Guidelines for Infrastructure Project Financing (IPF)

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Infrastructure & Housing Finance Department

STATE BANK OF PAKISTAN

STATE BANK OF PAKISTAN

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PREFACE

Infrastructure is the mainstay of a country's economy and infrastructure assets such as road networks, energy, telecommunication and airports serve as a backbone for public services and are vital to sustain economic and social activity. Status of infrastructure is often seen as an indicator of socio-economic position of a country. To facilitate banks/DFIs to undertake Infrastructure Projects Financing (IPF), SBP has revised the existing guidelines in consultation with various stakeholders.

2. It is important to note that, while in conventional corporate finance, investors and creditors usually look at the strength of the financial statements of the borrowing company and not just the net realizable value of the project alone, the IPF ideally requires non-recourse financing, wherein the lender looks solely at the cash flows of the project for its debt servicing.

3. Infrastructure projects, by their very nature and design, require relatively large investment, besides requiring longer gestation period for development, construction, start up and operation. Keeping in view the distinctive features of infrastructure projects and feedback received from various stakeholders, the guidelines have been revised accordingly. It is hoped that these guidelines will help banks/DFIs to develop expertise for financing of infrastructure projects, essentially by evaluating the intrinsic cash flow generating ability of these projects.

4. Banks/DFIs are encouraged to prepare their own structured lending schemes for the development of IPF. For this purpose, banks/DFIs may conduct/arrange their own studies to determine the potential in specific infrastructure projects. Banks/DFIs are also required to ensure observance of due prudence and necessary oversight in IPF to safeguard the interest of their institution. Besides conventional infrastructure financing, banks/DFIs are also encouraged to adopt Islamic mode of banking to develop infrastructure products, as it is very conducive to infrastructure financing. In developing Islamic financing products for infrastructure, the banks/DFIs should refer the relevant guidelines issued by Islamic Banking Department of SBP

5. These, IPF guidelines do not supersede other directives/instructions issued by SBP from time to time in respect of areas not covered herein.

Rizwan Pesnani

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Infrastructure and Housing Finance

Guidelines

For Infrastructure Project Finance

PART-A

DEFINITIONS

1. **Asset Securitization** means a process whereby any Special Purpose Vehicle raises funds through the issue of Term Finance Certificates or any other instruments with the approval of Securities and Exchange Commission of Pakistan (SECP). The funds so received are used to make payment to the Originator, for acquiring from the Originator the title, property or right in the receivables or other assets in the form of actionable claims. Originator in this context has the same meaning as explained in BPD Circular No. 31 of November 14, 2002.

2. **Bank** means a banking company as defined in Banking Companies Ordinance, 1962.

3. **Borrower** means Concessionaire/Licensee/Project Company of an Infrastructure Project, including a public sector entity, on whom the bank(s)/DFI(s) has taken exposure during the course of business, including their successor(s).

4. **Concession Agreement** means an agreement, usually with the government authority, to operate the project or to provide the specified services for a certain period of time on certain predetermined terms.

5. **Concessionaire/Licensee** means a legal entity, incorporated by sponsors of an Infrastructure Project, to whom a Concession/License is awarded by a government agency, including their successor(s) in the titles and assignments.

6. **Contractor(s)** means the entities which may be awarded the contract for construction, supply of materials, operation, maintenance and other allied works of an Infrastructure Project by the Concessionaire/Licensee/Project Company.

7. **DFI** means a Development Financial Institution viz. Pak Kuwait Investment Company (Pvt.) Ltd., Pak Libya Holding Company Ltd., Pak Oman Investment Co. (Pvt.) Ltd., Pak Brunei Investment Company Ltd., Pak China Investment Company Ltd., Pak Iran Joint Investment Company Ltd., Saudi Pak Industrial & Agriculture Investment Ltd., or any other institution designated by SBP.

8. **Federal Government** means the Government of the Islamic Republic of Pakistan and its duly authorized representatives.

9. **Financing Agreement(s)** means the agreement(s) to be entered into between the Concessionaire/Licensee/Project Company and the Lenders, for the purpose of providing

the fund-based and non-fund based facilities necessary to carry out the Infrastructure Project, and will also include all other agreements/documents providing security for such financing.

10. **Financial Close** means the stage at which the framework of the project is complete and all parties are legally committed as per their contracts.

