



Annexure to IH&SMEFD Circular No. 04 dated January 03, 2013

Export Finance Facility for Locally Manufactured Machinery (EFF-LMM)

1. Background

The Facility for financing Locally Manufactured Machinery (LMM) with the objective to promote export of Engineering Goods has been in operation since 1972. Earlier the Facility operated in two parts viz. Part-A (Local Sales) and Part-B (Export Sales). Financing under Part-A was intended to facilitate the prospective entrepreneurs who wanted to set up projects in Pakistan based on the locally manufactured machinery. Subsequently, Part-A of the Facility was merged with SBP's Long Term Financing Facility (LTFF) for Plant & Machinery to provide a level playing field to entrepreneurs in general and exporters in particular for setting up of Export Oriented Projects / Units. However, Part-B of the Facility has not been modified and instructions issued in 1987 remained operative which necessitate modification to meet the changing requirements. Accordingly, following revised Facility named as Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) is being introduced:

2. Scope and Eligibility

- i) This is a fixed-rate financing Facility, which shall facilitate the exporters to export eligible engineering goods.
- ii) The Facility shall operate in two parts;
 - a. **Part-A - Export Sales:** Under this part medium term financing shall be provided for export of Locally Manufactured Plant & Machinery and other Specified Engineering Goods keeping in view the eligibility criteria spelt out in the Facility.
 - b. **Part-B - Local Supply against International Tender:** This Facility shall be provided for local supply of eligible engineering goods against international tender / contracts.

Operational details of both parts of the Facility are given in Para 6 & 7.

- iii) Financing facilities shall be available through banks which are already approved as Participating Financial Institutions (PFIs) under Long Term Financing Facility (LTFF) for Plant & Machinery.
- iv) No separate limits shall be sanctioned under the Facility and refinance will be provided against the Overall Limits sanctioned to banks under Long Term Financing Facility (LTFF) for Plant & Machinery. Accordingly, existing PFIs may apply for enhancement of limits after utilization of their existing LTFF Limits. Further, other interested banks may also apply to IH & SME Finance Department for grant of status of PFI under LTFF and sanction of fresh limits under said Facility. Limits under LTFF are allocated as per SBP's



internal criteria; however, the same may be relaxed for the purpose of financing under this Facility.

3. Rate of Financing:

- i) Financing to the exporters will be available at the rates applicable under SBP's Long Term Financing Facility (LTFF) for Plant & Machinery. However, banks' spread is being increased to encourage them to extend financing to the non-traditional exporters i.e. Engineering Goods.
- ii) Financing rates under the Facility prevailing on the date of disbursement of refinance by SBP will be applied.
- iii) Current rates of financing / refinancing are as under, which will be adjusted in future in line with the revision to be made in LTFF rates:

Period of financing	Rate of Refinance	Banks' Spread	End User's Rate
Up-to 3 years	8.30%	2.00%	10.30%
Over 3 years and up-to 5 years	8.40%	2.50%	10.90%

4. Period of Financing & Eligible Plant & Machinery:

- i) The maximum period of financing shall be 5 years inclusive of grace period, subject to the followings:
 - A) The financing for the maximum period of up-to 5 years (including one year grace period) shall be available for export of all Plant & Machinery, which are to be exported against Letter of Credit equivalent to US\$10 million or more.
 - B) Plant & Machinery mentioned in Annexure-I, shall be eligible for financing up-to a maximum period of 3 years (including six months grace period) in case the same are to be exported against Letter of Credit of less than US\$10 million.
 - C) Locally Manufactured Machinery mentioned in Annexure-II shall be eligible for financing up-to a maximum period of one year.

Exporters of Plant & Machinery, not mentioned in above lists, can also approach SBP through financing bank(s), to seek eligibility under the Facility. Any change in the lists of eligible Locally Manufactured Machinery, as and when made for the purpose, shall be notified.

- ii) Financing against a Contract without supported by the Letter of Credit shall be eligible for a maximum period of One Year irrespective of its value.

