

FAQs - Scheme for Long Term Financing for the Export oriented Projects (LTF-EOP)

Q.1. What are the objectives of LTF-EOP Scheme?

Ans. State Bank of Pakistan introduced the Scheme for Long Term Financing for the Export Oriented Projects (**LTF-EOP**) to facilitate import of machinery for upgradation of existing technology and enhancement in the quality of industrial production. Banks / DFIs, approved as **Participating Financial Institution (PFI)** under the Scheme, are allowed to provide financing facilities to borrowers for import of machinery, plant, equipment and accessories thereof by export-oriented entities.

Q.2. What is the scope of the LTF-EOP Scheme?

Ans: The facilities under the Scheme are admissible to;

- Small, Medium and Emerging Exporters (as defined in Prudential Regulations for SMEs)
- Entities who are eligible for various incentives announced under the Trade Policy.
- The Scheme is not restricted to only SMEs. Non-SMEs or corporate sector borrowers can also avail the financing under the Scheme.
- To facilitate Pakistani exporters to access foreign markets, the Scheme also allows financing for acquisition of brand name/franchise, for a maximum period of five years inclusive of grace period

Q.3. What is the target market of LTF-EOP Scheme?

Ans: Target Market is:

- Small & Medium Size Entrepreneurs (SMEs)
- Non SMEs
- Exporters who are covered under the Trade Policy Incentive
- Exporters who needs imported machinery for BMR purposes

Q.4. Can all banks/DFIs participate in the LTF-EOP Scheme?

Ans. No: Only those banks/DFIs are eligible to participate in the Scheme who are declared as Participating Financing Institutions (PFIs) by the SBP as per criteria spelt out in the Scheme. List of approved PFIs is placed at our website and can be downloaded from URL [http:// www.sbp.org.pk/incentives/pfi_list.htm](http://www.sbp.org.pk/incentives/pfi_list.htm).

Q.5. Who can avail financing facilities under LTF-EOP Scheme?

Ans. The sponsors of export oriented projects/units are eligible to avail financing facilities for import of plant, machinery, equipments and accessories thereof.

Q.6. What is the eligibility criteria for availing of financing facilities under LTF-EOP Scheme from the Participating Financial Institutions (PFIs)?

Ans. The sponsors of those projects/units, which export at least 50% of their annual production directly or indirectly are eligible for financing under the Scheme. However, borrowers having export overdue bills of more than 365 days shall not be entitled to financing under the scheme.

Q.7. Are financing facilities under the Scheme available for import of used /second hand plant & machinery?

Ans. No: The facility under the Scheme shall not be available for import of used / second hand machinery. However, if the second hand machinery is being imported as a part of relocation of an existing project in another county, then the facilities under the Scheme can be availed but in such cases the useful life of the machinery should be more than the period of loan itself.

Q.8. What is the tenure of loans under LTF-EOP Scheme?

Ans. Facility is available for a maximum period of seven & half years, including a grace period of one and half years as per following categories;

Medium Term loans: For a period upto 2 years
For a period of over 2 years but upto 3 years

Long term loans: For a period of over 3 years but upto a maximum period of 7 ½ years

Q.9. What is the repayment procedure of the facility?

Ans Repayment of loan is made in equal half yearly or quarterly installments.

Q.10. Is there any pre-payment penalty under the Scheme?

Ans: No.

Q.11. Are incidental charges / insurance eligible for financing under the Scheme?

Ans: The cost of insurance, transit insurance and other import incidentals etc are not eligible for financing under the Scheme.

Q.12. Is down payment allowed under the Scheme?

Ans: If the terms of the contract between the borrower and supplier/manufacturer abroad require a down payment, importer can make advance payment to the extent of 25% of the C&F value of the machinery

Q.13. Which types of industries are covered under the LTF-EOP Scheme?

Ans. Exporters of all value added industry / sectors are eligible except spinning sub sector of the Textile Sector. However, only six processes of spinning sector (viz. Doubling, Twisting, Combing, Slubbing, Lycra, & Yarn Dyeing) are eligible for financing.

Q. 14. What parameters should be adhered to by PFIs while processing loan applications for LTF-EOP purposes?

Ans:

- i. Financing PFIs shall undertake due diligence at their end to protect their interest before submitting applications for refinance to State Bank.
- ii. Quantum of loan shall be determined on the basis of spot/forward exchange rates for relevant currency in the interbank market for all fresh loans.
- iii. Financing bank/DFI shall not take more than two months to examine the feasibility of any eligible project, plant, equipment and accessories thereof.
- iv. No borrowing limits are observed in respect of financings, however, where requirements exceed Rs 300 million, same may preferably be met through consortium arrangements
- v. In a consortium arrangement, payment to foreign supplier/manufacturer should be made by the leader of the consortium.
- vi. The facilities have to be sanctioned / disbursed by complying the relevant Prudential Regulations of SBP.

Q.15. What are the debt equity ratio under the LTF-EOP Scheme?

Ans.

- The PFIs may consider financing at a maximum debt equity ratio of 80:20. However, the borrower can not claim it as a matter of right as the financing bank may ask for higher contribution of equity from the borrowers keeping in view the risk profile of borrower.
- The sponsors shall contribute their equity share in an escrow account to be maintained with the concerned PFI. However, where sponsors have already invested share of equity in the project in the form of land, building etc the same may 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.

Q.16. How are the lending rates (mark-up rates) under the LTF-EOP Scheme worked out?

Ans.

- Rates of Markup/ Service Charges have been benchmarked with the weighted average yields of 12 months T-Bills, 3 & 5 years PIBs depending upon the period of financing. Current rates are as under:

Tenor	Rate of finance to be charged to the borrower	Rate of refinance by SBP	Spread
upto 2 years	6.00%	4.0%	2.0%
more than 2 years but upto 3 years	6.00%	4.0%	2.0%
more than 3 years and upto 7 ½ years	7.00%	5.0%	2.0%

- Rates of Markup/ Service Charges are revised on annual basis in March each year.

Q.17. Whether the rate is fixed or floating?

Ans. Rates of Markup/ Service Charges remain locked in for the entire term of financing on the amount disbursed by the PFI from the date of reimbursement by SBP-Banking Services Corporation.

Q.18. What documents are required for availing the facility under the LTF-EOP Scheme?

Ans: Following minimum documents are required for availing the facility:-

- i. Authenticated copy of LC / contract alongwith other shipping documents;
- ii. Request for refinance to the concerned office of SBP-BSC on Form EOP-1;
- iii. Agreement on Form EOP-2;
- iv. DP Note on Form EOP-3;

Q.19. What are the rates of fine(s) under the LTF-EOP Scheme?

Ans. Fine are imposed on borrowers/ PFIs as the case may be in case of their non-compliance to the instructions of the Scheme. These fines are imposed @ Paisa 60 per day per Rs. 1,000 or part thereof

Q.20. Can a PFI sanction the amount in excess of the limit fixed by SBP for it under LTF-EOP Scheme?

Ans. No: PFI has to restrict its sanction under the Scheme in accordance with the limit assigned to it by SBP for each financial year.

Q. 21. Are financing under the Scheme subject to SBP's Inspection?

Ans: Yes: The financing facilities under the Scheme shall be checked / verified by Banking Inspection Department (BID) during inspection of the banks/DFIs to ensure that the same have been allowed as per the terms and conditions of the Scheme. Any discrepancy/ delinquency pointed by BID shall be subject to penal action, as per the provisions of Banking Companies Ordinance
