

Local financing for C&I solar systems

Bangladesh



Local financing programmes for commercial and industrial solar systems

BANGLADESH

Who is this for?

Factory owners in the textile and garment industry

This note provides an introduction to financing solar PV projects in Bangladesh, including:

- Key considerations for financing your solar PV project
- The typical loan terms in Bangladesh

Value proposition

Financing is an essential part of on-site PV project planning, particularly if you are looking to implement a CAPEX (self-investment) model¹.

Understanding your local sources of financing and their typical terms can help you assess the business case of your on-site PV project.

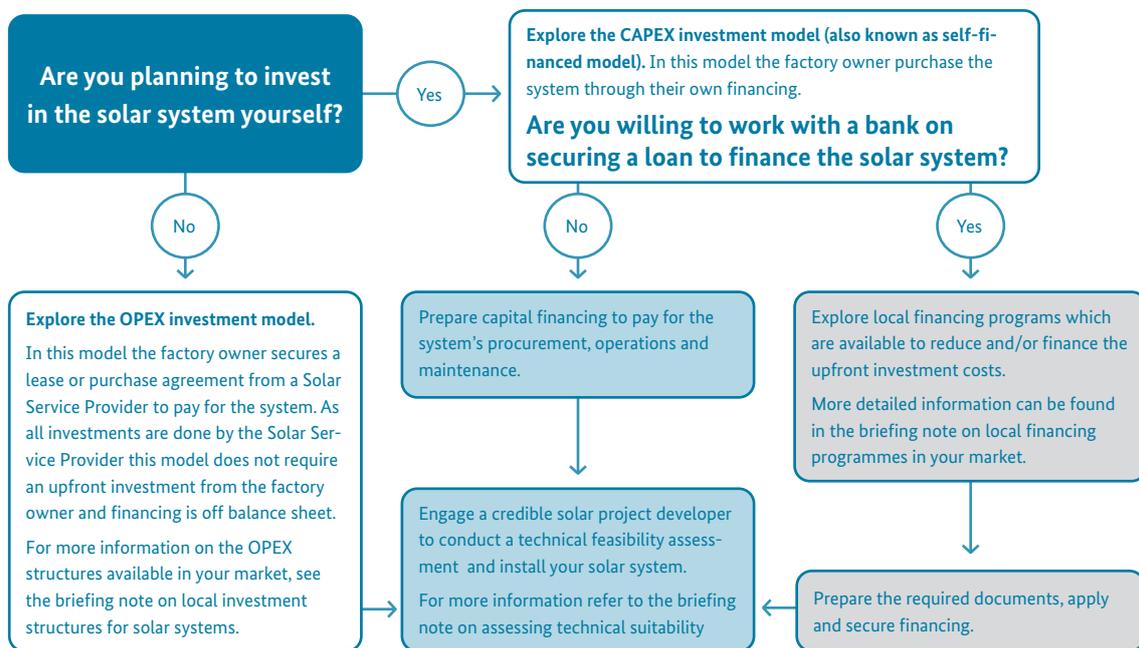
Introduction

When you invest in a new on-site solar system, you can either self-finance your investment upfront (CAPEX) or make incremental payments to a third party over multiple years (OPEX).

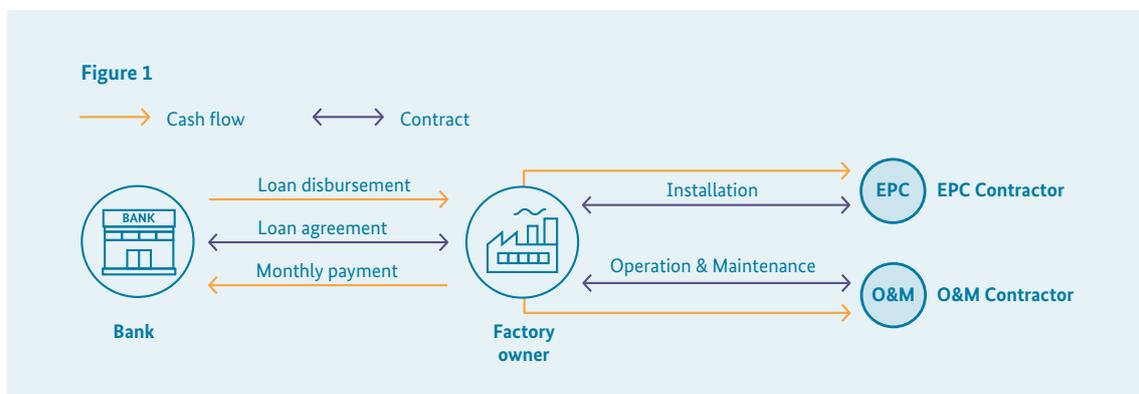
The solar market in Bangladesh offers a few financing opportunities for procuring on-site solar photovoltaic (PV) systems.

¹. To better understand the difference between CAPEX and OPEX financing models, please refer to the briefing note “[Different investment models for rooftop solar projects](#)”.

How to finance your solar system – decision-tree²



A few local banks in Bangladesh provide commercial loans for on-site solar PV as corporate debt finance under the CAPEX investment model.



If you plan to **invest in the solar system yourself** but want to work with a bank to finance the upfront investment costs, you can consider **corporate debt financing**.

Debt financing is a loan based on the factory's balance sheet which doesn't consider the project's cash flows.

