

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



State Bank of Pakistan

Banking Policy Department

P R E F A C E

The State Bank of Pakistan has been providing funding facilities to the exporters through commercial banks under its Export Finance Scheme since 1972-73. This is primarily a “working capital” facility of short term nature for a maximum period of 180 days. State Bank of Pakistan has also been providing long term funding facilities through designated banks/ DFIs for setting up projects based on the locally manufactured machinery to help enhance production facilities. In addition to above the banks are providing long term financing to entrepreneurs under the Textile Vision 2005, to cater to the need of new machinery as also for Balancing Modernization and Replacement (BMR) of textile units. However, to compete in the international market in WTO environment, particularly in a competitive environment after elimination of “quota” regime in 2005, the exporters require to upgrade their manufacturing skills that can ensure improvement in quality. It has, therefore, been felt that another window needs to be opened for providing long term financing facilities for the exporters in general and export oriented Small and Medium Enterprises (SME) in particular.

2. Accordingly, the State Bank of Pakistan has designed a new Scheme titled as “**Scheme for Long Term Financing for the Export Oriented Projects (LTF-EOP)**” that would allow the eligible financial institutions to provide funding facilities to the export oriented units, who meet the financing criteria, on attractive terms and conditions for import of machinery, plant, equipments and accessories etc. (not manufactured locally).

3. This booklet contains the detailed instructions on the above Scheme for the ease of all interested borrowers / parties. It is expected that Scheme will not only benefit the prospective entrepreneurs but will also be a land mark to enhance exports of Pakistani products. For further information / clarification in this regard, the borrowers / banks may approach us through our helpdesk using the link <http://www.sbp.org.pk/bpd/helpdesk.asp>

Muhammad Kamran Shehzad
Director
Banking Policy Department

Dated 18th May 2004
Karachi

The Team

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Table of Contents

CIRCULAR	2
SCHEME FOR LONG TERM FINANCING OF	2
EXPORT ORIENTED PROJECTS (LTF-EOP)	2
SCHEME FOR PROVISION OF LONG TERM FINANCING.....	2
FOR THE EXPORT ORIENTED PROJECTS (LTF-EOP).....	2
1. INTRODUCTION	2
2. ELIGIBILITY CRITERIA.....	2
3. SCOPE OF THE SCHEME.....	2
4. TERMS & CONDITIONS	2
5. BANKS/DFIs ELIGIBLE TO GRANT FINANCES	2
6. SANCTION OF LOAN.....	2
7. DISBURSEMENT OF LOAN	2
8. GRANT OF REFINANCE.....	2
9. RATES OF MARK UP	2
10. REPAYMENT OF FINANCE /REFINANCE	2
11. OTHERS	2
12. GENERAL.....	2
ANNEXURES	2
EOP- 1.....	2
EOP -2.....	2
EOP -3.....	2
ANNEXURE -A	2

Circular

**STATE BANK OF PAKISTAN
BANKING POLICY DEPARTMENT
I.I.CHUNDRIGAR ROAD
KARACHI**

.BPD Circular No 14

18th May, 2004

The Presidents / CEOs,
All Banks/DFIs

Dear Sirs /Madam,

**Scheme for Long Term Financing of
Export Oriented Projects (LTF-EOP)**

Banks are aware that in recent years Pakistani exporters have been striving to increase the value and quantity of their exports to existing markets in addition to looking for new markets. On an overall basis, banks have provided adequate funds to such entrepreneurs in different sub sectors of the textile sector. This is being done under “Textile Vision-2005’ for the import of machinery to meet growing production requirements. At the same time, financing facilities for projects relating to the Small and Medium Enterprises (SME) sector are less than adequate. This makes it difficult for such entrepreneurs to avail medium to long term financing facilities at competitive rates.

2. To augment the present efforts of banks, and to help exporters in import of machinery, up-grading existing technology and financing facilities availed at competitive rates, the State Bank of Pakistan has designed a new scheme. The new scheme, styled the “**Scheme for Long Term Financing of Export Oriented Projects (LTF-EOP)**” will allow eligible financial institutions to provide financing facilities to borrowers on attractive terms and conditions for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export-oriented units. Facilities under the Scheme shall not be admissible a) as a reimbursement in respect of the machinery already imported by the commercial importer or by the sponsors in respect of existing or ongoing project, b) commercial importers or trading houses involved in the commercial import of the machinery, equipment and accessories thereof c) for plant, machinery, equipment or

accessories thereof for setting up of new projects or for BMR of the existing projects in the spinning and weaving sector of the Textile Group and d) for import of such machinery, otherwise eligible under the said Scheme, for which LC has already been established.

