Annexure-A to BPD Circular No. 25 dated 24th July 2004

SCHEME FOR FINANCING LOCALLY MANUFACTURED MACHINERY

1. **Preamble**

i) Participating Financial Institutions (PFIs)[1] are aware that the Scheme for financing Locally Manufactured Machinery (LMM) has been in operations since long. The scheme in its present form operates in two parts viz. Part-A (Local Sales) and Part-B (Export Sales). Financing under Part-A is intended to facilitate the prospective entrepreneurs who want to set up projects in Pakistan based on the locally manufactured machinery. Facilities under Part-B are available for both pre-shipment (including local supplies against International Tender) and post shipment purposes. The facilities under Part-A (Local Sales) have been used in setting up of the industries based on locally manufactured machinery; creating effective demand for the machinery items manufactured / assembled in Pakistan. The scheme has thus also played a vital role in development of the engineering sector in Pakistan. Since its inception, the Scheme has been reviewed time and again and last such revision in Part- A (Local Sales) was made in August 1992 when the facilities under the Scheme were made ineligible for financing locally manufactured machinery used by the sugar mills. However since then no major modifications have been made in the scheme, necessitating its revisit to meet the requirements of the present economic scenario which endeavor channelising of the flow of credit to the small medium enterprises through the market mechanism and creation of the enabling regulatory environment.

ii) PFIs are aware that the existing scheme has been used in the past regardless of any distinction of the beneficiaries on account of their size, resulting into creation of surplus installed capacity in various industrial sectors. With a view to reinforce the efforts of the government for development of the small and medium enterprises in various sectors of the economy, the scheme in its revised format shall be used by the eligible Participating Financial Institutions (PFIs) preferably for meeting the credit needs of the industrial concerns in SME sector. For the purpose of this scheme the term “SME” shall have the same meaning as described in the Prudential Regulations for SME financing. Facilities under the Scheme, however, shall not be available for trading purposes i.e the facility shall not be available for purchase of machinery for subsequent sale by the suppliers. Further, the facilities under the modified Scheme shall be restricted to the financing for purchase of locally manufactured machinery for setting up of the new projects or BMR of the existing projects relating to the industries as specified under the Scheme. The facilities under Part-B (Export Sales) shall become part of the Export Finance Scheme (EFS) and pending revision in the EFS• shall operate as per existing instructions.

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[1] This term shall include approved banks, DFIs, Investment Banks, Leasing Companies and Modaraba wherever referred to in this Scheme.

• We expect to finalize the revision of EFS shortly.

iii) The banks, DFIs, Investment Banks, leasing companies and Modaraba approved for the purpose of providing funds under the Scheme shall be termed as Participating Financial Institutions (PFIs).

iv) The Scheme shall continue to be called as Scheme for Financing Locally Manufactured Machinery. In terms of new stipulations the financing under the modified scheme shall be available to both the manufacturers and purchasers provided bank financing is not availed by the manufacturers and the purchasers against the same machinery items at the same time. The grant of facilities to manufacturers shall be available at pre delivery stage only, whereas the purchaser shall enjoy the facilities at post delivery stage. The new system is expected to bring a reduction in the price of the locally manufactured machinery, on account of eligibility of the manufacturers to avail the same.

2. <u>Eligibility of the Industry</u>

a) All items of locally manufactured machinery, equipment and accessories thereof as are used in the following industries for manufacturing, preserving or packaging of items / commodities manufactured by them, shall be eligible for financing under the Scheme.

i. Fisheries Dairy and Live stock Products.
ii. Light Engineering
iii. Marble & Granite
iv. Gems & Jewelry
v. Leather manufacturers and Leather Garments
vi. Boat manufacturing /modifications including equipments used for preserving the fish in the open sea.
vii. Local Vendors manufacturing parts of Automobiles including tractors and other agricultural equipments assembled /manufactured in Pakistan, for local sales as also exports.
viii. Power Looms/ Auto / Airjet and shuttles looms for units to be set up in the Power Loom Clusters being established in different cities of Pakistan.
ix. For units to be set up in the Ceramic Clusters being established in different cities of Pakistan
x. Equipments used for cutting and polishing of Marble & Granite and manufacturing of handicrafts thereof.
xi. For setting up of units for the purpose of preservations/ packaging of fruits and vegetables including Dates and other similar fruits.
xii. Wooden Furniture
xiii. Handicrafts made from wood and other metals.
xiv. Machinery used for knitwear and hosiery industries.
xv. Machinery, equipments used in the thermal/hydro power projects (this facility shall be available to manufacturers only)
xvi. Machinery required for setting up of flour mill (only for SME.
xvii. Machinery used for Rice husking units (only for project in SME sector as per definition of SME given in Prudential Regulations for SME or unit having annual export earning of upto 2.5 million US $ or equivalent)
xviii. Agricultural Equipments including water sprinklers.
xix. Transport equipments (excluding CAR but including commercial vehicles for business use, manufactured /assembled in Pakistan with at least 50% deletion.
xx. Machinery used in the manufacturing of the pulp board etc

Any other industry as and when made eligible for the purpose shall be notified.