11. **Financial Completion** means fulfillment of any one or more of the conditions listed below:

a. The project's ability to produce below a certain unit cost, which is agreed beforehand by the concerned parties.

b. Produce minimum traffic volume above a certain level.

c. Show compliance with any similar conditionality for a specified period of time.

d. Have a minimum level of working capital and a certain current ratio.

e. Achieve a minimum debt-service coverage ratio and debt-to-equity ratio for a certain period, as per the Financial Agreement(s).

12. **Financial Covenants** means promises by the management of the borrower to adhere to certain limits in its operations. For example, not to allow certain balance sheet items or ratios to fall below or go over an agreed-upon limit.

13. **Government Agency** means:

a. A division, department, attached department, bureau, section, commission, board, office or unit of the Federal Government or a Provincial Government or a Local Government;

b. A development or a local authority, company or corporation established or controlled by the Federal Government or Provincial Government.

14. **Infrastructure Project** means one of the followings:

a. A road, including toll road, fly over, bridge project;

b. A mass transit, urban bus, urban rail project;

c. A rail-bed, stations system, rail freight, passenger services project;

d. A telecommunication local services, long distance and value added project;

e. A power generation project;

f. A power transmission or distribution project by laying a network of new transmission or distribution lines;

g. A natural gas exploration and distribution project,

h. An LPG extraction, distribution and marketing project;

i. An LPG import terminal, distribution and marketing project;

j. An LNG (Liquefied Natural Gas) terminal, distribution and marketing project;

k. A water supply, irrigation, water treatment system, sanitation and sewerage system or solid waste management system project;

l. A dam, barrage, canal project;

m. A primary and secondary irrigation, tertiary (on-farm) irrigation project;

n. A port, channel dredging, shipping, inland waterway, container terminals project;

o. An airport;

p. A petroleum extraction, refinery, pipeline project;

q. Any other infrastructure project of similar nature, notified by SBP.

15. **Infrastructure Project Financing (IPF)** means financing for an Infrastructure Project as mentioned in para 14 above, including both fund-based and non fund-based facilities.

16. **Lender** means a bank/DFI providing or making available funds to the Concessionaire/Licensee and their successors. The term ‘Lender’ shall also include a consortium of lenders, a trustee, or a security agent appointed by the lenders.

17. **License** means a permission granted by a government agency to a company sponsor for undertaking an Infrastructure Project.

18. **Limited-Recourse Financing** means a form of project financing in which the lenders base their credit decision primarily on the cash flows of the borrower, but at the same time may have legal recourse, as agreed to by all parties to the agreement, on the sponsor's assets.

19. **Liquid Assets** means cash or assets which are readily convertible into cash without recourse to a court of law, and means encashment / realizable value of government securities, bank deposits, certificates of deposit, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs) issued by DFIs/NBFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, listed TFCs rated at least 'A' by a credit rating agency on the approved panel of State Bank of Pakistan, and certificates of asset management companies for which there is a book maker quoting daily offer and bid rates and there is active secondary market trading. These assets with appropriate margins should be in possession of the banks/ DFIs with perfected lien.

Guarantees issued by domestic banks / DFIs, when received as collateral by banks/DFIs, will be treated at par with liquid assets, provided that the issuing bank/DFI is rated at least 'A' by an SBP approved credit rating agency. For guarantees issued by foreign banks, the issuing banks' rating, assigned either by Standard & Poors, Moody's or Fitch-Ibca, should be 'A' and above or equivalent.

20. **Local Authority** means any agency set up or designated by Government or Provincial Government, by notification in the official Gazette, to be a Local Authority.

21. **Non-recourse Financing** means a form of project financing in which the lenders base their credit decisions solely on the cash flows of the project for repayment of the project debt. Such recourse is opted where the project is fully capable of generating sufficient cash flows to repay the project debt.

22. **Physical Completion** means the project's ability to sustain production at a certain capacity for a specified period of time, such as one month or one quarter of the operating year. Before this, the project may also be certified as technically complete, i.e., meeting all technical design specification.

23. **Project Account(s)** means one or more Project Accounts for the purpose of depositing contributions towards the equity of the Concessionaire/Licensee/Project Company and the disbursement of loans by the Lenders under the Financing Agreement(s). The Project Account(s) can also be utilized for depositing surplus receipts after appropriations for debt

servicing, project maintenance and any other appropriations as per the Financing Agreement(s) from the Project Collection Account. Moreover, all expenditure made with respect to the due performance of its obligation by the Concessionaire/Licensee/Project Company shall be through such Project Account (s).

