FABRIC Asia

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Local financing programmes for commercial and industrial solar systems

Pakistan

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Implemented by
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Local financing programmes for commercial and industrial solar systems

PAKISTAN

Who is this for?

Factory owners in the textile and garment industry.

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

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

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[1].

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

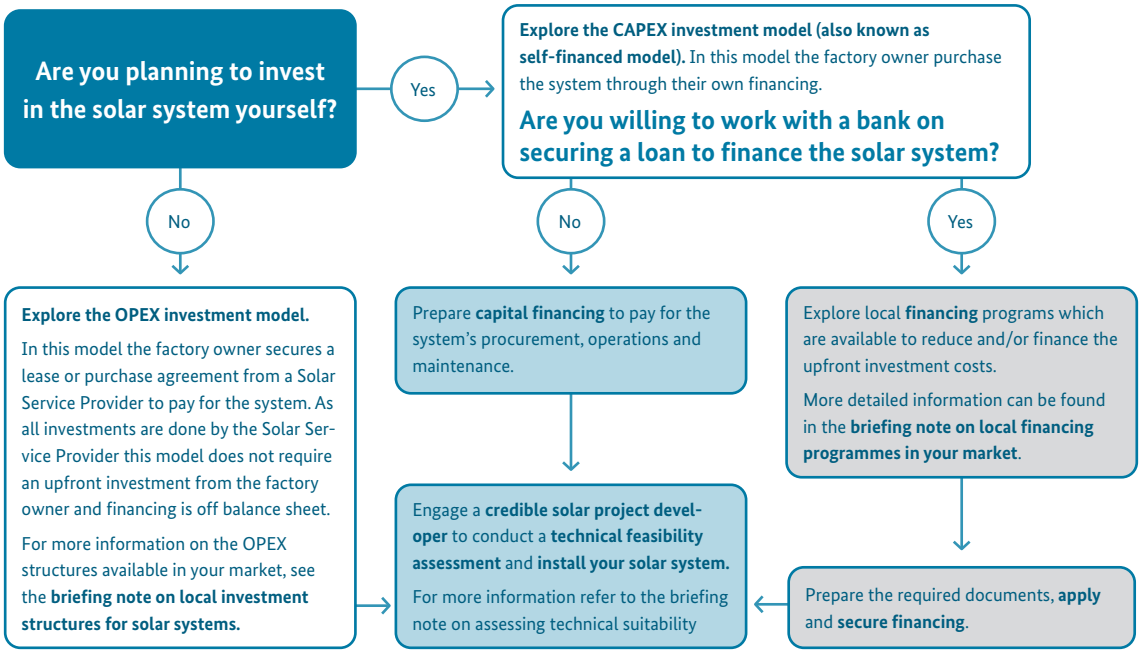
Introduction

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 Pakistan offers limited financing opportunities for procuring on-site solar photovoltaic (PV) systems with most products linked to the **State Bank of Pakistan's (SBP) Financing Scheme for Renewable Energy.**

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-tree[2]



Various local banks in Pakistan provide commercial loans for on-site solar PV systems within the scope of the State Bank of Pakistan's Financing Scheme for Renewable Energy. Typically, a textile factory will fall into Category II financing, based on the system's size.

The State Bank of Pakistan's Financing Scheme for Renewable Energy

The loans under this scheme are disbursed through local banks or development finance institutions (DFIs) to the eligible borrowers on a service charges (mark-up) basis, where a **maximum interest rate of 6%** is applicable to the borrowers.

The application for the loan financing programme should be made to the local banks or DFIs in Pakistan, who submit the application to the State Bank of Pakistan for refinancing. The scheme's details are provided in Table 1 below.

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.