b) Financing shall be available for local components / contents used in the Locally Manufactured Machinery for use by the borrowers relating to the above named industries. However, in case, the landed cost of the imported component used in locally manufactured machinery, equipment or accessories thereof, is more that 80% of the ex-factory / showroom price of such locally manufactured machinery, equipment or accessories thereof, no facility under the scheme shall be available for the residual part of local components. In other words, such machinery, equipment or accessories thereof, shall not qualify for the financing under the scheme.

c) For the purpose of determining the cost of local components, the landed cost of the imported components shall be deducted from the Ex-Factory/ Show room price of the machinery being financed under the Scheme. PFIs shall be under obligation to ensure that the certificates issued by the manufacturers in this regard are correct, for which they will undertake inspection of the manufacturing facilities available at the manufacturers site. Such inspection shall also be undertaken to evaluate the manufacturing capabilities of the manufacturers to manufacture the machinery being purchased from them.

3. INSTITUTIONS ELIGIBLE TO GRANT THE FINANCE

i) Under the Scheme Banks, DFIs, Investment Banks, Leasing companies and Modaraba shall be eligible to provide financing facilities subject to their eligibility / compliance to the following criteria: -

A) BANKS / DFIs

a. The Banks / DFIs who are not in compliance of capital adequacy requirements prescribed by the State Bank, shall not be eligible to participate in the scheme. For the purpose of this Scheme any arrangement, exemption provided by the State Bank to the bank for meeting shortfall in capital adequacy requirements, shall continue to be treated as non-compliance.

b. Likewise, banks having no prior experience of project financing shall not be eligible to provide the financing facilities under the Scheme independently. They may, however, provide facilities to their clients by participation in a syndicate or forming a consortium under the lead of a bank/DFI having proven track of project financing. Such PFIs are however encouraged to set up their in house capabilities to appraise the financial, technical and economic viability of the project. Once such facilities are put in place to the satisfaction of the SBP, these institutions shall be allowed to participate in the scheme independently, albeit for a smaller limit say for projects costing upto Rs. 25 million.

B) Leasing Companies

a. Only the Leasing Companies, which are in compliance of the criteria as to the minimum capital requirements prescribed by the SECP, shall be eligible to participate.

b. The leasing companies must be in operations for last three years as well as have a prior project financing experience and must have profitable operations during these three years.

ii). In addition to the above Banks / DFIs, leasing companies with a credit rating of less than investment grade (i.e BBB) or equivalent shall also not be eligible for providing financing facility under the scheme. However, State Bank may relax this or any of other conditions on a case-by-case basis, as considered appropriate on its sole discretion.

iii). The bank / DFI or a leasing company desirous to provide this facility shall have to seek approval from Banking Policy Department regarding their eligibility to provide facilities under the Scheme, before entering into any contractual relationship with their borrower. While approaching SBP, the bank/DFI and leasing company should provide information to demonstrate that it has adequate experience and capacity in project financing, besides giving supporting evidence as to the other criteria prescribed under the scheme.

iv). The SBP as a regulator of the Banks / DFIs shall continue to assess their performance under the scheme as a part of its regular offsite / on site reviews. However, the leasing companies[2] approved as PFI for the purpose of the scheme shall be under obligation to provide all necessary documents, reports, statements / returns as required by SBP for the purpose of availing / sanctioning of the fund under the Scheme. Where required, depending upon the gravity of the matter, SBP shall reserve the right to conduct joint inspection or verification of the record of the leasing company[3], with both backward and forward linkages in collaboration with SECP or any other approved independent agency.

v). In case the investment banks and Modarabas desire to participate in the scheme they may approach us for approval as a PFI. However, their requests shall be considered in line with criteria prescribed for leasing companies provided the investment bank / Modaraba has extended financing facilities for project financing / leasing aggregate of which should not be below 30% of their total earning assets. Further The requests for approval as PFI of the Islamic Banks, Islamic Branches of the existing banks or their subsidiaries undertaking Islamic banking as also modarbas, who are engaged in Sharia compliant financing activities, shall be considered by SBP separately, on the basis of Sharia-compliant products. Such proposal shall have to be approved by their Sharia Advisor / Board and consented by the Sharia Board of the State Bank of Pakistan, with regard to it’s compliance with Sharia principles.

4. TERMS & CONDITIONS

A) Facilities to Purchasers

i) The borrower shall be under obligation to prepare the feasibility of the proposed project, which shall be appraised by the PFI so as to determine the economic, technical and financial viability of the project. Care shall be made in arriving at the projections for demand of the output of the project for the purpose of sales forecasting and breakeven analysis thereof.

ii) The sponsor will require to contribute their equity share, in an escrow account to be maintained with the PFIs / DFI/ Leasing Companies. This escrow account shall be used for making payment(s) concerning the facilities availed under the Scheme through pay orders/Demand Draft or at the time of retirement / negotiation of Inland Letter of Credit as the case may be.

iii) While the facilities shall be sanctioned in favor of the purchasers of the machinery, the payments shall be made to the manufacturer’s bank for credit to the account of the manufacturer for adjustment of the loan, if availed by the

[2] Including Investment Banks and Modaraba which are approved as a PFI under the Scheme

[3] Ibid

manufacturer for the purpose of manufacturing of the machinery being purchased by the purchaser. Such payments shall invariably be made through a confirmed Inland Letter of Credit. Where machinery is procured from the suppliers (to the extent of Rs 5 million only) the payments may be made through Pay Order/Demand Draft as the case may be.

iv) All purchases over and above the value of Rs 5 million shall be made directly from the manufacturers. Further following conditions shall also be observed while extending financing under the Scheme for the purpose of placing an order for supply / manufacturer of the machinery items to be procured under the Scheme: -

A	For purchases upto Rs 10 million-	Three quotations each to be arranged by financing PFI and the purchasers separately.
b)	For purchases exceeding Rs 10 million	Nation-wide tender in leading Urdu and English Daily Newspaper. The expenses for the same shall be borne by the purchaser.