24. **Project Capital Cost** means the total construction/completion costs of a project on an un-leveraged (all-equity) basis, which includes project development cost, land, owners' costs of construction, and initial working capital.

25. **Project Collection Account** means an account opened for the exclusive collection of all revenue receipt of an infrastructure project that shall be operated by the Concessionaire/Licensee/Project Company in accordance with financing agreements with the lenders. Any amounts standing to the credit of the Project Collection Account, after appropriations for debt servicing, maintenance and other appropriation(s) as per the Financing Agreement(s), shall be remitted to the Project Account (s).

26. **Project Company** means the legal entity which owns and operates a project.

27. **Project Debt Reserve Account** means an account created for the period of financing provided by the Lenders that shall be funded by the Concessionaire/Licensee/Project Company as per the Financing Agreement(s) from the Project Account and/or the Project Collection Account to amortize debt.

28. **Project Escrow Account** means an account maintained by the Concessionaire/Licensee/Project Company for the entire remaining tenure of the Concession/License/Right of Way, wherein every month a portion from the total proceeds of revenue receipts of the Infrastructure Project shall be deposited by way of remittance from the Project Collection Account. The amounts standing to the credit of the Project Escrow Account shall be solely utilized for the routine and periodic maintenance of the Infrastructure Project.

29. **Project Finance** means a form of 'Non-recourse' or 'Limited Recourse' financing, where the lenders base their credit decision solely or primarily on the cash flows of the project, with respect to repayment of the project debts.

30. **Project Cost** means the total financing (debt and equity) required to complete construction of a project. It includes capital costs, financing fees and interest that accumulates during the construction period, and any amounts required to be set aside to be available to pay debt service when a problem develops.

31. **Project Funds Agreement (PFA)** means an agreement, usually by sponsors, to provide additional funds as needed until completion of the project, or at any other agreed date. However, burden of additional funds may be shared amongst sponsors, creditors and suppliers as per their mutual consent under a PFA.

32. **Project Sponsor(s)** means the primary beneficiary(ies) and proponent(s) of a project, or a party providing the major owner's equity financing.

33. **Provincial Government** means the Government of Punjab, Sindh, Khyber Pakhtunkhwah and Balochistan**.**

34. **Public Utilities** mean water supply, electricity supply, telecommunication system, sewerage system, petroleum, gas supply and other utilities and amenities for the benefit of the public.

35. **Right of Way** means the existing corridor already available with a government agency and any additional land which may have to be acquired by a government agency for the purpose of the Infrastructure Project.

36. **Special Purpose Vehicle** means a special purpose vehicle registered by the SECP for the purpose of Securitization;

37. **Structured Finance** means a financial instrument tailored to the risk-return and maturity needs of the investor, rather than a simple claim against an entity or asset, where the financier does not look at the entity as a risk, but tries to align the financing to specific cash flow of the borrower.

38. **Subordinated Loan** means an unsecured loan extended to the borrower, generally by its sponsors, subordinate to the claim of the bank/DFI taking exposure on the borrower, and documented by a formal sub-ordination agreement between provider of the loan and the bank/DFI. The loan shall be disclosed in the annual audited financial statements of the borrower as subordinated loan.

39. **Term Sheet** means a document that outlines in general terms the key agreements to be contained in a legal document. In lieu of the Term Sheet, the letter of understanding (LOU) or a memorandum of understanding (MOU) may also be used.

PART - B

G U I D E L I N E S

G.1 -- CREDIT APPRAISAL

A thorough credit appraisal of an IPF by banks/DFIs is of utmost importance in order to identify the project risks, and to ascertain the fact that the project will function as per plans. Assessment of the financial and economic viability of the project should also be carried out to determine adequacy of the project cash flows with respect to repayment capacity of the project debts, as also ensuring a satisfactory rate of return on the funds proposed to be lent. Banks/DFIs are, therefore, encouraged to develop the requisite expertise to conduct a thorough appraisal of the proposed project, and may constitute appropriate special Divisions/Department for IPF.

