Consolidated and Updated Instructions

on

Long Term Financing Facility (LTFF) for Plant & Machinery

Table of Contents

Consolidated and Updated Instructions on Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery

1. Scope and Eligibility:

a) Under LTFF, Participating Financial Institutions (PFIs) can provide long term local currency finance for imported and locally manufactured new plant and machinery to be used by the export oriented projects (Sectors allowed as per the Export Policy Order issued by Ministry of Commerce from time to time are eligible under the scheme). The facility will be available to the export oriented projects with at least 50% of their sales constituting exports or if their annual exports are equivalent to US$ 5 million, whichever is lower.

b) Financing shall be available through banks / DFIs approved as PFIs; list of which is given on State Bank of Pakistan's Website. Other banks/ DFIs can also lodge their requests to Infrastructure, Housing & SME Finance Department of SBP for seeking the status of a PFI which shall be processed as per SBP's criteria, as follows:

i. Banks / DFIs should meet the minimum capital adequacy requirements set by SBP from time to time.
ii. Banks / DFIs should have minimum 3 years experience of project financing/long term financing.
iii. Banks / DFIs should have profitable operations during last consecutive three years.
iv. SBP would consider the requests of banks/DFIs keeping in view the CAELS ratings assigned by SBP as well as ratings assigned by Credit Rating Agencies in Pakistan.

c) In order to provide Shariah compliant alternative of the facility through the eligible Islamic banking institutions (IBIs), SBP has issued Islamic Long Term Financing Facility (ILTFF), vide IH&SMEFD Circular No. 01 dated 14-02-2018. IBIs may submit their requests for the status of Participating Islamic Banking Institution (PIBIs) under ILTFF, keeping in view the criteria given in said scheme.

d) Financing under the facility will be available to the extent of the C&F value of the imported new plant and machinery and ex-factory/showroom price of the new locally manufactured machinery to be purchased by the eligible borrowers.

e) Export oriented SME borrowers (as defined in Prudential Regulations for SMEs financing), may purchase imported machinery from the commercial importers or authorized dealers of the foreign manufacturers in Pakistan and authorized suppliers in case of locally manufactured machinery and plant. While providing financing under the facility to SME borrowers, the PFIs, however, will ensure that financing under the facility, when taken together with other borrowings, does not exceed the borrowing ceiling fixed for SMEs under the Prudential Regulations for SMEs financing.

f) Maximum financing of banks/DFIs to a single export oriented unit shall not exceed Rs 5 billion under LTFF. However, banks/DFIs may provide financing facilities as per their credit policies over and above the said maximum limit from their own sources subject to adherence of applicable Prudential Regulations.

2. Rate of service charges for end users:

a) The rate of service charge at which State Bank of Pakistan (SBP) will provide refinance to the PFI shall be determined by SBP from time to time subject to the following;

i) The rate of service charges once fixed shall remain locked-in for the entire duration of the loan, provided the borrowers continue to repay all scheduled installments at the respective due dates. Similarly, in cases where the loan amount has not been disbursed in full during the validity of an applicable rate, the un-disbursed amount shall attract the new rate of finance/refinance applicable on the date of its disbursement by the PFI.

ii) The State Bank shall provide refinance to each PFI on service charge basis in terms of Section 22 read with Section 17 (2) (d) of State Bank of Pakistan Act 1956.

b) PFIs shall be permitted to charge a maximum spread of 1.5%, 2.5% & 3% p.a. for financing upto 3, 5 & 10 years respectively from the borrowers, availing finance under the facility, where refinance has been provided by the State Bank.

c) The PFIs would be liable to make payment of service charges on refinance availed from the respective office of the SBP BSC on quarterly basis on the first working day following the calendar quarter to which they relate.

