well as, private management and technical expertise to assist in building, operating and managing world class economic and social infrastructure and services.</p> <p><u>Intention of the Parties:</u></p> <p>Investor A, Investor B and JICA intent to work together to:</p> <ul style="list-style-type: none"><li>- Develop fund terms, select a fund manager, and identify other LP candidates than the Anchor investors, to establish an infrastructure fund in Vietnam.</li></ul>
---

**3. Legal Effect**

The purpose of the Agreement is to set forth the understandings and intentions of the Parties with regard to the shared objective stated above. The Parties enter into the Agreement while wishing to maintain their own separate and unique missions and mandates, and their own accountabilities. Unless specifically provided otherwise, the cooperation among the Parties as outlined in the Agreement shall not be construed as a partnership or other type of legal entity or personality. Each Party shall accept full and sole responsibility for any and all expenses incurred by itself relating to the Agreement. Nothing in the Agreement shall be construed as superseding or interfering in any way with any agreements or contracts entered into among the Parties, either prior to or subsequent to the signing of the Agreement. Nothing in the Agreement shall be construed as an exclusive working relationship. The Parties specifically acknowledge that the Agreement is not an obligation of funds, nor does it constitute a legally binding commitment by any Party or create any rights in any third party.

**4. Designated Points of Contract**

Investor A:

Investor B:

JICA:

**5. Entry into Effect and Termination**

The Agreement will enter into effect when signed by each Party. This Agreement will remain in effect unless terminated by one of the Parties upon written notice to the other Party with such termination becoming effective thirty (30) days after the date of the notice. The Agreement may be amended at any time if all Parties agree in writing.

Investor A:

Investor B:

Japan International  
Cooperation Agency:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Date:

Date:

Date:

# Appendixes

## 候補案件ロングリスト Long List of Candidate Projects

#	案件名 Project Name	セクター Sector	立地 Location
1	Van Don Airport	Airport	Quang Ninh Province
2	Cat Bi International Airport New Runway	Airport	Hai Phong City
3	Lao Cai Airport	Airport	Lao Cai Province
4	Phu Bai International Airport	Airport	Thua Thien-Hue Province
5	Chu Lai International Airport	Airport	Quang Ngai Province Quang Nam Province
6	Cam Ranh International Airport	Airport	Khanh Hoa Province
7	Long Thanh International Airport Passenger Terminal	Airport	Dong Nai Province
8	Long Thanh International Airport Cargo Terminal	Airport	Dong Nai Province
9	An Giang Aripport New Construction	Airport	An Giang Province
10	Cai Lan Port No.2 Pier	Port	Quang Ninh Province
11	Cai Lan Port Three Terminals	Port	Quang Ninh Province
12	Hai Phong New International Gate Port (Lac Huyen Port) PhaseB	Port	Hai Phong City
13	Dinh Vu Port	Port	Hai Phong City
14	Son Tay Port	Port	Hanoi City
15	Da Nang Port TienSa Port Phase 2	Port	Da Nang City
16	My Thuy Port	Port	Quang Tri Province
17	Hon La Port	Port	Quang Binh Province
18	Nghi Son Port	Port	Thanh Hoa Province
19	Dong Hoi Port	Port	Nghe An Province
20	Son Duong Port	Port	Ha Tinh Province
21	Vung Ang Port No.3 Pier	Port	Ha Tinh Province
22	Van Phong New International Transhipment Port	Port	Khanh Hoa Province
23	Van Phong Petroleum Industry Service Base	Port	Khanh Hoa Province
24	Quy Nhon Port Upgrade	Port	Binh Dinh Province
25	Nhon Hoi Port Phase1	Port	Binh Dinh Province
26	PVTrans International Port	Port	Quang Ngai Province
27	Dung Quat Shipyard Phase 2	Port	Quang Ngai Province
28	Phuoc An Port	Port	Dong Nai Province
29	Nhon Trach Shipyard	Port	Dong Nai Province
30	Hiep Phuoc Port	Port	HCMC
31	Sao Mai Ben Dinh Port	Port	Ba Ria-Vung Tau Province
32	Vung Tau Maritime – Petroleum Services Complex	Port	Ba Ria-Vung Tau Province
33	SP-SSA International Port Phase2	Port	Ba Ria-Vung Tau Province
34	SP-PSA International Port	Port	Ba Ria-Vung Tau Province
35	Cai Mep International Port	Port	Ba Ria-Vung Tau Province
36	Ha Long – Mong Cai Expressway	Road	Quang Ninh Province
37	Ha Long – Hai Phong Expressway	Road	Quang Ninh Province Hai Phong City
38	Hanoi - Ha Long Expressway	Road	Hanoi, Quan Ninh
39	Hanoi - Lang Son Expressway	Road	Hanoi City Bac Ninh Province Bac Giang Province Lang Son Province
40	Hanoi - Hai Phong Expressway	Road	Hanoi City/Hai Phong City
41	Mai Dich - Noi Bai Expressway Upgrading	Road	Hanoi City
42	Hanoi Rapid Bus Transit	Road	Hanoi City