3. Financial institutions are aware that the Federal Government in its Trade Policy for 2003-04 had announced a number of incentives for the establishment of projects with a view to improve the competitiveness and efficiency of the industrial sector in Pakistan. Under these incentives, the Ministry of Commerce / Export Promotion Bureau was assigned the task of selecting certain projects for the provision of consultancy, up-gradation facilities etc., on a cost sharing basis. The linkage of the scheme, with the incentives announced under the current trade policy is another important feature, as this linkage is expected to bring synergy to the efforts of all stakeholders.

4. The State Bank shall provide finance to the banks on service charge basis depending upon the weighted average yields on 12 months T-Bills and 3 & 5 years PIBs. This would be keeping in view the period for which refinance shall be availed by them against disbursement made for equivalent tenures. The following rates have been fixed under the scheme for the period upto 28-02-2005:-

Tenor	Rate of refinancing to the banks/DFIs
For borrowers requiring financing upto 2 years.	2.0 % p.a.
For borrowers requiring financing over two years but upto 3 years.	3.8% p.a.
For borrowers requiring financing for period over three years and upto maximum period prescribed under the scheme i.e. upto 7-1/2 years	4.9% p.a.

The banks shall be entitled to earn a maximum spread of 3% on financing provided by them.

5. While the credit decision under the Scheme shall primarily be made by the banks/DFIs, they are expected to give preference for meeting the financing needs of the borrowers / projects availing different incentives announced by the government under the Trade Policy for 2003-04. This preference shall be to projects, so selected, that have shown more visible efforts at being implemented according to their feasibility. Requirements for machinery import would be specific and aligned to these projects, making it convenient for banks to appraise the project. Likewise, the banks/DFIs shall also ensure that financing needs of the borrowers from the SME¹ sector are given preference as 50% of the funds that the State Bank shall allocate to each bank/DFI, shall be utilised for meeting the financing needs of borrowers from the SME sector. The Scheme is attached as Annexure to this circular.

6. Banks/DFIs desirous to provide financing facilities to their constituents are advised to please approach the undersigned for determining their eligibility for financing under the Scheme as well as the amount which they project to disburse during 2004-05 under the Scheme. Banks/DFIs are also advised to circulate the contents of this circular and the details of the Scheme to their field offices with the instructions to disseminate the information to the prospective borrowers. This Circular as well as details of the Scheme can also be downloaded from the website of the State Bank using the following link: -

<http://www.sbp.org.pk/bpd/index.htm>.

Please acknowledge receipt.

Yours faithfully

Encl: As above

(Muhammad Kamran Shehzad)
Director

¹ As defined under Prudential Regulations for SME.

**Scheme for provision of
Long Term Financing for the
Export Oriented Projects
(LTF-EOP)**

1. INTRODUCTION

The purpose of the Scheme for Long Term Financing for the Export Oriented Projects (LTF-EOP) is to enable the banks/DFIs to provide financing facilities to the eligible borrowers / projects (as defined in Para 2 below) for the import of plant, machinery, equipments and accessories² thereof (not manufactured locally). The facilities under the scheme shall also be available for the projects having selected by EPB/MOC for the provision of assistance under incentives announced in Trade Policy 2003-04 as spelt out in para 3 below. Their selection for the provision of any incentive under Trade Policy initiative shall not be construed as a sole reason for their eligibility for financing by banks/DFIs under the scheme. The banks/DFIs are however expected to give preference to the financing needs of such projects, if otherwise considered eligible by them for financing under their lending policies.

The financing banks/DFIs shall give preference to the provision of financing under the Scheme to borrowers under SME sector (as defined in the Prudential Regulations for SME sector). Accordingly at least 50% of the amount of the limit to be sanctioned by SBP for the purpose in favour of each bank/DFI shall be utilized for financing to borrowers under SME sector.

The borrower shall be required to deposit the required equity before opening of L/C into an “Escrow Account” with bank providing the facility under the Scheme.

The facility shall not be admissible in case of plant machinery, equipment and accessories already imported as also for commercial importers or trading houses etc. or for establishment / BMR of new projects in spinning / weaving sectors in the Textile Group.