3. Period of Financing and its repayment:

a) The maximum period for which the financing under the facility can be availed shall not be more than 10 years including a maximum grace period of 2 years. Where financing is provided for a period of upto 5 years, the grace period shall not be more than one year.

b) The repayment of financing (principal amount of loan) availed under the facility shall be made by the borrowers in equal half yearly / quarterly installments depending upon the tenure for which the facility is availed. PFIs, however, shall not be permitted to require borrowers to pay mark up / service charges at a frequency of less than three months except at the time of pre-payments/liquidation of loan.

c) In case, a borrower repays the loan amount or its installment, in part or in full, on or before the due date(s), the PFIs shall repay the loan amount so received from the borrower immediately, but not later than two working days, to the concerned office of SBP BSC, failing which fine for late adjustment of amount will be charged to the PFI at the rate as specified in Para 10 below.

d) As the refinance granted to the PFIs shall be recovered on the due date(s) reported to SBP BSC, as per the original repayment schedule, from the account of the PFI maintained with the concerned office of the SBP BSC, thus in case the borrowers fail to make repayment of the amount of installment as per the original repayment schedule, the PFI will 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.

e) Where a PFI has allowed rescheduling of a loan, the borrower shall be liable to make payment of mark up at the rate prescribed under the facility on the date of such rescheduling, or the original rate whichever is higher. However the principal amount of refinance will only be rescheduled so as to be repaid within a maximum period of 10 years from the date of original disbursement. Any rescheduling that allows the borrowers to avail funding facilities under the facility for a longer period will not be considered for the purpose of this facility and in all such cases the entire loan would be considered to have been repaid within the period of 10 years.

4. Sanctioning and disbursement of loans:

a) PFI 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 borrower. Where the request is declined, the PFI will explicitly apprise the reason for rejecting the application to the prospective borrower. The PFIs shall undertake due diligence process as per their lending policies before sanction of the loan to protect their interests subject to the respective Prudential Regulations prescribed by the SBP for each type of borrower.

b) PFIs shall at all times remain within the limits assigned to them for disbursements under the facility in a given financial year. Facilities should not be sanctioned in favour of borrowers in anticipation of sanction of limits by the SBP.

c) Disbursements by PFIs should not be made to the borrower directly; instead payments shall be made to the manufacturers / suppliers or foreign seller of the machinery through import letter of credit as per payment/delivery schedule agreed to between the manufacturer and the purchaser. Likewise, payment for the locally manufactured machinery shall invariably be made through Inland Letter of Credit as per payment/delivery schedule agreed to between the manufacturer and the purchaser.

d) Under the facility, advance payment to the extent of 20% of the C&F value / ex-factory /showroom price can be made in terms of related underlying agreement.

5. Sanction of Limits and disbursement of Refinance:

a) Each year, SBP shall allocate financing limits to each PFI on the basis of SBP's internal criteria.

b) Applications for sanction of limits for each fiscal year (July-June basis) shall be sent by the interested PFIs to the Director, Infrastructure, Housing & SME Finance Department, SBP latest by 15th May each year to facilitate sanction of annual limits at the earliest.

c) State Bank will review the utilization of limits by individual PFI on quarterly basis and may cancel the unutilized limit for reallocation to other PFIs. However, PFIs will have to ensure that they do not sanction and disburse a loan with a view to only utilizing the limit as the credit risk is ultimately assumed by them.

d) Refinance under the facility shall be provided by the designated offices of SBP BSC under the limits sanctioned by the Infrastructure, Housing & SME Finance Department of State Bank of Pakistan, Karachi in favour of each PFI on yearly basis.

e) After disbursements of the loan under the facility, the PFI can approach the concerned office of SBP BSC for availing refinance. The office shall provide refinance within two working days from the date of receipt of request on submission of duly filled in prescribed documents i.e. (a) Refinance Application (b) DP Note of the PFI covering the full value of the limit [to be submitted only once to the extent of total limit]; (c) Repayment Agreement [to be submitted only once to the office of the SBP BSC to the extent of the amount sanctioned to each office]; (d) DP Note of the borrower of the PFI duly endorsed in favour of the concerned office of SBP BSC ; and (e) Undertaking of the borrower on the formats attached to this circular.

f) Failing repayment by PFIs on respective due dates, Offices of SBP BSC reserve the right to recover the amount of refinance falling due, as per repayment schedule reported at the time of availing refinance, by debit to concerned PFI's account at SBP BSC along with any applicable penalties.

g) The PFI shall be under obligation to provide to SBP BSC immediately after sanction of limit by SBP the names of the offices of SBP BSC from where it intends to avail refinance.