#	案件名 Project Name	セクター Sector	立地 Location
43	Phap Van - Cau Gie Expressway	Road	Hanoi City
44	Ninh Binh - Thanh Hoa Expressway	Road	Ninh Binh Province Thanh Hoa Province
45	La Son - Lang Co Upgrading National Road 1	Road	Thua Thien-Hue Province
46	Cam Lo – La Son Section Ho Chi Minh Highway	Road	Quang Tri Province Thua Thien-Hue Province
47	La Son - Tuy Loan Expressway	Road	Quang Tri Province Thua Thien-Hue Province Da Nang City
48	Quang Ngai - Quy Nhon Expressway	Road	Quang Tri Province Thua Thien-Hue Province Da Nang City
49	Quy Nhon - Nha Trang Expressway	Road	Quang Tri Province Thua Thien-Hue Province Da Nang City
50	Lam Dong Province Road	Road	Lam Dong Province
51	Dau Giay – Lien Khuon Expressway	Road	Dong Nai Province Lam Dong Province
52	Dau Giay - Da Lat Expressway	Road	Dong Nai Province Lam Dong Province
53	Dau Giay-Phan Thiet Expressway	Road	Dong Nai Province Binh Thuan Province
54	Phan Thiet - Nha Trang Expressway	Road	Dong Nai Province Binh Thuan Province
55	Bien Hoa-Vung Tau Expressway	Road	Dong Nai Province Ba Ria-Vung Tau Province
56	HCMC Ring Road #2	Road	HCMC
57	HCMC Ring Road #3	Road	HCMC
58	HCMC Ring Road #4	Road	HCMC
59	Hoc Mon - Cu Chi of HCMC, Extension of Ring National Road No.22	Road	HCMC
60	Elevated highway No.1(HCMC - Tan Son Nhat)	Road	HCMC
61	Ben Luc – Hop Phuo Expressway	Road	Long An Province HCMC
62	Thung Luong-My Thuan Expressway	Road	Tien Giang Province Vinh Long Province
63	Can Tho - My Thuan expressway	Road	Can Tho City Tien Giang Province
64	Can Tho - Phnom Penh Expressway	Road	Can Tho City An Giang Province
65	Ngoc Hoi bridge and approach ramps on both ends on 3.5 road	Road(Bridge)	Khanh Hoa Province
66	Nguyet Vien-Thanh Hoa Bridge	Road(Bridge)	Thanh Hoa Province
67	Hanoi Urban Railway Line 4	Railway	Hanoi City
68	Hanoi Urban Railway Line 5	Railway	Hanoi City
69	Hanoi Urban Railway Line 6(Hanoi-Noi Bai)	Railway	Hanoi City
70	Hanoi Hai Phong Railway	Railway	Hanoi City Hai Phong City
71	Hai Van railway tunnel	Railway	Thua Thien-Hue Province
72	Bien Hoa-Vung Tau railway	Railway	Dong Nai Province Ba Ria-Vung Tau Province
73	Ho Chi Minh Elevated Railway Project Between Hoa Hung-Trang Bom Section	Railway	HCMC
74	HCMC Urban Railway Line 3	Railway	HCMC
75	HCMC Urban Railway Line 4	Railway	HCMC
76	HCMC Urban Railway Line 6	Railway	HCMC