1. The machinery, equipment or accessories thereof, which are not integral part of the plant or the machinery required by the borrower, shall not be eligible for financing under the scheme. The financing bank/DFI shall use their expertise to

2. ELIGIBILITY CRITERIA

- i) The projects/units, which export at least 50% of their annual production directly or indirectly.
- ii) Borrowers having export overdue bills of more than 365 days shall not be entitled for financing under the scheme.

In case of new entities (corporate, partnership, proprietorship) having no previous export business, the sponsoring directors/partners/sole proprietor must have export related performance at their credit either as an employee or partner or paid director of any other existing exporting entity in the relevant field. Financing bank/DFI shall however have discretion to evaluate and decide about the potential of the borrowing entity to export.

3. SCOPE OF THE SCHEME

A- The facilities under the Scheme shall also be admissible for import of plant, machinery, equipment and accessories thereof by exporters eligible to avail the incentives as per export development schemes announced by Ministry of Commerce / Export Promotion Bureau and agreed to by the State Bank of Pakistan from time to time subject to following: -

- a. Entrepreneurs who would be entitled for availing facilities under Up-gradation Fund, for the purpose of technological up-gradation, social, environmental and security compliance setting up of combined effluent and waste water treatment plants, (to the extent of their own units only). Industrial clusters including common bonded warehouses, warehousing Pakistani products abroad, agriculture export processing zones, special export zones, garments cities and brand acquisition;
- b. exporters who would be entitled for provision of consultancy services by the Ministry of Commerce / Export Promotion Bureau at the enterprise level on a

determine the same and decision by them shall be subject to subsequent verification by consultant to be appointed by SBP

- 50:50 cost-sharing basis from the up gradation fund for the purpose of capacity building in technical management and export marketing;
- c. the exporters who would be entitled for assistance and advice from Ministry of Commerce / Export Promotion Bureau for entering into joint ventures (JV) with compatible JV partners in foreign countries on 50:50 cost sharing of consultancy services;
 - d. exporters who are/shall be eligible for setting up their export related projects in the existing or proposed industrial clusters relating to electrical fans (at Gujrat), cutlery (Wazirabad), woven garments (Lahore), Leather (Karachi), gems & jewellery (Karachi), sports goods and surgical goods (Sialkot), auto parts (Karachi), electrical appliances (Karachi and Lahore) and for knitwear (Karachi & Lahore);
 - e. all Ginners including those who would be entitled for financial support for improvement in ginning from Technology Up-gradation fund to ensure contamination free cotton ginning;
 - f. to exporters/ entrepreneurs who would enter into arrangements with the foreign textile and clothing industries for relocation of their projects to Pakistan to enable the exporters (both Direct and Indirect) to cope with the post-quota environment; (Facility for this purpose shall also be available to meet freight expenditure, machinery / equipment transfer cost foreign and local);
 - g. entrepreneurs eligible to set up their export oriented projects in the Garment Cities being established at Lahore and Karachi;
 - h. exporters that would establish manufacturing facilities in Export Processing Zones at Karachi and other in one of the industrial cities of Punjab (the project to be set up in existing industrial estates established in different provinces including AJK shall also be eligible for financing under the scheme);
 - i. the facility is also available to those exporters who will work in the Garment Cities to be established by Ministry of Commerce/ Export Promotion Bureau

in terms of para 12 (iii).

at Karachi and Lahore by the MOC. Likewise the facilities shall also be available to the corporate entity to be established for the purpose of developing, operating and managing the proposed garment cities for import of machinery required for the purpose of development of the same; and

- j. the facilities shall also be available to the eligible exporters who would require to import machinery required as a part of their efforts to acquire brand names/ franchise or the development of their own brands for marketing of their products abroad.

For any of the above purposes the facilities shall not be used / availed in duplication i.e. the plant, equipment, machinery and accessories thereof financed under the Scheme shall not be financed from any other source, except own sources. SBP shall notify as and when any other incentive / scheme of Ministry of Commerce / Export Promotion Bureau is made eligible for incentives under the Scheme.