6. Risk assessment:

a) Each PFI shall be required to have:

   i) well defined policy and established procedures for appraisal of projects to be financed under the facility, particularly with regard to their technical and financial viability;

   ii) an efficient system for assessing adequacy of machinery items to be financed under the facility, in line with modern business requirements; and

   iii) good internal controls to protect their interest and to fulfill all requirements / conditions of project financing including collateral requirements to mitigate the risk of borrowers' failure to honor their commitments. The policy should have linkages to different business requirements as also to well-defined methodologies for assessing the fitness of prospective borrowers.

b) In case of financing for imported plant and machinery, each PFI shall ensure that the foreign currency risk has been hedged to minimize cost escalation for the project due to adverse exchange rate fluctuations.

c) PFIs shall undertake necessary due diligence process as per their lending policies before sanction of the loan under the facility, which shall invariably be subjected to the applicable Prudential Regulations as prescribed by SBP for each type of borrower. Further, in case of imported machinery, PFIs shall also obtain satisfactory credit reports on suppliers & manufacturers of Plant and Machinery etc. as also required under Chapter XIII of Foreign Exchange Manual.

d) PFIs shall consider financing based on the debt to equity requirements as prescribed in applicable Prudential Regulations for each type of the borrower. The financing PFI may, however, ask for higher contribution of equity from the borrowers keeping in view individual risk profile.

e) In case of new projects, sponsor will be required to contribute their equity share in an escrow account maintained with the PFI. The proceeds in the said account shall be used by the sponsors only for the purpose of setting up of the project/payment to the supplier etc; representing his equity share in the project. However, where sponsor(s) of the project have already invested their entire share of equity in the project in the form of land, construction of building etc., the same shall be treated as 'equity' of the sponsor and the condition of maintaining an escrow account may not be required provided overall debt/equity ratio is met. The lending PFI should place a certificate on record in this regard in the relevant credit file for subsequent inspection by SBP's Banking Inspection Department (BID).

f) PFIs shall ensure that the working capital facilities in respect of the new project are adequately secured/agreed to, preferably by a financing PFI or one of the member of the consortium, prior to the approval of financing under the facility, so that project does not suffer due to lack of working capital facilities in future.

7. General Terms and Conditions:

a) The cost of insurance, transit insurance, erection and commissioning charges and other incidentals (including transportation charges, in case of locally manufactured machinery) etc; shall not be financed under the facility.

b) PFIs shall 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 facility through over invoicing, wrong selection of machinery etc.

c) Disbursement under the facility shall be made by PFIs after ensuring that all the pre-disbursement formalities have been completed in accordance with the terms of agreement between the PFI & borrower, and between the supplier / manufacturer and the purchaser / importer of the machinery.

d) In case of financing requirements over Rs 300 million, PFIs are encouraged to provide finance under consortium arrangements.

e) In case of consortium financing, the payment to the PFI of the importer / supplier / manufacturer shall be made by the leader of the consortium, who shall therefore, be under obligation to certify the share of each member PFI and the amount disbursed by it, to enable the consortium members to avail refinance from State Bank to the extent of their share subsequent to the actual payment made by the consortium leader. The consortium members may like to make arrangements for sharing of 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 rates published by the LC opening bank in its schedule of charges. The LC shall normally be opened by the leader of the consortium if not otherwise agreed mutually by the consortium.

f) PFIs 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 financial statements is shown separately in Annual Audited Accounts, under appropriate heads, vis-à-vis their claims (principal amounts only) against their constituent to whom the financial facilities were sanctioned by them.

g) State Bank shall have the right to appoint an independent consultant to verify the use of the refinance under the facility for the purposes spelt out under the facility. In case, the report of the consultant points out irregularity on the part of the financing PFI or the borrower, State Bank reserves the right to recover the amount of refinance granted to the PFI alongwith fine at the prescribed rate including the cost of such verification. As the PFIs are expected to fulfill the conditions prescribed by SBP under the facility, fine so recovered shall be absorbed by them. In case, they pass on the fine so recovered 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 State Bank of Pakistan.

h) In case of the import of plant and machinery, the foreign currency required for making payment to the machinery manufacturer or the suppliers abroad, against LC, shall be purchased by the PFI of the borrower from the inter-bank market at prevailing rates. In case the machinery is to be imported under usance LC, both the exporter and its PFI(s) would ensure that they have made necessary arrangements to hedge their position against adverse exchange rate movements. The quantum of the loan amount in equivalent Pak rupees shall be determined on the basis of the rupees resources required for purchase of the foreign currency on the actual date of retirement of LC and shall be released in accordance with the payment terms.

i) PFIs should ensure adequate training arrangements for the staff/officials handling cases under the facility with a view to ensure compliance with internal rules / regulations / procedures and those prescribed by SBP.

j) All LCs (sight as also usance) established after announcement of the LTFF shall be eligible for financing.