It shall not be binding on the purchaser to purchase the Locally Manufactured Machinery being financed under the Scheme, from the lowest bidder. However, where the decision has been made for purchase of the locally manufactured machinery from bidder other than the lowest bidder, the purchaser should give a justification (quality, technology, early delivery etc) for placing the order on the bidder other than the lowest bidder. The financing bank before allowing payment would evaluate such justification keeping in view the ground realities.

v) <u>Period of financing:</u> The loan shall be repayable by the borrower in a maximum period of 7 ½ years including a maximum grace period of 1 ½ year.

vi) <u>Repayment of Loan</u>: The borrower shall be required to make repayment of the loan in equal half yearly or quarterly installments at the discretion of financing institution.

vii) <u>Working Capital</u>: Notwithstanding the provisions of the financing facilities by the financial institution independently or through consortium arrangements, it shall be ensured that the working capital facilities in respect of the project being financed are adequately arranged preferably by the PFI (bank or DFI) or one of the member of the consortium in case of consortium financing, prior to the approval of financing under the Scheme, so that production does not suffer due to lack of working capital facilities in future. The approved PFI shall be required to place on its record a copy of the written confirmation obtained by the perspective sponsor from any of financial assistance for the purpose of extending working capital finance to the new company. The bank / financial institution granting such confirmation shall be under obligation to provide the facility, if otherwise in order. In case it intends to withdraw it's confirmation, it shall intimate its decision to withdraw the commitment to the financing PFI.

viii) The cost of insurance, transit insurance, erection and commissioning charges and other incidentals etc shall not be financed under the Scheme.

ix) The purchaser can make advance payment to the manufacturers to the extent of 10% of the value of contract between the purchaser and manufacturer.

B) Facilities to Manufacturers

Where the approved PFIs intend to provide financing facilities to the manufacturers, it shall be required to fulfill the following conditions: -

i) The manufacturers shall be a successful bidder for the supply and manufacturer of the locally manufactured machinery being purchased by the borrower under the Scheme. The manufacturer requiring facilities under the scheme shall be under obligation to provide proof of the order placed on it. A certificate as to the acceptance of the bid and placement of order to the manufacturer shall also be obtained by the financing PFI from the bank of the purchaser. Such order should invariably contain a condition that the payment shall be made to the manufacturer through confirmed Inland Letter of Credit (ILC) against deliveries to be made as per delivery schedule agreed to between the manufacturer and the purchaser.

ii) The financing PFI shall also obtain for the purpose of record, a copy of the inspection report prepared by the bank of the purchaser as to the manufacturing capabilities of the manufacturer, as required under Para 2 (c) of the Scheme.

iii) The financing shall be available for the 80% of the value of local contents including the value addition thereof. The bank may however sanction the facility for the full value of the contract including the cost of imported component, however, refinance from State Bank of Pakistan shall be restricted to the extent of eligible amount. For this purpose, the permissible amount shall be computed as per the following: -

a.	Total value of the contract	Rs 100.0
b.	Landed cost of the imported component	Rs 10.0
c.	Net value of the Local components (i – ii)	Rs 90.0
d.	Gross amount permissible under the Scheme	Rs 72.0
e.	Less amount of advance payment, if paid (upto a maximum of 10% of the contract)[4]	Rs 10.0
f.	Net amount permissible under the Scheme	Rs 62.0

[4] In case the purchasers makes advance payment in excess of 10% of the contract amount, the permissible amount shall be calculated after taking into account the actual amount of advance payment.

The cost of Insurance, transit insurance, erection and commissioning charges and other incidentals etc shall be borne by the borrower.

iv) The manufacturer shall also require executing an agreement with the PFI as to the assignment of the receivable from the inland LC, in addition to the normal security that the PFI shall require to secure its credit risk.

v) Necessary arrangements shall be made by the manufacturer, to the satisfaction of his bank for the purpose of payment of mark up fallen due during the period of manufacturing and upto the receipt of payment from the purchaser's bank(s).

vi) Where the manufacturer would require purchase of the certain inputs/ material/ components for the purpose of manufacturing the product the instructions as contained in sub para iv of para 4A would also apply.

vii) Period of financing: As the facilities under the Scheme shall be provided to the manufacturers as a part of the facilities to be availed by the purchasers of the machinery, the manufacturers having availed the facilities under the scheme shall be liable to repay the amount of loan immediately on receipt of payment from the bank of the purchaser / purchaser, before payment of any other liability by the manufacturer.