B In addition to above purposes, facilities under the scheme shall also be available for a **period not exceeding five years** (inclusive of grace period) for the purpose of acquisition of brand name/franchise that would facilitate the Pakistani exporters to penetrate in the foreign markets on the basis of brand names/ franchise so acquired. Being financing of intangible assets, banks are expected to exercise more care, with a view to secure their credit risk. In this regard, they may also like to observe the followings, in addition to parameters set by them under their lending policies for the purpose: -

- i) The brand name/ Franchise being acquired should be appropriate to the corporate objectives of such acquisition / franchising and should have a proven share in the countries/territories for which they are being acquired. Likewise the request from exporters for financing should also be supported with a proper track of sale of the merchandise / commodities, prepared by a reliable source, under the brand name /franchise being acquired in the countries/territories for which exporter is contemplating to acquire.

- ii) The Pakistani exporter should have capacity and proven ability to manufacture and export the underlying merchandises/commodities in the countries for which the brand names/ franchise are being acquired.
- iii) The parent company holding the ownership of the brand name/ franchise being acquired should have executed a duly enforceable contract with the Pakistani Exporter giving them the right to market/ export the underlying merchandise/goods on permanent basis or for the period at least twice the period during which the Pakistani exporter intend to repay the financing facilities availed from banks in Pakistan, alongwith the mark up accrued thereon, for acquiring the brand name/franchise

4. TERMS & CONDITIONS

- i) **Debt / Equity Ratio** The financing shall be available on C&F basis and may be considered by the banks at a maximum debt/equity ratio of 80:20. The financing bank may however ask for higher contribution of equity from the borrowers keeping in view the risk profile perceived by it. The sponsor will be required to contribute their equity share in an escrow account as a subordinated loan to the borrowing company, which shall remain subordinated to the bank for the entire period for which the loan shall remain outstanding.
- ii) **Period of financing:** The financing (amount of loan) shall be repayable in a maximum period of 7 ½ years including a maximum grace period of 1 ½ year.
- iii) **Repayment of Loan:** The borrower shall be under obligation to make repayment of the facilities in equal half yearly or quarterly installments at the discretion of financing institution.
- iv) **Working Capital:** Notwithstanding the provisions of the financing facilities by the financial institution independently or through consortium

arrangements, it shall be ensured that the working capital facilities in respect of the new machinery are adequately secured/agreed to preferably by the financing bank/DFI, one of the member of the consortium, prior to the approval of financing under the Scheme, so that production does not suffer due to lack of working capital facilities in future.

- v) **Availability of Funds:** The financing under the scheme shall be provided by the banks/DFIs on first come first served basis against limits to be allocated by SBP. The total commitments by banks/DFIs shall not exceed the limit to be fixed by SBP, which shall be fixed in favour of each bank/DFI as per criteria related to the equity base and its performance as a financial institution to be determined on the basis of On-Site inspection of the bank/DFI and Off Site surveillance report prepared by SBP as also the credit rating assigned by the approved credit rating agencies in Pakistan.
- vi) The cost of Insurance, transit insurance and other import incidentals etc shall be borne by the borrower.
- vii) There will be no maximum limit for borrowing by the prospective entrepreneurs under this Scheme. However, in case of large financing requirements i.e. over Rs 300 million, it would be prudent for banks/DFIs to provide the facilities under consortium arrangements to diversify risk.

5. BANKS/DFIs ELIGIBLE TO GRANT FINANCES

The Banks/DFIs who are not in compliance of capital adequacy requirement set by SBP shall not be eligible to participate in the scheme. For the purpose of this Scheme any arrangement, exemption provided by the State Bank to the bank for meeting shortfall in capital adequacy requirements, shall continue to be treated as non compliance. However, State Bank may relax this condition on a case-by-case basis, as considered appropriate by it based on the merit of each case. Likewise, banks having no past experience of project financing shall not be eligible to provide the financing facilities under the Scheme independently. They may, however, provide facilities to their clients by forming a consortium under the lead of a bank/DFI having proven track of project financing. The bank / DFI desirous to provide this facility shall have to seek approval from Banking Policy Department of SBP regarding their eligibility to provide facilities under the Scheme, before entering into any contractual relationship with their borrower. While approaching SBP, the bank/DFI should provide information to demonstrate that it has adequate experience in project financing. The State Bank would consider such requests keeping in view the performance of the applicant bank as a banking company determined on the basis of the rating assigned to it by our Inspection Department/ Off Site surveillance as also rating assigned to it by the rating agencies in Pakistan.

6. SANCTION OF LOAN

- a. The financing bank/DFI may undertake due diligence process as per their lending policy before sanction of the loan to protect their interest which may, interalia, include verification of credit reports on suppliers of machinery/plant etc; as is also required under Chapter XIII of Foreign Exchange Manual (Eighth Edition 2002). This process may also include appraisal of the manufacturer/supplier to be prepared by the technical staff of the Banks/DFIs

on the basis of the information available from the existing users of the machinery supplied by the same manufacturers/suppliers.

