14th July, 2006

SBP GOVERNOR ANNOUNCES THE MERGER OF LMM & LTF-EOP SCHEMES

The existing scheme for financing Locally Manufactured Machinery (LMM) is being merged with scheme for Long Term Financing for the Export-Oriented Projects (LTF-EOP) to provide a level playing field to exporters for setting up and balancing, modernization and replacement (BMR) of Export Oriented Projects/Units. The new proposed scheme titled as ***"Long Term Financing Scheme for Imported & Locally Manufactured Machinery"*** is being finalized and would be issued shortly replacing the existing LTF-EOP and LMM Schemes.

This was disclosed by the Governor, State Bank of Pakistan, Dr. Shamshad Akhtar at a news conference in Karachi today.

She said that in the meantime the LTF-EOP Scheme has been modified or amended as under with immediate effect:-

- SBP is lowering the spread on new scheme, which allows financing coverage for both imported & local machinery, by one percentage point, thereby reducing banks spread from 3% to 2%.
- To meet the growing financing demand of the borrowers, the procedure for limits allocation is being revised, in particular more allocation is being provided to the Participating Financial Institutions (PFIs). Instead of present practice of allocating LTF-EOP limit as sub-limit of EFS, the PFIs will be allocated separate limits which will be aligned to their demand.
- The utilization of at least 50% of the total limits by PFIs for SME sector is being withdrawn. However, PFIs are advised to give preference to meet the financing needs of the SME borrowers.
- Only SME borrowers, as defined in Prudential Regulations for SMEs, are allowed to purchase plant, machinery, equipments and accessories from the commercial importers.
- To meet the energy requirements of the export oriented projects, the import of generators shall also be eligible for financing under the scheme.

- Where sponsor(s) of the project have already invested share of equity in the project in the form of land, construction of building and procurement of local machinery 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 prescribed debt/equity ratio of 80:20 is met. The lending PFI should place a certificate on record in this regard in the relevant credit file for subsequent inspection by our BID.

- The Banks/DFIs are allowed to sanction and disburse the loan strictly in terms of criteria laid down in scheme directly and no prior approval of SBP will be required.

- The borrowers may import plant & machinery required for their projects under the scheme irrespective of its being locally manufactured.

Dr. Shamshad Akhtar announced a reduction in spread by 0.5% of banks and a reduction in the rate of refinance under EFS to 6.5% per annum. The final rate of EFS will not exceed 7.5% as against prevailing rate of 9%. With this adjustment, the refinance rate for EFS is now 2% below the T-bills rate of 6-months which will remain the benchmark for EFS. The end-user rate for EFS is now aligned to the regional competitors of Pakistan – in line with the exporters demand. The financing facilities under Part B (Export Sales) of the Scheme for financing Locally Manufactured Machinery will have the similar mark up rate structure, the Governor added.

The Governor underscored that this is a temporary measure and the EFS scheme will remain under regular review and banks have been instructed to enhance vigilance on use of export refinance to ensure effective use of funds.