8. Financing on the Basis of Projected Exports:

Participating Financial Institutions (PFIs) may also consider the financing requests of new projects or expansion / BMR of existing projects on the basis of projected exports. Such export oriented projects will be required to meet the minimum export target prescribed under LTFF [viz. annual exports equivalent to US$ 5 million or at least 50% of their sales constituting exports, whichever is lower] within a maximum period of four (04) years as under:

Requirements of Projected Exports

Exports in First Two Years	Total exports of US$ 2 million or 20% of total sales of the project, whichever is lower.
Exports in Third Year	US$ 3 million or 30% of sales, whichever is lower.
Exports in Fourth Year	US$ 5 million or 50% of sales, whichever is lower.

9. Monitoring of Required Exports:

In order to ensure that funds under the facility are utilized for the intended purposes, following monitoring and reporting procedure will be followed by the banks, DFIs and respective export oriented projects:

a) For availing refinancing under the facility, financing bank / DFI will furnish a "Statement of Total Sales & Exports" on the prescribed format of each and every project to be financed, to the concerned office of SBP BSC.
b) In case the project to be financed under LTFF is already meeting the minimum export target, above Statement is to be furnished only once at the time of availing refinance. Further, in case refinancing against a project is to be availed in installments/tranches, said statement should be furnished at the time of disbursement of first installment, by the leader of the consortium (in case of consortium financing).
c) Further details regarding monitoring procedure for the required exports and scale of fine on account of shortfall in required exports are given in Appendix-1.

10. Fines for Default:

(i) Under LTFF, fine for any irregularity shall be imposed on the borrower or the PFI as the case may be, depending upon the nature of irregularity. In all cases it shall be recovered through the PFI who availed refinance. It will be the responsibility of the PFI to secure its interest in this regard, however, in no case, fine imposed on PFI due to its negligence shall be passed on to the borrower. In case, PFI pass on the fine so recovered from it to the borrower, the PFI shall be under obligation to justify the same to ensure that the fine is not passed on to the borrower merely on the strength of the action of the State Bank of Pakistan.

(ii) Fine shall be recovered at the following rates:-

a. In case of violation of the terms & conditions laid down in the facility, State Bank shall reserve the right to recover the amount of refinance granted to the PFI alongwith fine at the rate of paisa 60 per day per Rs 1,000/- or part thereof including the cost of such verification.

b. Where the borrowers of PFIs repay their obligations in part or in full, whether premature or on due date(s), PFIs shall repay the amount so received from the borrower immediately, but not later than two working days, to the concerned office of SBP BSC, failing which fine for late adjustment of amount will be charged from the PFI at the rate of paisa 70 per day per Rs. 1,000 or part thereof. The PFIs would ensure that at no point of time, outstanding amount (principal) repayable to them by their borrower and appearing in their books of accounts falls below the outstanding amount of refinance, which they owe to State Bank of Pakistan.

c. Scale of fines to be charged on shortfall in required exports is given in Appendix-1

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Appendix-1

Long Term Financing Facility (LTFF) for
Imported and Locally Manufactured Plant & Machinery

Monitoring Procedure for Required Exports

a) For availing refinancing under the LTFF, financing bank / DFI will furnish a "Statement of Total Sales & Exports" of each and every project, to the concerned office of SBP BSC, as per LTFF-Annexure -1 (format attached).

b) In case the project to be financed under LTFF is already meeting the minimum export target, above Statement is to be furnished only once at the time of availing refinance. Further, in case refinancing against a project is to be availed in installments/tranches, said statement should be furnished at the time of disbursement of first installment, by the leader of the consortium (in case of consortium financing).