viii) Where the payment, in respect of the machinery manufactured, has been withheld for any reasons, the manufacturer shall be under obligation to make arrangements for payment to his bank from his own source, as the State Bank shall recover the amount of refinance from the financing bank as per the original terms of supply / payment, agreed to between the purchaser and the manufacturers at the time of award of contract, subject to stipulations as mentioned in para- 4 B (ix) below.

ix) However where the terms of supply has been modified due to generally accepted force majeure conditions, the banker of the manufacturers would be entitled to re-fix the date of repayment of the loan based on the modifications in the date of supply agreed to between the buyer and manufacturer. The State Bank of Pakistan shall also modify the date of repayment of refinance accordingly. The PFIs shall be required to inform the concerned office of the State Bank of Pakistan BSC (Bank) in this regards, at least three working days prior to the due date for repayment of refinance fixed at the time of its grant. Accordingly, request for extension of due date of repayment of refinance shall be accompanied with the extension in the validity of Inland LC, schedules of delivery and payment.

x) The PFI shall ensure that extension in the repayment date of finance is allowed in genuine case only and shall not be used merely for extension of due date of refinance.

xi) In any case, and notwithstanding the provisions as spelt out in sub para ix) and x) above, the period of total refinance shall not exceed two years from the date of first grant, in cases of plants and machinery valuing more than Rs 200 million and above. In all other cases it should not exceed one year. State Bank of Pakistan shall, however, have the sole right to enhance the said benchmarks on its own discretion keeping in view the circumstances of each case. The PFI shall address request in this regard to the Director, Banking Policy Department, State Bank of Pakistan, Karachi. Needless to add that where the purchaser have made payment to manufacturers before the maximum period so fixed, the amount of refinance shall fall due for repayment immediately but not later than three working days from the receipt of payment.

5. Availability of Funds:

The financing under the scheme shall be provided by the PFIs on first come first served basis against limits to be allocated by SBP. The total commitments by PFI shall not exceed the limit to be fixed by SBP. Such limit shall be fixed in favour of each PFI as per criteria relating to equity of the intending PFI. In case of the PFI from the leasing sector, its performance as a leasing company as assessed by the SECP shall also be taken into account. In all cases the credit rating assigned to each PFI by the rating agencies approved by the State Bank for the purpose, shall also be given due weightage.

6. SANCTION OF LOAN

a. The PFI shall undertake due diligence process as per their lending policies before sanction of the loan to protect their interest, which may, interalia, include verification of credit reports on their borrower (i.e. purchaser or supplier of machinery/plant etc, as the case may be).
b. The PFIs are also expected to link sanction of the facilities under the Scheme to the risk profile of the borrower perceived by them, as the credit risk under the Scheme shall be borne by them. For the purpose, the financing PFI may appraise the borrower about the security requirements prior to sanction of the facilities.
c. Financing under the scheme shall also be subject to Prudential Regulations prescribed by the SBP for different categories of the borrowers.
d. The State Bank shall recover the refinance provided by it to each PFI on its due date if not paid by the PFI from its account maintained with the concerned office of the SBP BSC (Bank). In case of leasing company this shall be adjusted from the government papers held with the State Bank of Pakistan.
e. In case of a leasing PFI, their total financing under the scheme shall not exceed 10% of their total leases written by them or 25% of the lease business in respect of the machinery financing, which ever is lower. Likewise they shall also not be entitled to provide the facilities under the Scheme to the manufacturer and facilities by them

shall only be restricted to the purchasers of the locally manufactured machinery as defined in the Scheme and for the industries eligible in it.

7. DISBURSEMENT OF LOAN

a. The PFI shall themselves reasonably ensure fulfillment of the pre-disbursement formalities by the borrower through due diligence as per their own internal arrangements to avoid misutilization of the Scheme through over invoicing, wrong selection of machinery etc while extending financing facilities to the borrower.

b. The disbursement shall be released by the financing PFI after ensuring that all the pre-disbursement formalities have been completed in accordance with the terms of agreement by their borrower as also between the supplier /manufacturer of the machinery and the purchaser of the machinery.

8. SANCTION OF LIMIT AND GRANT OF REFINANCE

a). The refinance under the Scheme shall be provided by the designated office of the SBP BSC (Bank) against the limits sanctioned by the Banking Policy Department of the State Bank of Pakistan, Karachi on yearly basis. Applications for sanction of limits for each fiscal year (July-June basis) in favour of a PFI shall be sent by the interested eligible PFIs to the Director, Banking Policy Department, State Bank of Pakistan during May each year to facilitate the BPD to seek necessary allocation in the yearly credit plan to be approved by the NCCC.

b). The request so made shall be based on the total disbursement requirements of each PFI during the next financial year after adjusting the amount that the PFI would intend to repay to State Bank of Pakistan during the next financial year. The limit shall be sanctioned on gross basis.

c). The limit allocated in favour of each PFI shall be communicated to it, immediately after approval of the credit plan by NCCC, preferably during the quarter ended 30 September each year with a copy to the concerned office of SBP BSC (Bank) from where the PFI would intend to avail refinance. The PFI shall be under obligation to ensure that no new disbursements are made / committed for the next financial year before intimation of the limit to it by BPD.

d). After disbursement of loan either in part or full, the PFI shall approach the concerned office of State Bank of Pakistan, BSC (Bank) for obtaining refinance to the extent of loan disbursed. The refinance shall be provided within 2 working days on submission of complete information and documents.