5. Quantum of Finance / Refinance:

- i) Banks shall provide medium term financing facilities, in local currency, both at pre-shipment and post-shipment stages for export of Locally Manufactured Machinery.
- ii) Pre-shipment financing facility shall be available to the manufacturers and agents of the exporters / commercial exporters (i.e. traders) for a maximum period of One Year. In other words, in case of pre-shipment facilities, exporters shall be required to ship requisite plant



& machinery within a maximum period of One-Year from the date of disbursement of funds under the Facility.

- iii) Exporters shall also be eligible for post-shipment facilities. However, financing banks shall ensure, as per their own mechanism, that one contract / Letter of Credit shall not be used for financing to the manufacturers and their agents at the same time.
- iv) Refinancing shall be available to the extent of total value of Letter of Credit/Contract less advance payment, or 80% of the value of Letter of Credit/contract whichever is lower. However, the concerned exporter will be required to make shipment of eligible machinery equivalent to 125% of refinance availed under the Facility, in case the facility is availed on pre-shipment basis. In case of post shipment, exporters will be eligible to avail up-to 80% refinance against the respective shipment(s).
- v) The office of the SBP BSC (Bank) will allow refinance to the bank concerned within two working days from the receipt of complete / duly filled in documents prescribed in the Facility.
- vi) Refinance shall be provided on service charges basis in terms of Section 17 (2) (d) read with section 22 of State Bank of Pakistan Act 1956.

6. Part-A: Export Sales:

- i) Finance Facility shall be available to the manufacturers / exporters for export of Locally Manufactured Plant & Machinery and other Specified Engineering Goods [Para 4 (i) (A), (B) & (C)]¹
- ii) Locally Manufactured Plant and Machinery using more than 50% imported components i.e. if cost of these components is greater than 50% of sale price of the machinery, it shall not be eligible for financing under the Facility.
- iii) **Documents required:-** The exporter shall produce the following documents to enable the bank to consider its request for financing under the Facility:-
 - a. Original Export Contract (EC) containing among other details of the schedule on which the export proceeds shall be realized;
 - b. Export Letter of Credit (ELC) along-with amendments, if any, made in the ELC;
 - c. Advance Payment Voucher containing the full description of said payment along-with reporting schedule(s) and non utilization certificate from the concerned banks against down payment provided for in the ELC/EC;
 - d. Exporter's Application / Undertaking for Pre-Shipment / Post-Shipment Financing Facility (format attached at Form "EFF-LMM-3");
 - e. DP Note duly executed by the borrower (format attached at "Form EFF-LMM-7") in favor of the financing bank;

¹ For other Engineering Goods financing facility can be availed under the Export Finance Scheme (EFS) of SBP.



6.1 Prior Approval of SBP & other conditions

- i. In case the export proceeds are to be realized after the maximum period prescribed in Foreign Exchange Manual (viz. presently 180 days) the bank shall also be required to seek prior approval of Exchange Policy Department, State Bank of Pakistan. For the purpose the bank shall submit certified copies of documents as mentioned at Para 6 (iii) (a, b & (c).
- ii. The bank shall ensure that the deferred payment interest is adequately covered in the price, where the importers are not required to pay the same separately from the invoice value.
- iii. As the exporter shall remain liable to pay the amount of finance availed from the bank, even in cases where the proceeds have not been realized, he should secure his deferred payment risk adequately. It may also be noted that the repayment of the rupee liability (principal, mark-up and fine for non-shipment) shall not absolve the exporter from realization of the export proceeds under the instructions of SBP.

6.2 Grant of Refinance under Part-A:

Under this Facility, the concerned office of the SBP BSC (Bank) shall allow refinance to banks against funds provided by them to their borrowers on case-to-case basis. The bank after disbursing the facilities shall submit following documents to the concerned office of the SBP BSC (Bank) for grant of refinance:

- i) Certified copies of documents mentioned at (a) to(c) of Para 6(iii) above and exporter's application / undertaking for pre-shipment / post-shipment financing facility;
- ii) Agreement and DP note of the bank as per formats attached at Forms "EFF-LMM-1" & "EFF-LMM-2" [Note: These documents may be submitted only once, in a financial year, against full amount of limit allocated by the SBP to the bank under this Facility. These documents may be submitted at the office of SBP-BSC (Bank) where bank's Head Office / Principal Office is situated];
- iii) Refinance Application/Undertaking as per format attached at Form "EFF-LMM-4";
- iv) Demand Promissory Note of the borrower in favor of the financing bank on the prescribed format and endorsed in favor of concerned office of SBP-BSC (Bank);
- v) Certified copy of prior approval of the Exchange Policy Department regarding cases requiring prior clearance.

