

## Local financing programmes for commercial and industrial solar systems

Cambodia



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CAMBODIA

## Who is this for?

Factory owners in the textile and garment industry.

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

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

## Value proposition

Financing is an essential part of on-site PV project planning, particularly if you are looking to implement a CAPEX (self-investment) model<sup>1</sup>.

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

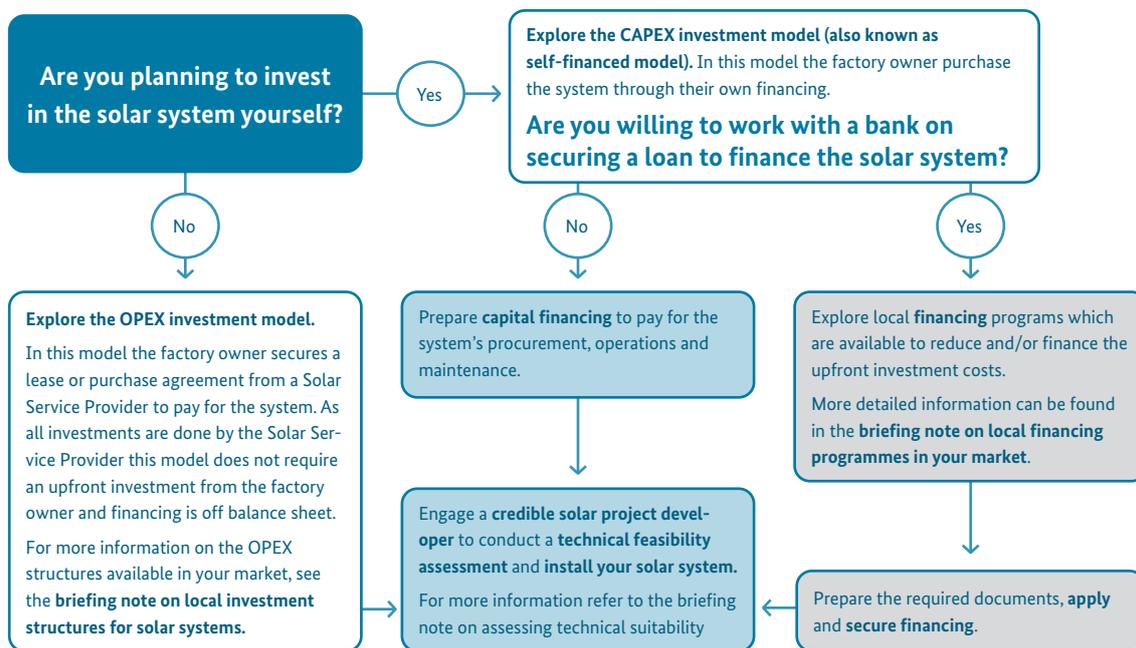
## Introduction

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).

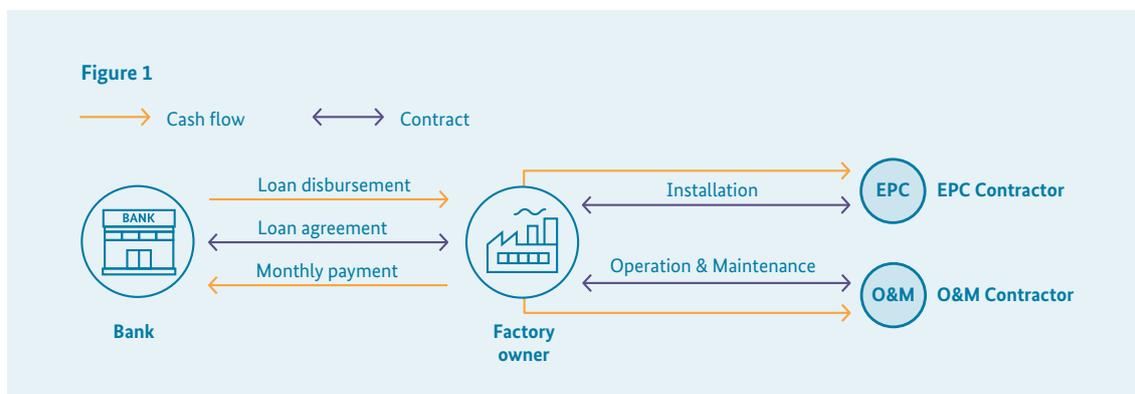
The solar market in Cambodia offers limited but not impossible financing opportunities for procuring on-site solar photovoltaic (PV) systems.

<sup>1</sup> 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-tree<sup>2</sup>



Local banks in Cambodia provide commercial loans. However, there are no solar-PV specific programmes currently available.



If you plan to **invest in the solar system yourself (CAPEX model)** 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.

**However collateral requirements (100%–200% collateral) make it difficult to access the 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 allow 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.

## Things to consider when assessing financial products

To choose the **most suitable loan product for your factory's 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 Cambodia.

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.

Table 1. Trends in local financing products available for on-site systems in Cambodia.

Parameter	Trends in Cambodia	Practical insights and recommendations
<b>Loan basis</b>	Most of the local banks only provide on-balance-sheet (corporate financing) loans.	Solar-PV specific financing programmes are not available in Cambodia.
<b>Currency</b>	Both local Cambodian riel (KHR) and foreign currencies (typically USD) are possible, with a preference for USD currency.	Sourcing loans in the same currency as company revenues (as the source for loan repayment) is recommended (to eliminate exchange risk exposure).
<b>Tenure</b>	Five- to six-year loans are most common, with seven- and eight-year tenures representing the higher range.	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.
<b>Interest rates</b>	8%–10% interest rates are common. The interest rates are typically fixed.	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.
<b>Minimum equity contribution</b>	A minimum 30%–40% equity portion of the project value is common.	If applicable, choose loan offers that suit the debt-to-equity ratio required by your procurement standard and preferences.
<b>Timing of financing (construction vs refinancing)</b>	Loans for both the construction phase and refinancing are available.	For the CAPEX model, a loan during the construction phase is preferable.
<b>Collateral requirement</b>	Collateral of 50%–80% of the loan amount is typically required, which in some cases could go up to 100%–150%. Land titles and real estates are the most common type of collateral accepted.	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
<b>Application process</b>	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 for on-site solar PV systems



### List of acronyms and abbreviations

Acronym/ abbreviation	Description	Acronym/ abbreviation	Description
CAPEX	Capital expenditure	OPEX	Operating expenditure
EPC	Engineering, procurement and construction	PV	Photovoltaic
KHR	Cambodian riel	RE	Renewable energy
O&M	Operation and maintenance	USD	United States dollar

To explore more topics related to solar PV in Cambodia, 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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