G.1.1 -- Minimum Information Requirements

Banks/DFIs, before making the lending decision, shall obtain and evaluate detailed Feasibility Report of the proposed Project, including the financial and technical feasibilities. The financial feasibility, which shall be endorsed by an Auditing Firm on the approved panel of SBP, shall contain information on the Project's anticipated economic conditions, capital investment, and financing needs. The banks/DFIs shall get the technical feasibility report independently reviewed by an engineering firm of repute registered with concerned authority such as Pakistan Engineering Council etc. Moreover, banks/DFIs shall also obtain minimum information to their satisfaction regarding the proposed Infrastructure Project in accordance with **Annex-A (IPF: Checklist for Minimum Information Requirements).** Banks/DFIs should get the project documents, as specified in section 6 of Annexure A, vetted by their legal counsel.

G.1.2 -- Assessment of Infrastructure Projects

Infrastructure Projects usually go through development, construction, start-up, and operation stages. Banks/DFIs should, therefore, assess these stages separately for risk mitigation. While some of the guidelines in this regard are given as under, banks/DFIs may put in place additional safeguards appropriate to their risk assessment:

> **G.1.2.1 Development Phase:** In view of higher risk in development phase, the funding needs should be met primarily through capital from the main sponsors only. However, if the lenders decide to provide funding during this phase of the project, they should critically evaluate the possibility of various risks, including those arising from unclear government policies, if any, and their possible impact on the viability of

the project. The lender may also provide funding during the development phase by having a charge on sponsors' assets, which shall be released at the time of Financial Close.

G.1.2.2 Construction and Start-up Phase: In this phase, the major risk is that the construction may not be completed on time, or may have large cost overruns. A project may fail to reach its completion for many reasons, ranging from technical design flaws to mismanagement of the project, financial problems, or changes in government regulations. Therefore, the lending banks/DFIs are advised to adequately safeguard their interests and stress upon the project companies to provide risk assessment and allocation matrix and also to hedge identified and potential risks by opting for fixed-price, certain-date construction contracts (including turnkey contracts), and built-in provisions for liquidated damages if the contractor fails to perform, along with obtaining insurance cover for certain areas of the project.

a. **Responsibility of Assuming Completion Risk:** As lenders cannot control the construction process, therefore, banks/DFIs are advised to properly assess and negotiate the risks during completion phase of the project.

b. **Physical and Financial Completion of Infrastructure Projects:** To protect against the risk of physical and financial non-completion of the infrastructure project, banks/DFIs are advised to closely observe following issues for risk mitigation:

i. **Project Funds Agreement (PFA):** The most common threat to physical completion of the project is cost overruns, which affects the project's financial rate of return, and if these cost overruns are not financed through additional financing, the same may even lead to abandonment of the project. Therefore, to ensure that unexpected costs do not jeopardize the project's completion, creditors and minority investors may insist on a commitment for standby financing as part of the initial financial package. This may be provided by sponsors through a contractual agreement, i.e. **Project Funds Agreement (PFA)**, which is a standby subordinated loan or equity, wherein sponsors may either provide or arrange the requisite funds.

ii. **Financial Completion Agreement (FCA):** It is pertinent to emphasize that a new project may reach physical completion but may not become self-sustaining for a number of reasons, such as supply problems, weak market demand or other adverse changes in micro or macro economic conditions. If financial completion is not achieved, profitability will suffer, and the project is likely to encounter debt-service difficulties. Project documentation, therefore, may include a **Financial Completion Agreement (FCA)**, which specifies, in contract form, the initial financial projections of the project against which creditors and investors are willing to invest funds.

Under a Financial Completion Agreement, the sponsors typically commit to provide subordinated loans or additional equity to the project until the agreed financial performance is achieved. By requiring sponsors to ensure project financial completion, lenders greatly reduce the default risk of the project. The lenders may, at their own discretion, require the sponsors to arrange suitable insurance cover, if available, for covering such risk.

iii. **Insurance:** To ensure fulfillment of obligations by the sponsors, their obligations under PFA/FCA shall be backed-up by a letter of credit, bond or guarantee from a creditworthy third party. However, for mitigating force majeure that cannot be contractually allocated, banks/DFIs are advised to call for purchase of insurance, wherever possible, by the sponsors, so as to mitigate both direct and indirect types of force majeure.

