FABRIC Asia

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Local financing programmes for commercial and industrial solar systems

Viet Nam

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Local financing programmes for commercial and industrial solar systems

VIET NAM

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 Viet Nam

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].

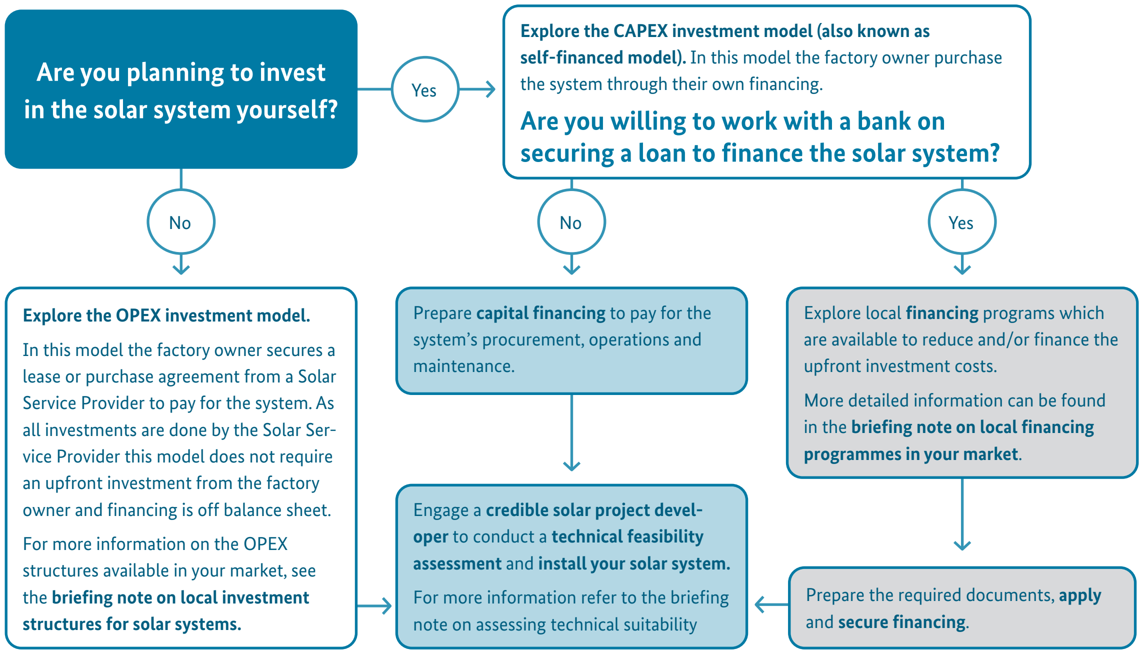
Understanding your local sources of financing and their typical terms can help you assess the viability of your on-site PV project.

Introduction

The Vietnamese solar market is dynamic with various financing opportunities available if you choose to invest in on-site solar 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.**"

When do you need finance? Decision tree

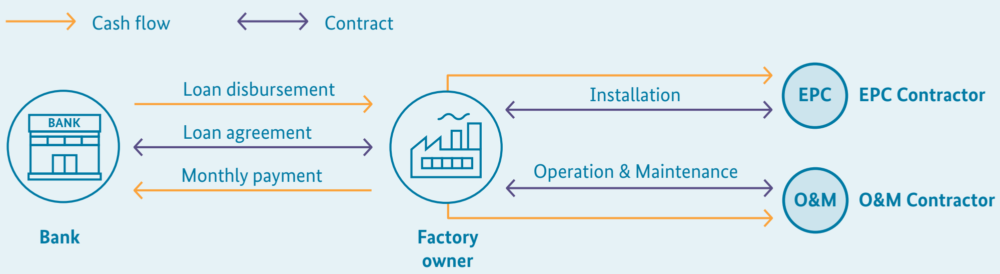


Multiple local banks in Viet Nam provide commercial loans to factories for on-site solar PV systems. The typical type of financing products provided by the banks is **corporate debt finance (on-balance sheet).**

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.

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 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.

Project financing is also available for project developers from private commercial banks, which is relevant to the OPEX investment model. 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 researching on-site systems financing

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, tenure, collateral requirement and other applicable fees (origination fees, credit reporting fee, application costs, etc.).
- **Repayment schedule.** Select the repayment schedule (monthly, annually, etc.) and method which suits your business practice best. 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 interesting to look 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 Viet Nam.

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 Viet Nam	Practical insights and recommendations
Loan basis	**Corporate debt financing** is available in Viet Nam from state-owned commercial banks and private commercial banks.	Ensure the applicability to your business and procurement practices. For example, state-owned commercial banks expect 20%–30% collateral but offer lower interest rates.
Currency	Most banks prefer the loan to be in **Vietnamese Dong (VND)**, but certain banks also allow USD loans.	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 12-year loans are common. The longer tenures (up to 12 years) are typically available for lower debt ratio (such as 65% loan).	In principle, lower interest rates with long loan tenure are preferable, but should be evaluated with other cost parameters to assess the total cost of the loan.
Interest rates	7%–10% per annum tends to be the most common. The interest rate could be fixed or floating, depending on the agreed terms.	In principle, lower interest rates with long loan tenure are preferable, but should be evaluated 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. Some banks allow no equity contribution, depending on the financial relationship and the health of your company.	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, with construction loans preferable due to their shorter tenures.	For the CAPEX model, a loan at the construction phase is preferred.
Collateral requirement	Typically, banks do not ask for a minimum collateral. When required, collaterals for a minimum of 20%-50% of the loan volume are common. Project assets, debt collection rights, real estate and machines/goods are accepted as collateral.	Ensure the collateral requirement and type is acceptable with your business and procurement practices. Typically, no collateral is preferrable.

Parameter	Trends in Viet Nam	Practical insights and recommendations
Exclusion criteria	Financial crime, bad track records (CIC) and sanction lists are the top listed exclusion criteria for the loan.	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).
Application process	Each bank and loan product will have a distinct application process. It is important to discuss the application process with a bank representative directly.	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 for on-site solar PV systems

AGRIBANK citibank HDBank HSBC

MSB Shinhan Bank Vietcombank VPBank

To explore more topics related to solar PV in Viet Nam, 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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Published by: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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As at: 04.2021