#	案件名 Project Name	セクター Sector	立地 Location
77	PPP Duong River Water Supply System	Water Supply	Hanoi City
78	Hanoi Da River Water Supply System	Water Supply	Hanoi City
79	Dung Quat Water Supply to Industrial Park	Water Supply	Quang Ngai Province
80	Song Hau Industrial Park Water Supply System	Water Supply	Hau Giang Province
81	Nghê An Water Supply to a Small District Town	Water Supply	Nghe An Province
82	Hue The Ceramic Membrane Filtration System for Small Water Purifying plant	Water Supply	Thua Thien-Hue Province
83	Ho Chi Minh City Water Purification Plant	Water Supply	HCMC
84	Thu Duc Water Plant Phase 3	Water Supply	HCMC
85	Can Tho City Water Supply Improvement Project	Water Supply	Can Tho City
86	Song Hau River Water Plant No. 1	Water Supply	Can Tho City
87	Song Hau River Water Plant No. 2	Water Supply	An Giang Province
88	Song Hau River Water Plant No. 3	Water Supply	An Giang Province
89	Da Nang City Wastewater Management and Solid Waste Management	Water/Sewerage	Da Nang City
90	Phu Quoc Water Supply and Sewerage System Development	Water/Sewerage	Tien Giang Province
91	HCMC Water/Sewerage	Water/Sewerage	HCMC
92	Long An Province Utility Management of Environment-Friendly Industrial Parks A	Water/Sewerage	Long An Province
93	Long An Province Utility Management of Environment-Friendly Industrial Parks B	Water/Sewerage	Long An Province
94	Long An Province Utility Management of Environment-Friendly Industrial Parks C	Water/Sewerage	Long An Province
95	Luc Nam 1 Thermal Power Plant	Thermal Power Plant (coal)	Bac Giang Province
96	Na Duong 2 Thermal Power Plant	Thermal Power Plant (coal)	Lang Son Province
97	Mong Duong 2 Thermal Power Plant	Thermal Power Plant (coal)	Quang Ninh Province
98	Hai Duong 1 Thermal Power Plant	Thermal Power Plant (coal)	Hai Duong Province
99	Thai Binh 2 Thermal Power Plant	Thermal Power Plant (coal)	Thai Binh Province
100	Thai Binh 2#2 Thermal Power Plant	Thermal Power Plant (coal)	Thai Binh Province
101	Nam Dinh Thermal Power Plant	Thermal Power Plant (coal)	Nam Dinh Province
102	Nghi Son 2 Thermal Power Plant	Thermal Power Plant (coal)	Thanh Hoa Province
103	Quynh Lap 1 Thermal Power Plant	Thermal Power Plant (coal)	Nghe An Province
104	Vung Ang 2 Thermal Power Plant	Thermal Power Plant (coal)	Ha Tinh Province
105	Quang Trach 1 Thermal Power Plant	Thermal Power Plant (coal)	Quang Binh Province
106	Quang Tri Thermal Power Plant	Thermal Power Plant (coal)	Quang Tri Province
107	Van Phong 1#1 Thermal Power Plant	Thermal Power Plant (coal)	Khanh Hoa Province
108	Son My 1 Thermal Power Plant	Thermal Power Plant (coal)	Binh Thuan Province
109	Vinh Tan 1 Thermal Power Plant	Thermal Power Plant (coal)	Binh Thuan Province
110	Vinh Tan 3 Thermal Power Plant	Thermal Power Plant (coal)	Binh Thuan Province
111	Song Hau 1 Thermal Power Plant	Thermal Power Plant (coal)	Hau Giang Province
112	Hau Giang River 1 Thermal Power Plant	Thermal Power Plant (gas turbine)	Hau Giang Province
113	Duyen Hai 2 Thermal Power Plant	Thermal Power Plant (coal)	Tra Vinh Province
114	Long Phu 1 Thermal Power Plant	Thermal Power Plant (coal)	Soc Trang Province
115	Long Phu 3 Thermal Power Plant	Thermal Power Plant (coal)	Soc Trang Province
116	Formosa #2 Thermal Power Plant	Thermal Power Plant (coal)	HCMC
117	O Mon 2 Thermal Power Plant	Thermal Power Plant (gas turbine)	Can Tho City
118	Nam Na Hydro Power Plant	Hydro Power Plant	Lai Chau Province
119	Nam Na 3 Hydro Power Plant	Hydro Power Plant	Lai Chau Province
120	Huoi Quang Hydro Power Plant	Hydro Power Plant	Lai Chau Province
121	Son La Hydro Power Plant	Hydro Power Plant	Lai Chau Province