G.1.2.3 Operation Phase: In this phase, the risk is generally lower, and the sponsors may opt for retiring the senior bank debts through arranging cheaper sources of funds in the market. As most of the projects are to stay in business for long-term periods, significant changes may occur that may have adverse impact on the viability of the project. These changes may include availability and cost of inputs, market demand for the project's products etc. Therefore, banks/DFIs may stress upon the sponsors to undertake long-term purchase contracts for important inputs and long term off-take contracts (where applicable) so that the impact of price volatility and adverse market demand is minimized. The project company may also ask its suppliers for performance guarantees on technical components and other necessary inputs. Moreover, the Project Company may be encouraged to enter into Operation and Maintenance Agreement (wherever appropriate) for initial few years of operation.

G.1.3 -- Monitoring of Infrastructure Projects:

Banks/DFIs shall establish a mechanism for continuous monitoring of project implementation to ensure proper utilization of the credit disbursed to the company. For this purpose, proper scrutiny/audit shall be undertaken of the Project Account(s), Project Collection Account, Project Debt Reserve Account, Project Escrow Account and any other accounts deemed necessary for the operation of the Project. Moreover, compliance of Financial Covenants and periodical technical inspection of the project during construction and operation phase shall also be emphasized.

G.1.3.1 Monitoring for Assignment of Project Receivables and Payments for Damages: As the primary source of repayment is through project cash flows, lenders need to secure the loan by obtaining an assignment of project receivables. A project usually has many different kinds of agreements, covering matters such as government concession, management, and supply etc. Premature termination of any of these agreements could adversely affect the project and in such cases the party terminating an agreement prematurely usually pays for the damages caused to the other parties. Keeping in view such an adverse eventuality, banks/DFIs may institute necessary monitoring measure so as to ensure that the assignment of project receivables and payments on account of damages are made in their favor.

G.1.3.2 Monitoring for Ensuring Enforcement of Security: To ensure the protection of bank's charge on assets of the business entity, banks/DFIs will register their charge with the Registrar of Companies, so that the security is not mortgaged with any other lending institution for further financing.

G.1.3.3 Project Escrow Accounts for Monitoring Repayment of Debt:

In 'Limited Recourse Financing', the importance of Escrow Account increases due to the fact that the primary security is the project receivables/cash-flows. A project may generate sufficient cash flows to repay its debt; however, the sponsors could divert such funds to some other area, to the detriment of the lenders. An Escrow Account not only ensures that contract obligations are met, but also helps control project expenditures. Therefore, banks/DFIs shall institute a mechanism for repayment of project debts through an Escrow Account, which shall be pledged in favor of the lenders.

G.1.3.4 Financial Covenants for Repayment of Debt:

To ensure that dividend payments to project investors and/ or other discretionary payments, not including payments necessary for operation of the Project Company, do not restrict or curtail the ability of Project Company to meet its debt service obligations, Project Company should be required to observe financial covenants including Debt Service Coverage Ratio, Loan Life Coverage Ratio etc.

G1.3.5 Technical monitoring during Development and Operation Phase:

During construction phase, banks/DFIs should monitor project's progress through periodical review by technical consultant. The scope of technical consultant should include assessment of actual progress of the project against the scheduled progress and agreed milestones, review of status of engineering, procurement, construction and commissioning activities and identification of bottlenecks arising or likely to arise in the project completion. All draw-downs pertaining to Engineering, Procurement and Construction (EPC) contracts should be linked with certification by technical consultant.

In operation phase a project becomes non-recourse in true sense of the word and only cash flows signify the strength of project and a guarantee of pay-back. Technical inspection and monitoring is therefore equally important during operation phase. Thus, a periodic technical inspection of the project should be encouraged to monitor the technical health of project during the loan tenure to safeguard the interests of banks/DFIs.

G.2 -- COLLATERAL ARRANGEMENTS, SECURITY PACKAGE AND PROJECT INSURANCE

G.2.1 -- Acceptance of Concession/License as Collateral

In order to promote ‘Limited Recourse Financing’, banks/DFIs are encouraged to accept a ‘Concession Agreement/License’ issued by a Government Agency as collateral, as part of the overall collateral arrangements, subject to the following stipulations:

i. The Concession Agreement/License is free of all encumbrances, is irrevocable, and does not contain any terms or conditions which may be detrimental to the interest of the lenders;

ii. The Concession Agreement/License should be assignable to lenders in the event of default;

iii. The Government Agency that has issued the Concession Agreement/License undertakes to facilitate lenders in the transfer of Concession Agreement/License in case of default;

iv. Public utilities are shifted appropriately from the area by the Government;

v. Banks/DFIs have satisfied themselves about the secured nature of Concession Agreement/License, the expected source of repayment and the overall collateral arrangements.