6.3 Repayment of loan under Part-A:

- i. The repayment of principal amount of loan shall be made by the borrower in equal half yearly or quarterly instalments after the grace period, if any. However, where facility is



availed for a maximum period of One Year (without any grace period), the same may be repaid on agreed date between bank and the borrower within a maximum period of one year. Further, both the borrower / bank shall be liable to repay the loan amount within 3 working days on realization of export proceeds or on due date(s), whichever is earlier.

- ii. The borrower shall pay the Mark-up on a Quarterly Basis.
- iii. The banks shall be required to repay the refinance on realization of proceeds or repayment made by borrower as per repayment schedule/deferred payment schedule, as the case may be, within three working days from such realization / repayment failing which fine shall be recovered as per prescribed scale.
- iv. The refinance granted by SBP-BSC offices to the banks shall be recovered on the due dates as reported in the original repayment schedule from the account of the banks maintained with the respective offices of SBP BSC (Bank). In case the borrower(s) fails to make repayment of the amount of instalment as per the original repayment schedule, the bank shall be entitled to charge normal rate of mark up on such overdue principal amount besides taking other actions to recover the same as are incidental to such defaults. In no case the liability of banks to pay/repay to SBP BSC the principal amount of refinance, or mark up or any other charges or penalty thereon shall be dependent upon the recovery from the borrower nor shall such liability be affected by any default on the part of the borrower.

7. Part- B: Local Supply against International Tenders.

Eligible goods² can also be financed under the Facility which are supplied to different executing agencies of Pakistani origin, as also various international agencies operating in Pakistan, against contracts awarded through international tenders. In case payments against such supplies are made in foreign currency, financing shall be available under the Facility on following terms & conditions:-

- a) The suppliers / manufacturers shall be eligible to avail finance to the extent of total value of contract *less* advance payment or 80% of the value of contract, whichever is lower. However, the concerned supplier will be required to supply eligible goods equivalent to 125% of refinance availed under the Facility.
- b) If the main supplier has sub contracted a part of contract to the local supplier in Pakistan, the sub contractor shall also be eligible to avail financing under the Facility, provided the financing facilities have not already been availed by the main supplier for the work assigned to the sub contractor.
- c) Financing for this purpose shall be permissible for a maximum period of One Year at pre-shipment stage only.

² For other Engineering Goods financing facility can be availed under the Export Finance Scheme (EFS) of SBP.



- d) **Documents Required:** The financing bank shall provide the financing facilities to their borrowers, on submission of the following documents / information:
- i. A copy each of the relevant contract between the executing agency (making purchases) and the supplier as well as the relevant loan agreement between the international financing agency and the executing agency. However, this condition is waived in cases involving local supply of goods to international relief agencies.
 - ii. A certificate from the executing agency awarding the contract, confirming that in the particular case it was obligatory to float an international tender, along with a press clipping in original establishing floatation of international tender;
 - iii. The supplier's schedule of deliveries indicating the dates of deliveries and the quantity and value of goods to be delivered against the contract along with the program of manufacture / production with quantities and cost;
 - iv. Schedule of financial requirements of the supplier with reference to the relevant contract, indicating the amount required at various intervals in line with the schedule of deliveries;
 - v. Submission of an undertaking by the borrowers as per Form "EFF-LMM-5" as also an assignment agreement with the bank (on the format prescribed by each bank) to the effect that the proceeds against the deliveries required to be made under the Facility shall be routed through the financing bank, who shall have the right to adjust its loan as also charges, mark up etc; thereon from the proceeds of such deliveries;

Suppliers / manufacturers shall be required to submit evidence of delivery/ shipment of goods etc to the executing agency, or as directed by it, as per the delivery schedule. The verified copies of requisite documents (delivery challans, goods receipt notes, truck receipts etc), duly verified by the financing bank, should reach the concerned office of SBP-BSC within 30 days from the date of delivery/shipment. In case the deliveries / shipments are to be made on staggered basis, the 30 days period shall commence from the date of last delivery/shipment of the last consignment.