#	案件名 Project Name	セクター Sector	立地 Location
122	Ngoi Phat Hydro Power Plant	Hydro Power Plant	Lao Cai Province
123	Yen Son Hydro Power Plant	Hydro Power Plant	Tuyen Quang Province
124	Kuong No Hydro Power Plant	Hydro Power Plant	Kuong No District
125	Quang Tri Hydro Power Plant	Hydro Power Plant	Quang Tri Province
126	Hoi Xuan Hydro Power Plant	Hydro Power Plant	Thanh Hoa Province
127	Ba Thuoc 1 Hydro Power Plant	Hydro Power Plant	Thanh Hoa Province
128	Sre Pok 4A Hydro Power Plant	Hydro Power Plant	Dak Lak Province
129	Dakrinh Hydro Power Plant	Hydro Power Plant	Kon Tum Province
130	Thuong Kon Tum Hydro Power Plant	Hydro Power Plant	Kon Tum Province
131	Dong Nai 2 Hydro Power Plant	Hydro Power Plant	Dong Nai Province
132	Phu Tan2 Hydro Power Plant	Hydro Power Plant	Dong Nai Province
133	Dong Nai 5 Hydro Power Plant	Hydro Power Plant	Lam Dong Province
134	Dong Nai 6 Hydro Power Plant	Hydro Power Plant	Lam Dong Province
135	Da Nhim Hydro Power Plant	Hydro Power Plant	Lam Dong Province
136	Da Mi Hydro Power Plant	Hydro Power Plant	Lam Dong Province
137	Ham Thuan Hydro Power Plant	Hydro Power Plant	Lam Dong Province
138	Ninh Son Pumped Storage Power Plant	Pumped Storage Power Plant	Ninh Thuan Province Lam Dong Province
139	Don Duong Pumped Storage Power Plant	Pumped Storage Power Plant	Lam Dong Province
140	Rice Huck Biomass Power Plant	Biomass Power Plant	Can Tho City
141	Phuong Mai 1 Wind Power Plant	Wind Power Plant	Binh Dinh Province
142	Phuong Mai 2 Wind Power Plant	Wind Power Plant	Binh Dinh Province
143	Quang Tri Wind Power Plant	Wind Power Plant	Quan Tri Province
144	Greta Wind Power Plant	Wind Power Plant	Ninh Thuan Province
145	An Vien Wind Power Plant	Wind Power Plant	Ninh Thuan Province
146	Huong Dien Wind Power Plant	Wind Power Plant	Ninh Thuan Province
147	Ninh Thuan Wind Power Plant	Wind Power Plant	Ninh Thuan Province
148	Binh Thuan Wind Power Plant Phase 2	Wind Power Plant	Binh Thuan Province
149	Hoa Thang Wind Power Plant	Wind Power Plant	Binh Thuan Province
150	Tien Thanh Wind Power Plant	Wind Power Plant	Binh Thuan Province
151	Phuoc The Wind Power Plant	Wind Power Plant	Binh Thuan Province
152	Binh Thuan - Sai Gon Wind Power Plant	Wind Power Plant	Binh Thuan Province
153	Thuan Nhien Phong Wind Power Plant	Wind Power Plant	Binh Thuan Province
154	Phu Lac Wind Power Plant	Wind Power Plant	Binh Thuan Province
155	Vinh Hao Wind Power Plant	Wind Power Plant	Binh Thuan Province
156	Tien Thanh Wind Power Plant	Wind Power Plant	Ben Tre Province
157	Duyen Hai Wind Power Plant	Wind Power Plant	Tra Vinh Province
158	Dai An Industrial Park Rental Factory	Industrial Park	Hai Duong Province
159	Nhon Trach 3 Industrial Park Rental Factory	Industrial Park	Dong Nai Province
160	(非公表)	Hospital	HCMC