G.2.2 Security Package

In order to observe prudence, while undertaking ‘Limited Recourse Financing’ for Infrastructure Projects, banks/DFIs shall secure their interest by Primary Security/Collateral, besides either one or a combination of the Secondary Securities/Collateral, the details of which are as under:

G.2.2.1 Primary Security/Collateral: First charge on all the receivables and Project Account(s), Project Collection Account, Project Debt Reserve Account, Project Escrow Account, Bank Accounts, including offshore accounts maintained by the Project Company and accounts of the contractors.

G.2.2.2 Secondary Securities/Collateral:

a. First Charge over all the immovable and movable assets of the project company and that of the contractors if deemed necessary by the lender;

b. First assignment of all insurance policies to cover major and minor risks, including political risk and force-majeure;

c. First pledge of sponsor's share in the company, besides ensuring that sponsor's holding does not fall below 51% of equity capital without prior approval of the lender(s);

d. First assignment by way of security of all government approvals and agreements, the implementation agreement and the government undertaking;

e. First assignment by way of security of the company's rights under project agreements, such as project funds agreements, retention account agreement, shareholders agreement, supply agreement and off-take agreement, EPC and O&M Contracts where applicable;

f. First charge/assignment of corporate/bank guarantees furnished by the contractors to the project company for claiming liquidated damages.

G.2.3 PROJECT INSURANCE:

Banks/ DFIs, while taking an exposure on infrastructure project, shall ensure that the Project Company has obtained, or made arrangement to obtain, valid and enforceable insurance coverage for potential risks associated with infrastructure project including, where applicable, but not limited to, physical loss or damage to project's assets during construction- CAR (Contractor's All Risks), liability to third parties (public liability), loss or damage to assets during transportation (Marine), machinery breakdown, loss of profit and terrorism etc.

G.3 -- REGULATORY COMPLIANCE

To facilitate participation of the private sector in infrastructure projects, which are capital intensive and require heavy capital outlay, banks/DFIs are advised to adhere to the following regulatory measures. However, those regulatory issues that are not covered in these guidelines will continue to be governed by the Prudential Regulations for Corporate/Commercial Banking.

G.3.1 -- Exposure Limit

G.3.1.1 -- Per Party Exposure Limit

Limit on exposure to a single borrower and to any group shall be calculated in the manner as described in Regulation R-1 of Prudential Regulations for Corporate/ Commercial Banking.

G.3.1.2 -- Total Exposure to IPF

Banks/DFIs shall ensure that, at no point in time, their total exposure to Infrastructure Project Finance exceeds their equity.

G.3.2 - Debt-Equity

Banks/DFIs while taking an exposure on an infrastructure project, shall ensure that the total exposure (fund-based and non-fund based) availed by any borrower from financial institutions does not exceed 10 times of borrower's equity as disclosed in its latest audited financial statements. However, banks/DFIs shall be free to decide the respective share of fund based and non-fund based lending in the total exposure limit to an infrastructure project. Moreover, subordinated loans shall be counted as equity of the borrower. In this connection, banks/DFIs should specifically include the condition of subordinated loan in their Offer Letter. The subordination agreement to be signed by the provider of the subordinated loan should confirm that the repayment of subordinated loan will require prior approval of bank(s)/ DFI(s). However, banks/DFIs while making the exposure decision, are advised to ensure substantial financial commitment by main sponsors, which can help in the success of the project, in the following ways:

a. making it expensive for the sponsors to abandon the project, thus encouraging them to take a strong and lasting interest in the project and to seek to remedy difficulties that may arise;
b. expediting decision making, particularly where the sponsors holds a majority share;
c. and increasing the confidence of other parties in the project.

G.3.3 -- Funding of Infrastructure Projects:

G.3.3.1 -- Maximum Duration of Loan: Banks/DFIs may extend loans for IPF up to a maximum period of 20 years, excluding grace period, if any.

G.3.3.2 -- Asset Liability Management: Banks/DFIs are encouraged to develop an in-house system for prudently managing interest rate risk and liquidity risk due to adverse movement in interest rates and maturity mismatches arising from locking their assets in long term IPF undertakings. Banks/DFIs may either enter into a sell-down financing arrangement with other banks/DFIs or arrange consortium/syndicate to effectively match their assets and liabilities.