Table 1. Programme details of the State Bank Financing Scheme for Renewable Energy in Pakistan

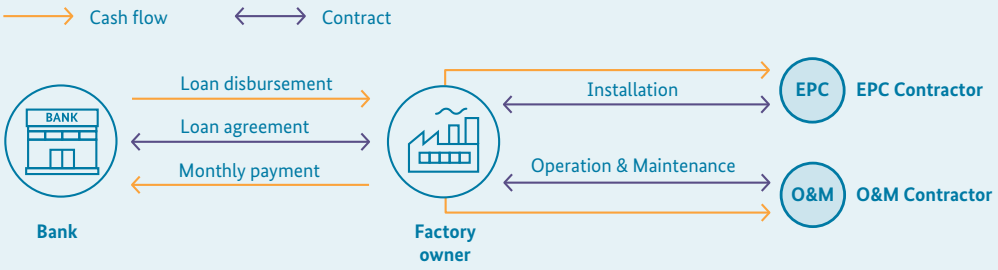
Parameters	Details
1. Participant category	• **Category I**: participants with renewable energy (RE) installations with installed capacity higher than 1 megawatt (MW) and up to 50 MW for their own use or for selling electricity to the national grid (including distribution companies), or a combination of both. • **Category II: participants with RE installations of up to 1 MW installed capacity. This group is applicable to Distributed Generators under the net-metering scheme.** • **Category III**: vendors and suppliers certified under the Alternative Energy Development Board Certification Regulation 2018 for the installation of wind and solar systems on a lease basis or sale of electricity to ultimate owners/users. This group is applicable to the solar solution providers offering on-site power purchase agreement deals.
2. Maximum loan amount and refinance	• **Category I**: Rs. 6 billion for a single project. Refinancing shall be up to 100% of total financing (debt) for an eligible RE project of up to 20 MW and up to 50% of financing (debt) for an eligible RE project of more than 20 MW. • **Category II: Rs. 400 million for a single borrower. Refinancing shall be up to 100% of financing for the eligible borrowers.** • **Category III**: Rs. 1 billion for a single vendor/supplier. Refinancing shall be up to 100% of financing for the eligible borrowers.
3. Tenure	• **Category I**: maximum of 12 years, including a maximum grace period of two years. • **Category II: maximum of 10 years, including a maximum grace period of three months.** • **Category III**: maximum of 10 years.

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.

In Pakistan, these on-balance sheet products are often incorrectly referred to as 'project finance'.

Figure 1



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 not assessed based 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 models 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'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 Pakistan.

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 2. Trends in local financing products available for on-site system in Pakistan

Parameter	Trends in Pakistan	Practical insights and recommendations
Loan basis	Most of the local banks only provide on-balance-sheet (corporate financing) loans.	Various banks in Pakistan offer loans under the State Bank Financing Scheme for Renewable Energy. For projects smaller than 1MW, the loan limit is Rs. 400,000
Currency	Loans in local Pakistani rupees (Rs.) are common.	Sourcing loans in the same currency as company revenues (as the source for three loan repayment) is recommended (to eliminate exchange risk exposure).
Tenure	10-year tenures are common as this is the maximum permitted under the State Bank of Pakistan scheme for Category II. A few banks may approve a shorter tenure of three to five 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	A 6% per annum interest rate is common as the local banks typically source the financing from the State Bank Financing scheme which outlines that the maximum interest rate applicable to the borrower is 6%.	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	Most banks require a minimum of 20% equity.	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)	Refinancing loans are common as the local banks typically source the financing for renewable energy projects through the State Bank Financing Scheme for Renewable Energy.	Factory owners can apply to the State Bank of Pakistan for the refinancing of loans or to local banks and DFIs.
Collateral requirement	Typically, the solar PV system is accepted as collateral.	Ensure the collateral requirement and type is acceptable given your business and procurement practices. Typically, no collateral is preferrable.

Parameter	Trends in Viet Nam	Practical insights and recommendations
Application process	Typically, the borrower needs to apply for the loan by following the local bank's standard procedure and requirements. The local bank then submits the refinancing application to the State Bank of Pakistan. During this process, the loan is charged at the market rate.	It is suggested that you prepare the required documents/due diligence ahead of time to ensure a smooth and quick application process. 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).

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	**Rs.**	Pakistani rupee
DFI	Development finance institution	**PV**	Photovoltaics
MW	Megawatt	**RE**	Renewable energy
OPEX	Operating expenditure		

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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