# Vietnam Infrastructure Financing Fund

## Selection of Fund Manager

### Request for Proposal (Draft)

ファンドマネージャー公募手続書類案

XXXX, 2013

Japan International Cooperation Agency

XXX

XXX

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## 1. Introduction

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Currently, Vietnam needs to improve domestic infrastructure based on the PPP method to maintain its growth. In this regard, the Japan International Cooperation Agency (JICA) plans to establish a funding mechanism (Infrastructure Financing Fund; hereinafter referred to as the IFF) to promote capital inflow from domestic and overseas private sectors.

JICA has conducted studies on IFF establishment and identified potential infrastructure development projects for IFF application, fund manager selection criteria, fundamental structural elements of the fund, and potential investors to provide money to the IFF.

JICA, xxx (xxx), and xxx (xxx) (hereinafter referred to as the ANCHOR INVESTORS) agreed to consolidate their resources to establish an IFF dedicated to financing domestic infrastructure development projects in Vietnam. The ANCHOR INVESTORS expect to invest significant amounts (JICA: USD xx million, xxx: USD xx million, and xxx: USD xx million) to the IFF. The IFF is expected to be the size of USD 100 million at the first close.

It is expected that the development of infrastructures in Vietnam will create better conditions for the business activities of companies that are considering entering into Vietnam, which in turn will promote the entry of private companies and contribute to increased business opportunities for these companies.

## 2. Purpose

---

The ANCHOR INVESTORS shall, through the issuance of this Request for Proposal (RFP), select a fund manager (hereinafter referred to as the MANAGER) who has a proven ability and operational expertise in the infrastructure business.

The MANAGER will be given a mandate to manage the IFF in accordance with the rules, terms, and conditions specified herein. The said mandate may be increased subject to the availability of domestic projects and the performance of the investment portfolio.

Proposers shall submit application forms and related materials following the conditions defined by this RFP.

### **3. Service to Be Provided**

---

The services to be provided by the MANAGER include the evaluation, acquisition, management, and disposal of infrastructure projects in accordance with a Fund Management Agreement (FMA).

The MANAGER is expected to obtain a target net IRR of approximately 12% (USD basis) and approximately 20% (VND basis) from the IFF.

The MANAGER shall propose and implement a fund management structure that is both operationally efficient and tax efficient for the ANCHOR INVESTORS and other investors based on the Summary of Terms of Infrastructure Financing Fund (Attachment 1).

The MANAGER shall provide monthly and quarterly reports to the ANCHOR INVESTORS and other investors regarding the financial and operational status of the investments made by the IFF.

The MANAGER shall be required to have in-person meetings, at least semi-annually, with representatives of the ANCHOR INVESTORS.

The MANAGER shall attend Board and/or Committee meetings and will make appropriate presentations regarding the IFF and its performance, as requested by the ANCHOR INVESTORS.

The MANAGER shall complement the rest portion of the IFF capital beyond the capital portion of the ANCHOR INVESTORS with capital sources of private/public sector investors .

The MANAGER shall be required to invest a certain amount of capital sources to the IFF and declare its commitment when submitting the application to this RFP.

The MANAGER shall comply with environmental/social standards designated by ANCHOR INVESTORS when the MANAGER invests in any infrastructure projects.

## 4. Minimum Qualifications

---

To be considered in the selection process, the Proposer must meet all of the following minimum qualifications to the ANCHOR INVESTORS' satisfaction. Failure to satisfy any of the minimum qualifications will result in the immediate rejection of the proposal.

The Proposer must certify that as of xxxx 2013:

- i. The Proposer has invested in infrastructure development projects or infrastructure development companies directly.
- ii. The Proposer has an office (full branch/representative office/sales office, etc.) located in Vietnam or is willing to set up an office in Vietnam within the next six (6) months from the time of engagement to service IFF investment concerns and related issues.
- iii. The Proposer is duly registered and authorized by the appropriate regulatory agency of its country to perform the functions of a fund manager.
- iv. The Proposer shows clear expectations to raise capital from private/public sector investors besides the ANCHOR INVESTORS with commitment letters from these investors.
- v. The Proposer has the intention to inject its own capital into the IFF when it is finally selected as the MANAGER.