c) In case financing is made to the new projects or BMR of existing projects on the basis of Projected Exports, concerned PFIs will be required to report export data as per Table-I of LTFF-Annexure-1, within two months after completion of First Two Years, Third Year and Fourth Year of disbursement of first installment of refinancing to the concerned office of SBP BSC. Further, they will also give an undertaking to furnish details of shipments made by such new projects during the relevant period, as per Table-II of LTFF-Annexure-1.

d) In case the PFI does not report export data as mentioned in Para (c) above or in case concerned unit / project fails to meet minimum export targets, concerned office of SBP BSC will charge fine on account of shortfall in exports as per following Scale:

Scale of Fines on Shortfall in Required Exports

	Description	Rate of fine
a.	In case actual exports are 90% or above of mandatory projected exports given in Para 8 of the facility.	No fine
b.	In case actual exports sales are less than 50% of mandatory projected exports.	Paisa 37 per day per Rs 1,000/- or part thereof, on adjusted value of outstanding refinance under LTFF.
c.	In case actual exports sales are 50% or more than 50% of mandatory projected exports.	Paisa 28 per day per Rs 1000/- or part thereof, on adjusted value of outstanding refinance under LTFF.
Note: Adjusted value will be derived by multiplying the percentage of shortfall in export sales with the amount of refinance under LTFF remained outstanding (on daily product basis) during the relevant period.		

e) **Refund of Fine on Shortfall in Required Exports:**

i. If the PFI subsequently submits export data / proof of shipments of relevant period, the concerned office of SBP BSC will refund fine for shortfall in required exports.

ii. Further, in case of delay in commencement of business / commercial production from the expected date conveyed to the bank by new projects, the PFI will submit documentary evidence(s) to the concerned office of SBP BSC in this regard, duly authenticated by PFI's Internal Audit, to seek refund of fine, if already charged on expiry of first two years. The office of SBP BSC after scrutiny of the information will allow refund of fine so recovered from the PFI on account of shortfall in required exports.

iii. The PFI will also give an undertaking to report export data within two months after completion of First Two Years, Third Year and Fourth Year of commencement of business / commercial production. The PFI will continue to monitor its exports as per revised schedule, in case of delay in commencement of business/commercial production.

f) If PFIs extend financing separately to different export oriented projects of a borrowing entity, they will be required to submit export data of each project separately as per above referred mandatory requirements.

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On the Letter head of the Bank/DFI

[to be submitted by the lead bank, in case of Consortium financing]

LTFF-Annexure-1

Date: _____________

The Chief Manger,
State Bank of Pakistan,
Banking Services Corporation,
______________(City)

Dear Sir,

Statement of Total Sales & Exports of M/s: Name of the project **:**
Under Long Term Financing Facility (LTFF)

References: [in case refinancing has already been availed]
Loan No. ________________________
Date of Grant ________________________
Amount ________________________

Table-I (Rs / US$ in Million)

Period (from _ to ___)	**Total Sales (PKR)** (3+5)	**Local Sales** (PKR)	**Export Sales ***		% age of exports to total sales	Minimum Export Target	Shortfall from Minimum Export Target (if any)
			Equivalent to US$	Equivalent to PKR			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Remarks, if any
(9)

** As a proof of Exports, bank/DFI may either provide extracts of latest Audited Accounts of the concerned Project, or information as per Table –II on next page (if break-up of sales is not available in the Audited Accounts of Project).*

i) We undertake and certify that the contents of this Statement are correct.

ii) Undertaking for Existing Export Oriented Project: We undertake that above project meets minimum export target fixed in the facility on the date of the financing under LTFF.

Or *[Please Strike out which is not applicable]*

Undertaking for New Projects or BMR of Existing Project on the basis of Projected Exports:

a) We undertake that we shall report information as per **Table-I** above, within two months after completion of First Two Years, Third Year and Fourth Year of refinancing respectively, failing which we shall be liable to pay fine at the rates prescribed under the facility.

b) We also undertake to furnish details of shipments to be made by the above New Project during the relevant period, as per **Table-II**, duly verified by the concerned banks (through lead bank, in case of Consortium financing):

Table-II

S.No.	**E-Forms No.**	**Details of shipment(s)**	
		Date	Amount in US$

Yours faithfully,

____
(Authorized Signature with name and designation)
for ____(Bank / DFI)_____
Vice President or above

____
(Authorized Signature with name and designation)
for ____(Bank / DFI)_____
Vice President or above