7.1 Grant of refinance under Part-B & its repayment

- i. Financing bank may obtain refinance from the concerned office of the SBP BSC (Bank) against funds disbursed by it on execution / production of the following documents: -
 - a) Certified photo-copies of the documents mentioned at (i) to (iv) of Para 7 (d) above;
 - b) Borrower's undertaking / application for financing facility for local supplies against International Tender [Form "EFF-LMM-5"];



- c) Demand Promissory Note on the prescribed format at Form “EFF-LMM-7”;
 - d) Bank’s application for refinance as per format attached at **Form** “EFF-LMM-6”; In case refinancing is availed in respect of sub-contractor(s), the main supplier will issue a certificate containing full detail of sub-contract(s) and an undertaking that financing facilities have not been availed by the main supplier for the work assigned to the sub contractor(s). The bank will submit a duly verified copy of said certificate at the respective office of SBP-BSC (Bank) at the time of availing of refinance against sub-contractor(s).
- ii. **Repayment:**
- a) The supplier shall be liable to repay the facilities availed under the Facility on the due date(s), as reported to the concerned office of SBP-BSC (Bank) at the time of availing refinance.
 - b) Both the borrower / bank shall be liable to repay the loan amount within 3 working days on realization of proceeds or on due date(s), whichever is earlier.
 - c) The financing bank shall retire the refinance within 3 working days from repayments made by the borrower or on due date(s) for repayment of refinance whichever is earlier.

8. General Terms and Conditions:

- i) Disbursement under the Facility shall be made by banks after ensuring that all the pre-disbursement formalities have been completed in accordance with the terms of agreement between the bank & borrower, and between the supplier / manufacturer and the purchaser / importer of the machinery.
- ii) The grant of the facilities by the banks 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.
- iii) The financing facilities under the Facility shall be checked/verified by Banking Inspection Department (BID) during inspection of the banks to ensure that the same have been allowed as per the terms and conditions of the Facility. Further, SBP shall have the right to appoint the independent consultant to verify the legitimate utilization of refinance under the Facility. In case the report of the consultant points out irregularity on the part of the financing bank or the borrower, the SBP shall reserve the right to recover the amount of refinance granted to it along-with fine prescribed in the Facility.
- iv) Banks shall not take more than two months in evaluating an application for financing under the Facility from the date of receipt of complete information from the exporter.
- v) Where the request is declined, the banks will explicitly apprise the reasons for rejecting the application to the prospective exporter.
- vi) The banks shall undertake due diligence process as per their lending policies before sanction of the loan to protect their interests.



- vii) **Submission of Shipping Documents:** The exporter/supplier, who obtained pre-shipment financing, will be required to submit shipping documents within 30 days from the expiry of pre-shipment period to respective bank. After examination of shipping documents by bank, it will pass on shipping documents in respect of all shipments made in validity of the pre-shipment loan period, within 7 days to respective SBP BSC (Bank), office.

In case shipping documents are not received by the bank on or before 30 days from the expiry of pre-shipment period, the bank shall recover non-shipment fine from the concerned exporter/supplier and pass on the same to the concerned office of SBP-BSC (Bank) within three working days.

The exporter / supplier shall be entitled to refund of fine so recovered, on submission of the shipping documents and after adjusting the fine that may be applicable for late /short shipment and delayed submission of shipping documents. The bank concerned shall approach to the concerned office of SBP-BSC (Bank), along-with all shipping documents for claiming refund of fine earlier passed on to it. The office after scrutiny of the shipping documents, refund the same to bank concerned, if found justified. The bank would be liable to pass on the benefit to the concerned exporter / supplier immediately, without any delay.

- viii) **Substitution:** An exporter will be admissible to substitute a Contract/Letter of Credit with another Contract/Letter of Credit, if he fails to make shipment against original contract / Letter of Credit. In other words exporter / supplier, who have obtained pre-shipment facility, can produce shipping documents evidencing shipment of the export of the same or any other eligible machinery items.