## 5. Proposal Requirements

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Proposals must describe the Proposer's qualification and expertise in the format outlined in this RFP. A proposal will not be considered complete unless it contains all of the items described below.

- i. Cover Letter: A cover letter, which will be considered an integral part of the proposal, must be signed by an individual who is authorized to bind the Proposer contractually. The cover letter must state that the individual is so authorized and must identify the title or position that the individual holds in the Proposer's firm. An unsigned cover letter shall cause the proposal to be rejected. The cover letter must contain all of the following:
  - a) A statement expressing the Proposer's willingness to perform the services as described in this RFP.
  - b) A statement expressing the Proposer's willingness to inject its capital into the IFF when it is finally selected as the MANAGER.
  - c) A statement expressing the availability of staff and other required resources for performing all services and providing all deliverables as described in this RFP.
  - d) A brief description of the investment strategy that the MANAGER intends to implement for the IFF.
- ii. Project Investment Experience: The Proposer must complete the Project Investment Experience sheet (Form 1), describing its exited and ongoing investment experiences of infrastructure projects. The Proposer shall additionally describe potential infrastructure projects, if any.
- iii. Manpower: The Proposer must complete the Manpower sheet (Form 2), describing its investment team member profiles.
- iv. Fund Management Experience: The Proposer must complete the Fund Management Experience sheet (Form 3), describing its exited and ongoing fund management experiences.
- v. Commitment to the IFF: The Proposer must complete the Commitment to the IFF sheet (Form 4), describing names of potential investors (including the Proposer itself) which show intentions to provide capital sources to the IFF. The Proposer must attach a copy of commitment letters from these potential investors (including the Proposer itself).

- vi. General Information: The Proposer must complete the General Information sheet (Form 5), describing its company information and contact information.
- vii. Project Investment Plan: The Proposer **who is nominated to the second evaluation** must complete the Project Investment Plan sheet (Form 6), describing its potential projects for investment.
- viii. Financial Model: The Proposer **who is nominated to the second evaluation** must complete the Financial Model sheet (Form 7). The financial model should show:
  - a) Timing and quantum of management fee components defined in the Summary of Terms of Infrastructure Financing Fund (Attachment 1).
  - b) Timing, form, and quantum of infrastructure project cash-flows including:
    - ✓ Drawdowns during construction period; and
    - ✓ Repayment profile during operational period.
  - c) Timing, form, and quantum of the cash-flows of ANCHOR INVESTORS / other investors, including drawdown and repayment profiles.
  - d) The cash-flow waterfall reflecting the ranking of payments by the IFF to its investors and the MANAGER.
  - e) The investor IRR (net and gross of management fees, etc.) both at the infrastructure project and the IFF level.



## 6. Submission of Proposal

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The Proposer must submit four (4) hard copies of the proposal documents, which include the Cover Letter, Form 1-5, and commitment letters issued by potential investors and the Proposer itself.

The proposal documents at the first evaluation must be bound and organized in the following order to facilitate review by evaluators:

- i. Cover Letter
- ii. Project Investment Experience (Form 1)
- iii. Manpower (Form 2)
- iv. Fund Management Experience (Form 3)
- v. Commitment to the IFF (Form 4)
- vi. General Information (form 5)
- vii. Commitment Letters issued by potential investors and the Proposer itself

In addition to the four (4) hard copies of the proposal documents, the Proposer must submit one (1) CD or USB stick containing a softcopy of all proposal documents, including image files of the signed cover letter and commitment letters.

The proposal documents must be written in the English language.

The proposal package must be contained in a sealed envelope clearly marked as “RESPONSE TO REQUEST FOR PROPOSAL ON INFRASTRUCTURE FINANCING FUND”. Failure to clearly mark the proposal package may result in the rejection of the proposal. The ANCHOR INVESTORS are not responsible for receipt of any proposal which is not properly labeled and accepts no responsibility for lost and/or late delivery of proposals.