G.3.3.3 -- Long Term Funding: As a measure of Asset Liability Management (ALM), banks/DFIs are also encouraged to float Infrastructure Bonds to match the tenure of infrastructure loans, besides churning their infrastructure loan portfolio through securitization/sell down. Banks/DFIs have already been allowed to securitize their assets pertaining to lease financing, mortgage financing and toll road financing vide BPD Circular No. 31 of November 14, 2002. However, for the purpose of IPF, the scope of Assets Securitization through Special Purpose Vehicle (SPV) laid down in the aforesaid BPD Circular has been extended to all types of Infrastructure Projects as defined at Clause 14, Part A, of these Guidelines. This would help banks/DFIs in originating IPF and afterwards scrutinize their IPF portfolio through SPV.

G.3.4 – Classification and Provisioning Requirements

The banks/DFIs shall classify and make provisioning for IPF as per provision requirements **described in Annexure IV of R-8 of Prudential Regulations for Corporate/ Commercial Banking.**

ANNEX A

IPF: CHECKLIST FOR MINIMUM INFORMATION REQUIREMENTS

1. PROJECT DESCRIPTION

I. Description of Product/ Service
II. Capacity of Project
III. Proposed ownership structure and sponsor information
IV. Legal status of project and status of government approvals (including government's and/or local authorities' attitude toward the Project, exemptions/privileges to be enjoyed by the Project, licenses and permissions required, and proposed measures/actions that could affect the Project).
V. Project's anticipated economic contributions (e.g. in the generation of foreign exchange, employment, technology transfer etc.)

2. CAPITAL INVESTMENT

i. Project site
   a. Legal agreements for land use rights
ii. Civil works and buildings
iii. Major and auxiliary equipment
iv. Project Management
v. Pre-operating requirements and costs
vi. Contingencies (physical) and escalations (financial)
vii. Initial working capital requirements
viii. Contracting and purchasing procedures to be used
ix. Local/foreign manpower and technical expertise required at the planning stage

3. PROJECT SCHEDULES

i. Construction, startup, operations
ii. Expenditures
iii. Funding (including timing of funds needed during project (implementation)
iv. Regulatory compliance

4. ENVIRONMENT IMPACT

i. Description of environment impact
ii. Health and safety issues

5. FINANCING

i. Total cost of project (including details on major items of fixed assets and working capital)
ii. Background statement on all sponsors and participants, showing their financial or other interest in the project construction, operations, and marketing
iii. Capital structure
   a. Proposed debt/equity structure

b. Equity
- Shareholders' structure
- Long term plans (stay private/go public)
- Quasi-equity (subordinated debt)

c. Debt
- Long-term debt/working capital loan
- Domestic/foreign
- Desired terms and conditions
- Funding sources already identified

d. Overrun/standby arrangements

iv. Financial Projections

a. Projected financial statements including cash flows

b. Clear statement of all assumptions

c. Sensitivity analyses under different scenarios like interest rate risk etc.

d. Net Present Value (NPV), Internal Rate of Return (IRR) and payback period of the project.

6. PROJECT DOCUMENTATION

i. Joint venture agreements (if applicable)

ii. Articles of Association

iii. Government approval documents/concession/business license

iv. Land certificate/red line map

v. Mortgages, if any

vi. Loan agreements

vii. Major contracts including

a. EPC Contract

b. Off-take agreements

c. Supply agreements

d. Technical Assistance agreements

e. Operation and Maintenance agreement

f. Insurance Policies

ANNEX B

LIST OF ABBREVIATIONS

ALM	Asset Liability Management
BPD	Banking Policy Department, State Bank of Pakistan Now Banking Policy and Regulation Department
CAR	Contractor's All Risk
COI	Certificate of Investment
DFI	Development Finance Institution
EPC	Engineering, Procurement and Construction
FCA	Financial Completion Agreement
IHFD	Infrastructure & Housing Finance Department, State Bank of Pakistan
IPF	Infrastructure Project Finance
LNG	Liquefied Natural Gas
LOU	Letter of Understanding
LPG	Liquefied Petroleum Gas
MOU	Memorandum of Understanding
NBFC	Non-banking Financial Company
NIT	National Investment Trust
NPV	Net Present Value
O & M	Operation and Maintenance
PFA	Project Funds Agreement
SBP	State Bank of Pakistan
SECP	Securities & Exchange Commission of Pakistan
SPV	Special Purpose Vehicle
TFC	Term Finance Certificate