e). The refinance against disbursement made by the PFI to the manufacturers shall be released on the basis of the certified copy of the Inland LC established in favour of the manufacturer and the disbursement schedule mentioned in the schedule of financing requirements to be prepared by the manufacturer and agreed to by the PFI concerned, keeping in view the manufacturing requirements of the manufacturer.

f). The PFIs shall be under obligation to submit request for refinance to the concerned office of SBP BSC (Bank) on Form LMM-1 along with Agreement on Form LMM-2 (for full value of the limit) and DP Note from the borrower on Form LMM-4 duly endorsed in favour of the State Bank of Pakistan BSC (Bank) in addition to the DP note of the PFI on form LMM-3 executed in favour of State Bank of Pakistan BSC (Bank) for the full value of the limit and service charges thereon.

9. <u>RATE OF MARK UP</u>

a. The State Bank shall allow refinance to each PFI on service charge basis in terms of Section 22 read with Section 17 (2) (d) of the SBP Act 1956. In case of the manufacturers of the locally manufacturer machinery, rate of service charges on finance to be availed by PFI shall be as under:-

   i. *For financing upto 6 month:* Equivalent to the weighted average yield on 6-months T-Bills.
   ii. *For financing exceeding 6 month but upto 2 year:* Equivalent to the weighted average yield of last two auctions of 12 months T-Bills.

   However, where manufacturer fails to make repayment of the facility availed by him within a period not exceeding 6 months, the rate of service charges in respect of refinance availed by PFI for such manufacturer shall be re-fixed in accordance with 9 a (ii) above for the entire duration of the financing period i.e they shall not be entitled for markup to be worked out on the basis of 9 a (i) for the first six months. The PFI therefore, shall also be entitled to re-fix the rate of finance in respect of such manufacturer thereof.

b. In case of financing facility availed by PFIs for the purchasers of the machinery, the rate of service charge shall be determined on the basis of average of weighted average yields of last two auctions of PIBs of 5 years tenor, determined on annual basis on 1st July each year.

c. Banks/DFIs shall be allowed a maximum spread of 2% p.a on the refinance.

d. The rates of finance / refinance on the outstanding amount once disbursed / availed shall remain fixed for the entire period of financing provided the borrowers continues to make payment of its obligations (mark up and principal) on the due dates fixed at the time of sanction of facilities. However, in case where the financing PFI would consider and allow rescheduling instructions as contained in para 10 (i) shall also apply. Likewise in cases where the loan amount has not been disbursed in full during the validity of the rate, the un-disbursed amount shall attract the new rate applicable on the date of disbursement or the original rate which ever is lower.

10. <u>REPAYMENT OF REFINANCE</u>

i) The refinance so availed by the PFI, against disbursement made to the purchasers of the LMM shall be repayable in (12) twelve equal half yearly or (24) twenty four quarterly installments, as the case may be, after excluding a grace period of 1 ½ years. In case where the PFI have allowed rescheduling of the loan granted to the borrower under the Scheme refinance shall continue to be repayable during the maximum period of 7 ½ years including the grace period in accordance with the original repayment schedule fixed by the PFI at the time of sanctioning of the facility. The PFI shall, however, be free to charge mark up as per their policy on the differential amount worked out on the basis of the rescheduling. The repayment of refinance in respect of disbursement made to the manufacturers shall be made in accordance with the stipulations contained in para 4(B) of the Scheme.

ii) Where the PFI has allowed rescheduling of the loan amount, the borrower shall be liable to make payment of mark up at the rate applicable on the date of such rescheduling, or the original rate/ rate(s) in respect of disbursements made on different rates, whichever is higher.

iii) In case the PFI has sanctioned the facility for a shorter period, the <u>period of refinance from the State Bank shall also be adjusted accordingly.</u>

iv) Where their borrowers have repaid their obligations in part or in full, whether premature or on due date(s), the PFI shall be under obligations to repay the amount(s) so received within three working days to the concerned office of the State Bank failing which fine for late adjustment of amount will be charged from the PFI at the rate of paisa 60 per day per Rs 1,000 or part thereof. The PFI would ensure that at no point of time, outstanding amount (principal) repayable to them by their borrower and appearing in its books of accounts falls below the outstanding amount of refinance, which they owe to State Bank of Pakistan.

v) In case the PFI fails to repay the amount of refinance fallen due, as per repayment schedule reported to SBP at the time of availing refinance, the concerned office of State Bank BSC (Bank) shall recover the amount, on the next working day. PFIs are, therefore, required to ensure that the repayments under the Scheme are made promptly, to avoid automatic deductions by the State Bank office, which may result in delinquency in respect of the cash reserve/liquidity requirements, attracting fine at the prescribed rate.