In addition to the dedicated renewable energy financing product offered the **Infrastructure Development Company (IDCOL)**, there are various other banks that offer balance sheet and short-term working capital loans

2. Please refer to the knowledge product "Assessing the technical suitability for Rooftop Solar Projects" for more details on how to assess the technical suitability of solar PV projects for your business.

As you can see in Figure 1, the factory typically arranges the debt financing directly from the bank for investing in the solar system. The loan is thus shown on the factory's balance sheet.

- **Suitability:** If you prefer the on-site system financing to be on a balance sheet and are able to provide collateral.
- **Considerations:** The loan conditions are assessed based not on the performance of the PV system but on your company's cash flow/income, financial stability and potentially your previous relationship with the bank.

For more information on the CAPEX and OPEX model in your market, please refer to the briefing note "Different investment models for rooftop solar projects".

Things to consider when assessing financial products

To choose the **most suitable loan product for your factory needs and practices** among the offers available from different banks, evaluate the following criteria:

- **Total cost of the loan/total payback amount.** This is determined by the interest rate, currency, tenure, collateral requirement and other applicable fees (origination fees, credit reporting fee, application costs, etc.).
- **Repayment schedule.** Select the repayment schedule (monthly, annual, etc.) and method that best suits your business practice. Bear in mind that you may need a grace period (a period where there is no repayment scheduled) at the beginning of your loan tenure to absorb the initial investment.
- **Collateral requirements.** Select the loan offer that best fits your collateral capacities.
- **Speed and ease of application and funding.** This is determined by the paperwork and due diligence required by the banks upon application.
- **Flexibility of the loan offer.** To absorb the potential risks that could occur (business, financial and climate risks), it is always worth looking at loan mechanisms that offer a bit of flexibility (delayed repayments, grace period, re-financing options, etc.).

Below are the typical terms of the loans available in Bangladesh

Please note that the actual terms and processes for each bank/financial institution will vary and you will need to fully assess the terms and conditions of each loan.

Parameter	Trends in Bangladesh	Practical insights and recommendations
Loan basis	Corporate debt financing is available in Bangladesh.	Financing is available through the dedicated IDCOL programme or through other local banks.
Currency	Both local Bangladeshi taka (BDT) and foreign USD/EUR currencies are possible, with a preference for the local currency.	Sourcing loans in the same currency as company revenues (as the source for loan repayment) is recommended (to eliminate exchange risk exposure).
Tenure	Five- to eight-year loans are most common, with three years being the lower range and 10 years the higher. For an IDCOL loan, the tenure is up to 10 years.	In principle, lower interest rates with a longer loan tenure are preferable, but they should be evaluated together with other cost parameters to assess the total cost of the loan.
Interest rates	7%–9% interest rates are common for BDT loans, with 9% being prevalent. The interest rates can be fixed or floating, depending on the type of financing and terms agreed.	In principle, lower interest rates with a longer loan tenure are preferable, but they should be evaluated together with other cost parameters to assess the total cost of the loan.
Minimum equity contribution	A minimum 30%–40% equity portion of the project value is common. IDCOL requires 20% equity as up to 80% of project cost can be financed.	If applicable, choose loan offers that suit the debt-to-equity ratio required by your procurement standard and preferences.
Timing of financing (construction vs refinancing)	Loans for both the construction phase and refinancing are available.	For the CAPEX model, a loan during the construction phase is preferable.
Collateral requirement	Collateral requirements and type largely rest on the merit/risk profile of the borrower as well as the bank's relationship with the borrower. Hence the requirement varies widely across banks.	Ensure the collateral requirement and type is acceptable given your business and procurement practices. Typically, no collateral is preferable.

Parameter	Trends in Bangladesh	Practical insights and recommendations
Application process	Each bank and loan product will have a distinct application process. It is important to discuss the application process directly with a bank representative.	<p>It is suggested that you prepare the required documents/due diligence ahead of time to ensure a smooth and quick application process.</p> <p>For potentially faster processing and low-level entry, it is suggested that you first explore loan offerings from your house bank (a bank with a pre-existing relationship with you)</p>

Below are some examples of local commercial banks who provide loans



List of acronyms and abbreviations

Acronym/ abbreviation	Description	Acronym/ abbreviation	Description
CAPEX	Capital expenditure	IDCOL	Infrastructure Development Company
BDT	Bangladeshi taka	OPEX	Operating expenditure
EUR	Euro	PV	Photovoltaic
USD	United States dollar		

To explore more topics related to solar PV in Bangladesh, please review the full set of briefing notes. Topics include:

- Introduction to commercial and industrial (C&I) RE sourcing
- 101 Crash Course: How a solar system works?
- Assessing suitability for rooftop solar projects (technical perspective)
- Assessing the business case for on-site solar (financial perspective)
- National solar regulations and policy framework
- Different investment models for rooftop solar projects



Image: © GIZ / Sabrina Asche, 2017

ABOUT FABRIC

The project FABRIC (Fostering and Advancing Sustainable Business and Responsible Industrial Practices in the Clothing Industry in Asia) is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, which works on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). To successfully shape the desired economic growth in Asia's textile and garment production in a sustainable

way, many parties need to be involved. GIZ's FABRIC project brings together people from the Asian industry, public sectors, NGOs and from international buyers, promoting knowledge transfer and cooperation. FABRIC is working in Bangladesh, Cambodia, Myanmar, Pakistan, Viet Nam and together with China to strengthen an industry that offers quality jobs, protects the environment and contributes to economic growth.

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