- ix) **Submission of Export Proceeds Realization Certificate (EPRC):**

In case export proceeds are to be realized within normal period prescribed in Foreign Exchange Manual (viz. presently 180 days) then the banks will submit EPRC(s) within 210 days from the date of shipment. However, in cases where special extension in repatriation period is allowed by Exchange Policy Department (EPD), then the EPRC(s) will be submitted within 30 days of the realization period allowed by EPD. Non-submission of EPRCs will attract the fine at rate prescribed under the Facility.

9. **Fines for Defaults under the Facility**

- i. A default by an exporter / supplier / bank in fulfilling any of their obligations under the Facility shall attract fine at prescribed rates, which shall in no case exempt the exporter from realization of export proceeds. Further, fines recovered on account of any irregularity from the delinquent exporter / supplier / bank shall be in addition to the mark-up and service charges payable to the SBP on account of funds availed under the Facility, and shall be borne by the delinquent party. In case the bank will pass on the fine so recovered from them to the borrower, it 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.



- ii. The fine under the Facility on account of various irregularities shall be recovered on the basis of the following rates:-
- a) **Non-Shipment / Non-Supply:** If an exporter/supplier who have obtained pre-shipment financing under the Facility, fails to ship /deliver the requisite machinery items/goods by the due date of pre-shipment period [viz. maximum up-to one year], he /she will be subjected to a fine on account of non-shipment/non-supply at the rate of Paisa 37 per day per Rs 1000/- or part thereof for the full period for which facilities have been availed.
 - b) **Short-Shipment / Late shipment / Short Supply / Late Supply :** If the exporter / supplier subsequently ships / delivers the requisite machinery items / goods, he / she may produce shipping/delivery proof in this regard and apply through his / her bank for refund of fine charged on account of non-shipment / non- supply. The same shall be refunded to him/her after charging of fine for short-shipment/short- supply and / or late-shipment/late- supply, at the rate of Paisa 28 per day per Rs 1000/- or part thereof, as the case may be. In case the fine(s) for short-shipment and delayed shipment equals or exceeds the fine for non shipment additional fine shall not be recovered.
 - c) **Late repayment of Refinance:** If a bank fails to deposit the amount of a repayment made to it by the borrower with the SBP-BSC, towards repayment of the respective refinance loan, within 3 working days of receipt of the said amount, it shall be subjected to a fine at the rate of Paisa 42 per day per Rs 1000/- or part thereof, on the amount involved till the amount is deposited with the SBP-BSC (Bank).
 - d) **Late submission of shipping documents:** In case an exporter / supplier, who obtained pre-shipment financing, fail to submit shipping documents within stipulated time period (viz. 30 days from the expiry of pre-shipment period), fine at a rate of Rs 2,000 for the default and Rs 100 per day of default will also be recovered from him/her.
 - e) **Non-submission of Export Proceeds Realization Certificate (EPRC):**
In case of non-submission of EPRCs within the prescribed period, offices of SBP-BSC (Bank) shall charge fine @ Rs 20,000/- per case. However, fine amounting to Rs 15,000/- will be refunded on submission of EPRCs and Rs 5,000/- would be retained by the concerned office of SBP-BSC (Bank).
 - f) **Other Defaults:** - Fines for any other defaults by the exporter/ supplier or bank shall be recovered at the rate of Paisa 37 per day per Rs 1000/- or part thereof.



Annexure 'I'

List of Plant & Machinery Eligible for Financing for the Period of More than 01 Year

Sr. #	Respective HS Codes	Description
1.	84.02	Biomass/ Coal Fired Boilers, Waste Heat Recovery Boilers, Heat Recovery Steam Generator (HRSG)
2.	8419.4000	Distilling or rectifying plant
3.	8419.8990 / 8419.9090	Pressure Vessel, Absorber, Column, Filter, Separator, Knock Out/ Slug Catcher, TEG/Amine Unit, Glycol Dehydration, Chemical Injection, Fuel Conditioning/ Metering Skid / LPG Tank, Bowzer
4.	84.26	Overhead travelling cranes, transporter cranes, gantry cranes, bridge cranes, mobile lifting frames and straddle carriers, tower cranes, portal or pedestal jib cranes as well as cranes designed for mounting on road vehicles
5.	8438.3090	Machinery for sugar manufacture [i.e. Sugar Plant]