11. <u>OTHERS</u>

i. The grant of the facilities by the PFIs to their borrower shall be based on fulfillment of requirements prescribed under the Prudential Regulations and/or other instructions issued by the State Bank of Pakistan from time to time. These requirements shall also be fulfilled by the leasing PFIs should they intend to provide facilities under the Scheme, and they shall not seek waiver from them merely on the reasons that they are governed by the rules framed by SECP. The borrowers shall have to fulfill all other requirements, if any, prescribed by the PFI, concerned departments of the Federal/Provincial/local governments.

ii. There will be no maximum limit for borrowing by the prospective entrepreneurs under this Scheme. However, in case of large financing requirements i.e. over Rs 300 million, it would be prudent for each PFI to provide the facilities under consortium arrangements to diversify risk.

iii. In case of consortium financing, the payment to the bank of the supplier / manufacturer shall be made by the leader of the consortium, who shall therefore, be under obligation to certify the share of each member and the amount disbursed by it, to enable the member of the consortium to avail refinance from State Bank to the extent of his share, and only after the payment has been made through the leader of the consortium. The consortium members may like to make arrangements for sharing of the LC commission on the basis of their share in financing, at the time of finalization of the consortium agreement. The commission shall, however, be charged on the basis of the rates published by the lead bank in its schedule of charges.

12. GENERAL

i) Each PFI shall decide about the approval or disapproval of the case under the scheme within a maximum period of 60 days.

ii) Each PFI shall make necessary arrangements to ensure that the amount of refinance availed by them from State Bank, and outstanding as on the date of preparation of their accounts is shown separately in their Annual Accounts, under appropriate heads, vis-à-vis their claims (principal amounts only) against their constituent to whom the facility has been sanctioned by them.

iii) The State Bank shall have the right to appoint the independent consultant to verify the use of the refinance under the Scheme for the purposes spelt out under the Scheme. In case the report of the consultant points out irregularity on the part of the financing PFI or the borrower, the State Bank shall reserve the right to recover the amount of refinance granted to it alongwith fine at the rate of paisa 60 per day per Rs 1000/= or part thereof including the cost of such verification. As the PFIs are expected to fulfill the conditions prescribed by SBP under the Scheme, fine so recovered shall be absorbed by them. In cases they pass on the fine so recovered from them to the borrower, the PFI shall be under obligation to justify the same and would not pass it on to the borrower merely on the strength of the action of the State Bank of Pakistan.

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LMM - 1

REFINANCE APPLICATION FORM TO BE SUBMITTED BY THE APPROVED PARTICIPATING FINANCIAL INSTITUTION (PFI) UNDER THE SCHEME FOR FINANCING LOCALLY MANUFACTURED MACHINERY (LMM)

The Chief Manager,
State Bank of Pakistan
Banking Services Corporation BSC (Bank),
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Dear Sir,

REQUEST FOR RELEASE OF REFINANCE
FACILITIES UNDER THE CAPTIONED SCHEME

With reference to the LMM Limit amounting to Rs._______ sanctioned by Banking Policy Department of State Bank vide its Letter No. ______________________ dated___________ under the captioned Scheme for the Financial Year_____; we submit herewith our application for refinance facility amounting to Rs. ________only against the finance disbursed by us on___(date)_____ under the Scheme to our borrower as per particulars given hereunder: -

(i) Name of the borrower/ sponsor of project:

(ii) Business address of borrower / sponsor of the project:

(iii) Legal Status of the borrower (i.e. Limited Company, partnership or sale proprietorship):

(iv) Main Business of the borrowers / sponsors of the project:

(v) Broad type of machinery for which facilities have been sanctioned:

(vi) Amount of Finance as per Financing Agreement executed by us with our borrower:

(vii) Date of Financing Agreement:

(viii) Rate of mark up:

ix) Period for which finance sanctioned:
x) Financing provided to borrower as: i) Manufacturer ii) Purchaser[5]

2. The details of the contract(s) finalized by the above-named **borrower** and the payments made by us to them or on their behalf duly consented by them, against the aforesaid contract are given in the Annexure-A

[5] Please strike out whichever is not applicable

3. We have already submitted / submit herewith the securities documents required under the captioned scheme for the purpose of availing refinance as also submit herewith/ have already submitted a Demand Promissory Note for Rs.____________________________(Rupees _____________________________only) signed by M/s. (Name of borrower/project) referred to above and endorsed by us in your favour and request you to provide refinance of Rs.________________ (Rupees__________________________only) being mobilization advance / cost of machinery being manufactured / or delivered as per terms of contract to (specify the name of the purchaser in case of financing to manufacture) or purchased from the manufacture / supplier (in case of financing to purchaser) out of our above referred financing limit and credit our Current Account with you.

4. We hereby certify that: -

(i) the terms & conditions contained in BPD's sanction letter referred to above have been complied with;

(ii) all the requirements of the Scheme including those at (iii) (iv) and (v) below have been fully met;

(iii) the eligibility of borrower and the relevant plant, equipment, machinery or accessories thereof against which refinance is applied for has been properly determined by us in accordance with the prescribed criteria / conditions set out in the **Scheme in force on the date of the Financing Agreement referred to above;**

(iv) the procedure for procurement of the machinery purchased and the mode of payment are in accordance with the procedure prescribed by our bank, as also guidelines given in the scheme;

(v) the information / data given in the Application Form and the Annexure-A are complete and correct.