The proposal package must be addressed to:

Mr./Ms. xxxxxx

Vietnam Office

Japan International Cooperation Agency (JICA)

16th Floor, Daeha Business Center 360 Kim Ma Street, Ba Dinh District, Hanoi, Vietnam

Email: [xxx.xxx@jica.go.jp](mailto:xxx.xxx@jica.go.jp)

TEL: +84-4-3831-5005~8

The proposal package must be received by JICA no later than xxx 2013, 6:00 p.m. (Japan time). All proposal packages will be date- and time-stamped upon receipt by JICA. Proposals received after the above mentioned deadline will be rejected.

The ANCHOR INVESTORS will use their best efforts to adhere to the time schedule indicated below. However, the ANCHOR INVESTORS reserve the right to amend the time schedule, as they deem necessary.

**Time Schedule (Tentative)**

Event	Expected Date
Sending of RFP to prospective proposers	xxx 2013
Final date for proposal submission	xxx+20days 2013
Notice of primary evaluation result	xxx+30days 2013
Interview	xxx+60days 2013
Notice of second evaluation result	xxx+70days 2013
Formal contract signing	xxx+100days 2013 (tentative)
First fund close	TBD

At any time before the final submission date, the ANCHOR INVESTORS may, for any reason whatsoever, whether on their own initiative or in response to a clarification requested by a Proposer, amend the RFP by issuing a bulletin, which shall be posted at [www.jica.go.jp](http://www.jica.go.jp), the official website of JICA, and/or sent to the Proposers by facsimile or email. To ensure that all Proposers are informed of any amendments to the RFP, the Proposers should make sure that they are properly registered with JICA as such so that any bulletin may be promptly sent to them.

All questions or clarifications that the Proposers may have regarding the information presented in this RFP must be received by JICA in writing via e-mail at [xxx.xxx@jica.go.jp](mailto:xxx.xxx@jica.go.jp) no later than xxx 2013, 6:00 p.m. (Japan time). JICA will answer all questions received by this date in writing without divulging the source of the query. Copies of all questions and corresponding ANCHOR INVESTORS' responses will be sent to all RFP recipients and will also be available at the JICA's official website at [www.jica.go.jp](http://www.jica.go.jp).

Proposals submitted must be for the performance of all services described herein. Any deviation from the work specifications in this RFP will not be considered and will cause a proposal to be rejected.

Upon submission, all proposals shall become the property of the ANCHOR INVESTORS and are subject to public inspection. Proposals that contain proprietary information should have a statement to that effect (please put the label “Proprietary Information” in the upper right hand corner of any pages so designated). The ANCHOR INVESTORS will use reasonable efforts to exempt such pages or items from public disclosure except to the extent provided in any resulting contract or the extent required by law or constitutional documents. The ANCHOR INVESTORS make no representations or warranties that such efforts will be successful. Please note that the entire proposal cannot be considered proprietary. Proposal packages may not be returned.

The ANCHOR INVESTORS reserve the right to reject any or all proposals and to annul the competitive proposal process prior to the award of the contract, without thereby incurring any liability to the affected Proposer/s or any obligation to inform the affected Proposer/s of the grounds for the ANCHOR INVESTORS’ action.

A proposal may be rejected if it is conditional or incomplete, deemed non-responsive, or contains any alterations in form or other irregularities of any kind. The ANCHOR INVESTORS may reject any or all proposals and may waive any immaterial deviation in a proposal. The ANCHOR INVESTORS’ waiver of immaterial deviation shall in no way modify the RFP document or excuse the Proposer from full compliance with all requirements if the Proposer is awarded the contract.

The costs for the development and submission of proposals to the ANCHOR INVESTORS of the same are entirely the responsibility of the Proposer and shall not be charged to the ANCHOR INVESTORS.

## 7. Evaluation Process

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### Primary Evaluation of Proposal

Submitted proposals will undergo an evaluation process conducted by the joint evaluation working group of the ANCHOR INVESTORS. The working group will independently evaluate and score the proposals based on the evaluation criteria below.