**Annexure 'II'****List of Plant & Machinery Eligible for Financing up-to 01 year**

Sr. #	Respective HS Codes	Description
1.	73.08	Steel Structure including Telecommunication Towers, Bridges, Gates etc.
2.	7311-0020	Containers for compressed or liquefied Gas LPG
3.	7419	Chain and parts thereof, cast, molded, stamped or forged, but not further worked and other articles of copper
4.	84.04	Auxiliary plant for use with boilers (for example, economizers, super-heaters, soot removers, gas recoverers); condensers for steam or other vapour power units
5.	84.10; 84.11; 84.12	Hydraulic turbines, water wheels, and regulators thereof, Turbo-jets, turbo-propellers and other gas turbines, Other engines and motors including cast / fabricated / machined parts for steam & gas turbines
6.	84.16	Furnace burners for liquid fuel, for pulverized solid fuel or for gas; mechanical stokers, including their mechanical grates, mechanical ash dischargers and similar appliances.
7.	84.17	Industrial or laboratory furnaces and ovens, including incinerators, non-electric.
8.	8419.3200	Machinery, plant and equipment for wood, paper pulp, paper or paperboard
9.	8419.5000	Heat exchange units
10.	84.20	Calendaring or other rolling machines, other than for metals or glass, and cylinders thereof
11.	84.28	Other lifting, handling, loading or unloading machinery (for example, lifts, escalators, conveyors etc).
12.	84.30	Machinery for mining industry including moving, grading, leveling, scraping, excavating, tamping, compacting, extracting or boring machinery, for earth, minerals or ores
13.	8438.3010	Machinery for sugar cane crushing
14.	8438.9010	Machinery and parts thereof, not specified or included elsewhere in Chapter 84, for the industrial preparation or manufacture of food or drink
15.	84.39	Machinery for making pulp of fibrous cellulosic material or for making or finishing paper or paperboard.
16.	84.41	Other machinery for making up paper pulp, paper or paperboard, including cutting machines of all kinds.
17.	84.54, 84.55, 84.56, 84.57, 84.58, 84.59, 84.60, 84.61, 84.62, 84.63	Steel Making machinery (including converters, ladles, ingot moulds and casting machines, Metal-rolling mills, Machine-tools for working any material, Machining centers for working metals, Lathes (including turning centers) for removing metal, Machine-tools for drilling, boring, milling, deburring, sharpening, grinding, honing, shaping, slotting and gear cutting etc.



18.	8474.1010;8474.2010; 8474.3010	Machinery for sorting, screening, separating, washing, crushing, grinding, mixing or kneading earth, stone, ores or other mineral substances, in solid (including powder or paste) form; machinery for agglomerating, shaping or molding solid mineral fuels
19.	84.77	Machinery for plastic including moulds
20.	8479-8230	Oil Refining Machines
21.	8479-6000	Evaporative Air Cooler
22.	8479-8290	Gas Processing/ Refining Equipment
23.	84.80	Plant and equipment for metallurgical foundry application
24.	84.83	Equipment for speed reduction and power transmission (including cam shafts, crank shafts and cranks; bearing housings and plain shaft bearings; gears and gearing; ball or roller screws; gear boxes and other speed changers including torque converters; flywheels and pulleys
25.	84.87	Machinery, equipment and parts thereof, not containing electrical connectors, insulators, coils, contacts or other electrical features, not specified or included elsewhere in Chapter 84.
26.	85.02	Electric generating sets and rotary converters.
27.	85.14	Industrial or laboratory electric furnaces and ovens (including those functioning by induction or dielectric loss); other industrial or laboratory equipment for the heat treatment of materials by induction or dielectric loss.
28.	Respective Headings of Chapter 86	Railway Carriages and rolling stock
29.	Respective Headings of Chapter 89	Ships, Boats and Floating Structures