5. We understand that the BPD, State Bank of Pakistan has right to appoint independent consultants for verifying cases of refinance on random basis and agree to reimburse the cost so incurred in case the report of consultants indicates any irregularity / irregularities on our part. We also agree to pay back any amount of refinance disbursed to us by the State Bank on the basis of this application if the State Bank subsequently concludes that such refinance was wrongfully claimed and also pay fine on such finance @ paisa 60 per day per Rs. 1,000 or part thereof, for the period for which such finance is availed by us immediately, on demand made by the State Bank.

6. We also undertake that in case such irregularities are found to have been committed by the borrower due to negligence of our concerned officials/staff to ensure compliance of the same, or that such irregularities have been made by the borrower with the involvement of our staff/officer, besides initiating appropriate action against our staff under our staff regulations or code of conduct, we shall indemnify the State Bank against any losses that it may suffer due to litigation filed by the borrowers on account of recovery of amount of refinance and the fine thereof for availing of refinance to which we were not entitled otherwise.

7. We also authorize SBP BSC (Bank) to recover the full or remaining outstanding amount of refinance alongwith service charges applicable on refinance granted to us, if any, in case the amount(s) falling due is not repaid by us on the due date agreed to by us as per Agreement on Form LMM-2 executed by us.

Yours faithfully,

(AUTHORIZED SIGNATURE OF BANK)	(AUTHORIZED SIGNATURE OF BANK)
Name & Designation	Name & Designation

LMM-2

FORM OF THE AGREEMENT TO BE OBTAINED FROM THE PARTICIPATING FINANCIAL INSTITUTION (PFI) UNDER THE SCHEME FOR FINANCING LOCALLY MANUFACTURED MACHINERY (LMM)

(TO BE STAMPED AS AN AGREEMENT IN ACCORDANCE WITH THE LAW IN FORCE IN EACH PROVINCE)

(Place)________________
Date__________________

The Chief Manager,
SBP BSC (Bank),
____

Dear Sir,

In consideration of your agreeing to make available to us refinance under Section 22 read with section 17 (2) (d) of State Bank of Pakistan Act, 1956, not exceeding Rs.________ (Rupees ________________________________ only) under the State Bank of Pakistan's Scheme for Financing Locally Manufactured Machinery (LMM), for a period not exceeding ____________ years vide BPD Letter No.------------dated ---------------for which amount we i.e. ____(concerned PFI) have also delivered to you a Demand Promissory Note executed by us in your favour.

2. Now, we do hereby agree to the terms and conditions as set out herein under: -

a) As security for the said refinance on each occasion we intend to avail refinance against finance extended by us, we shall deliver to you, bills of exchange / demand promissory notes duly endorsed to you, as are acceptable to you and drawn on and payable in Pakistan, arising out of bonafide finance provided by us to our borrower, an entity eligible for financing as per criteria spelt out in the scheme, for manufacturing of machinery (in case of financial assistance is extended for manufacturing the machinery) or purchase of machinery (in case financial assistance is extended for the purchase of manchinery) under the scheme for Financing Locally Manufactured Machinery and it is understood that the aforesaid accommodation will be made and will continue on the faith of the truth and correctness of such certificates.
b) We undertake that we shall not extend finance or deliver to you any bill of exchange / demand promissory note in terms of this agreement unless we are satisfied that all parties liable thereon are financially sound and credit worthy.
c) The maximum rate of mark up to be charged by us from the borrower shall not exceed 2% p.a. from the service charges payable to you on refinance as worked out under the provisions of the scheme.
d) Service charges shall be payable by us to you on quarterly basis on 31st March, 30th June, 30th September and 31st December each year or on maturity of the bills or promissory notes, whichever is earlier. Where the above schedule date falls on a public /weekly holiday we shall manage to make payment of the due amount of service charges on a working day preceding such due date. It shall be open to you to reimburse yourselves with the amount of service charges by charging the same to our current account with you in case we fail to make payment on the due date in full, without seeking any debit authority from us as required under the scheme. You shall also be entitled to charge fine on us, at a rate specified in the

scheme, on our failure to make payment on account of inadequate balance in our account.

e) The maximum amount of finance that you shall provide to us in the case of each order (for manufacturing borrower) or project (for purchaser) as the case may be, financed by us would be an amount equal to the actual amount disbursed by us under the Scheme**.**

f) The Demand Promissory Note (notice of dishonour of which Promissory Note is hereby waived in terms of Section 98 of Negotiable Instrument Act, 1881) furnished by us with this agreement and the demand promissory notes delivered to you in terms of clause (h) below shall, notwithstanding the existence of a credit balance at any time or any partial payments or fluctuations of accounts or withdrawal of any part of this security, be a continuing security for repayment of all sums due or found due under this agreement, alongwith **service charges due to you**, and all costs, charges or expenses, which you may be entitled under the law to recover from us.

g) We shall neither sanction nor permit any of our customers to use the finances for any purpose other than those prescribed under the Scheme. Any finances provided by us under this Scheme shall be subject to the terms of our Charter. Further, we shall obtain a declaration from our customer to the effect that he shall not utilize the finances or any part thereof except for the purpose spelt out in the Scheme.

h) No financial assistance shall be given by us to any of our Directors or to any company, firm or group or association or project in which any of our Director is interested either directly or indirectly except financial assistance against tangible security which will be provided with the approval of the majority of our Directors excluding the Director concerned.