### (Second Evaluation) Final Interview/Presentation

The top three (3) Proposers in terms of the cumulative score obtained from the primary evaluation of the proposal will be invited for an interview and oral presentation to the joint working group of the ANCHOR INVESTORS.

At the discretion of the ANCHOR INVESTORS, the interview may take place in Japan or at the offices of the Proposers. In addition, the ANCHOR INVESTORS, in their discretion, may send representatives to perform ocular inspection of the offices and operations of the Proposers.

The second evaluation score will be evaluated independently from the primary evaluation score.

Additional interviews may be required by the corresponding boards/committees of the ANCHOR INVESTORS as they deem necessary.

### Evaluation Criteria and Maximum Score

Criteria	Maximum Score	
	Primary Evaluation	Second Evaluation
<b>Infrastructure project investment capability</b> The Proposer has: <ul style="list-style-type: none"> <li>✓ Capability of investment in the Vietnamese market</li> <li>✓ Capability of investment in IFF's main target sector (transport, water/sewage, energy) and sub-sector (industrial park and hospital)</li> <li>✓ Capability of project investment (not investment in listed company's equity)</li> <li>✓ Better average IRR of past investments in the infrastructure sector in Vietnam</li> <li>✓ Well matured investment team</li> <li>✓ Profitable investment pipelines (second evaluation only)</li> </ul>	10	10

<p>Fund management and administrative capability</p> <p>The Proposer has:</p> <ul style="list-style-type: none"> <li>✓ Well-established qualities and readiness for establishing fund management functions</li> <li>✓ Capability in co-working with the Vietnamese government and other donor investors</li> <li>✓ Capability in reporting investment results and outlooks to the domestic/international investors</li> <li>✓ Reliable and realistic financial model (second evaluation only)</li> </ul>	10	10
<p>Capital procurement capability</p> <p>The Proposer has:</p> <ul style="list-style-type: none"> <li>✓ Capability in managing large-sized funds</li> <li>✓ Capability in reaching to the various investors</li> <li>✓ Capability in complementing the rest portion of the IFF volume with other investors' capital sources</li> </ul>	10	10
<p>Proposer's commitment to the IFF</p> <p>The Proposer shows clear intention to provide capital sources to the IFF.</p>	10	10
<p>Chemistry with ANCHOR INVESTORS</p> <p>The Proposer has:</p> <ul style="list-style-type: none"> <li>✓ Capability in responding to the interview</li> <li>✓ Good working atmosphere amongst its leaders and team members</li> <li>✓ Members as business partners</li> </ul>	-	10
<b>Total</b>	<b>40</b>	<b>50</b>

[Any score of zero (0) for a criterion will automatically result in a total score of zero (0).]

### Notice of Award

The Proposer scoring the highest total score will be awarded the contract at the ANCHOR INVESTORS' discretion.

If a contract is awarded, the contract will be made to the Proposer having the highest evaluation score, subject to final negotiations and after satisfaction of all requirements.

If at any time during or at the conclusion of this RFP process, the ANCHOR INVESTORS determine that, in their opinion, the results of this process are unsatisfactory, the ANCHOR INVESTORS reserve the right to discontinue this process and decline to award a contract.

If the ANCHOR INVESTORS are unable to execute an agreement with the apparent successful Proposer, the ANCHOR INVESTORS reserve the right to award the agreement to the next highest scoring responsive Proposer.

All Proposers will be notified of the outcome of the ANCHOR INVESTORS' evaluation.

## **8. Other Provisions**

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Terms of the IFF, including fees and expenses, are defined in the Summary of Terms of Infrastructure Financing Fund (Attachment 1). The summary of terms, including fees and expenses, is negotiable between the selected MANAGER and ANCHOR INVESTORS.

The contract between the selected MANAGER and investors will be executed through a fund management agreement.

News releases pertaining to the award resulting from this RFP shall not be made without prior written approval from the ANCHOR INVESTORS









## Financial Model (Form 7)

Financial Model

Form 7

(Any Format)

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Japan International Cooperation Agency  
Study on Establishment of Financing Mechanism for the PPP Infrastructure Projects in  
Vietnam Final Report

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