i) We shall endorse and deliver to you demand / usance Promissory Notes executed in our favour by our Customers under this financing arrangement with a certificate that (i) the same arises out of bonafide finances provided by us under the Scheme (ii) all parties liable thereon are financially sound, solvent and credit-worthy and that by virtue of such endorsement and delivery, we certify the genuineness of signatures as well as authority of all persons thereon (iii) the finances provided to parties liable on such promissory notes have not been classified by you as doubtful / loss.

j) Without prejudice to your rights as financier against us for the realization of any demand / usance promissory note delivered to you under clause i) at maturity, we agree, if you so desire, to take at our expense, all steps as may be necessary to realize the money from our customer and forthwith pay the same to you and on our failure to do so shall reimburse you the amount so due from our own sources. We agree that the fact of your not taking steps to endorse payment of such demand / usance promissory note or any of them against the signatory or signatories thereon shall in no way release us from our liability thereon and we agree that it shall not be necessary for you to give any notice of dishonour of such Promissory Note.

k) In addition to clauses (h) & (i), we shall hold upon trust securities / security documents presently held by us or which may be obtained by us from our customers to whom finance is made available under this Scheme as security for due repayment of finance with return / profit thereon. Further, on your demand we undertake to assign to you all such securities and secured documents, and agree that upon such assignment the provisions of clauses (h) and (i) shall, mutatis mutandis, apply.

l) In addition to the preceding three clauses, we agree that as and when you demand, we shall create valid legal charge on any or all of our assets as may be demanded by you.

m) We expressly understand that you are entitled to cancel or recall or advance the date of repayment of this finance at any time and for any reasons without any prior notice to us and that you are not obliged to provide any finance to us any time and for any reason against this Scheme and that by executing a promissory note in your favour of lodging demand / usance promissory note under clause (h) or by providing finance to any customer on the faith of this agreement, we have acquired no right or claim to demand finance from you under this Scheme. We also expressly agree that you have the sole right to vary, amend, alter or add to the terms and conditions of this agreement without any reference to us and we agree to invariably comply with the same.

n) We agree that on default of repayment by us on any promissory note tendered under this agreement, you have our authority to debit without further reference to us, all of our accounts now held or held hereafter or adjust any moneys worth which may, howsoever, become due from you or come into your possession or control to the extent of the amount due from us under any such promissory note or in terms of the clauses referred herein before or otherwise under this agreement.

o) We agree that notwithstanding anything contained elsewhere in this agreement, the amount of this finance alongwith **service charges** due to you will become due and payable, if we commit breach of any of the terms and conditions of this agreement.

Yours faithfully,

____________________	____________________
(Authorized Signature)	(Authorized Signature)
for __(PFI)_____	for ___(PFI)__

LMM - 3

DEMAND PROMISSORY NOTE

Place: ______________
Date: _______________

Rs.______________________

On demand we _____(name of the Participating Financial Institution)__promise to pay to the State Bank of Pakistan, Banking Services Corporation (Bank)____ or order the sum of Rs. _________________________(Rupees ________________________________ only) for value received plus mark up applicable under the Scheme.

(Authorized signature of the PFI)

(Name & Seal)

Note :- Demand Promissory Note requires to be submitted by the Participating Financial Institution (PFI) concerned through its head office / principal office or the branch through which refinance is being claimed and shall be submitted to the office of SBP BSC (Bank) from which refinance shall be availed.

LMM - 4

DEMAND PROMISSORY NOTE

Place:______________
Date_______________

Rs.______________________

On demand we _ (name of the borrower / sponsor of the project) ___promise to pay to the _____(name of the Participating Financial Institution) or order the sum of Rs. _________________________(Rupees ________________________________ only) for value received plus mark up applicable under the Scheme.

(Authorized signature of the borrower)
(Name & Seal)

Note :- Demand Promissory Note requires to be endorsed by the Participating Financial Institution (PFI) concerned in favour of its head office / principal office through which refinance is being claimed and further endorsed by them in favour of the Office of SBP BSC (Bank) concerned.

Annexure -A

DETAILS OF THE CONTRACT FINALIZED BY THE MANUFACTURER WITH THE PURCHASER OF THE MACHINERY AND FINANCES PAID BY THE PARTICIPATING FINANCIAL INSTITUTION (PFI) CONCERNED AGAINST THE CONTRACTS

Sr. No.	Name & address of manufacturer of the Machinery.	Broad type of machinery purchased	.Date of the contract with the Supplier / Manufacturer	Date of the actual delivery of the machinery	Total cost of machinery sold i.e. (ex-factory price) including imported components as per Financing Agreement	Landed cost of the imported components used in the machinery purchased included in the cost indicated in col. 6	Down payment received from purchaser of the machinery	Amount of Finance admissible under the Scheme (6-7-8)	Date & amount paid for the project through LC by the Bank / DFI concerned out of the admissible amount given in Col.8	Date and Amount of Refinance already availed of from State Bank against:			Date and amount of present request
										Modification on Advance	Cost of Machinery delivered	Total (10+11)	
1.	2.	3.	4.	5.	6.	7.	8	9.	10.	11.	12.	13.	14.

It is certified that the information given above is correct to the best of my knowledge.

Authorised signature of a Senior Executive of the borrower / Project

Counter signature of a Senior Officer of the Bank / DFI