- b. Banks/DFIs are also expected to link sanction of the facilities under the Scheme to the risk profile of the borrower, as the credit risk in the scheme shall be borne by them. The State Bank shall recover the refinance provided by it to the financing institution on its due date from its account maintained with the concerned office of the SBP BSC (Bank).
- c. The Bank/DFI shall not, ordinarily take more than two months to evaluate the request of the borrower.

7. DISBURSEMENT OF LOAN

- a. The banks/DFIs 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 Scheme through over invoicing, wrong selection of machinery etc while extending financing facilities to the borrower.
- b. The disbursement shall be released by the financing bank / DFI against LC after ensuring that all the formalities have been completed in accordance with the terms of agreement between the supplier and the purchaser of the machinery (borrowers).

8. GRANT OF REFINANCE

- a. After disbursement of loan either in part or full, the bank/DFI may approach the concerned Office of State Bank of Pakistan, BSC (Bank) for obtaining refinance to the extent of loan disbursed. For this purpose, bank/DFI shall submit an authenticated copy of L/C documents retired alongwith other usual documents. The refinance shall be provided within 2 working days on submission of complete information and documents.
- b. In case of commercial banks, the refinance under the Scheme shall be provided against our limits sanctioned under the Export Finance Scheme for which purpose a separate amount shall be earmarked keeping in view the

request of the bank and the criteria prescribed by us. However, in case of other financial institutions/DFIs, the Banking Policy Department of the State Bank of Pakistan, Karachi would sanction limit on case-to-case basis. Applications by both banks / DFIs shall be sent to the Director, Banking Policy Department, State Bank of Pakistan at least fifteen days prior to the release of the sanctioned amount to the machinery supplier/manufacturers abroad. The Banking Policy Department shall convey its approval against these applications, if otherwise in order, with in a period of three days prior to the scheduled disbursement of the facilities, to the financing bank/DFI with a copy to the concerned office of the SBP BSC (Bank) from where it intends to avail refinance. The bank/DFI shall be under obligation to submit request for refinance to the concerned office of SBP BSC (Bank) on Form EOP –1 along with Agreement on Form EOP-2 and DP Note on Form EOP-3 duly endorsed in favour of the State Bank of Pakistan.

- c. Refinance shall, however, be granted by the office of the SBP BSC (Bank), from where the bank / DFI applied or intend to avail the same.

9. RATES OF MARK UP

- a. The State Bank shall allow refinance to banks /DFIs on service charge basis in terms of Section 22 read with Section 17 (2) (d) of the SBP Act 1956. The rate of service charge shall be determined at a rate equivalent to the average of weighted average yields of last two auctions of twelve months T-bills or 3 years PIB or 5 years PIBs where financing is availed for a period of upto 2 years, 3 years or 5 years to 7-1/2 years, respectively. The State Bank shall determine these rates on annual basis on 1st March each year. The rates of finance / refinance on the outstanding amount once locked into shall remain fixed for the entire period of financing provided the borrowers continues to make payment of its obligations (mark up and principal) on the due dates fixed at the time of sanction of facilities. However, in case where the financing bank /DFI would consider and allow rescheduling instructions as contained in para 10 (ii) shall also apply. Likewise, in cases where the loan

amount has not been disbursed in full during the validity of the rate, the undisbursed amount shall attract the new rate applicable on the date of disbursement of the remaining amount, at the discretion of the party.

- b. The borrower shall not be required to make payment on account of mark up at a frequency of less than a quarter.
- c. Banks/DFIs shall be allowed a maximum spread of 3% p.a where refinance under the Scheme is obtained from the State Bank.

10. REPAYMENT OF FINANCE /REFINANCE

- i) The borrowers shall be under obligation to make repayment of finance (principal amount) obtained by them from Bank/DFIs under the Scheme as per followings:-
 - a. Where financing is availed for a maximum period of 7-½ years the repayment of loan shall be made in 12 equal half yearly or 24 equal quarterly installments, commencing after a grace period of 1 ½ years,
 - b. If the financing is availed for a maximum period of five years, the repayment shall be made in 8 equal half yearly installments or 16 equal quarterly installments, commencing after a grace period of one year.
 - c. If the financing is availed for a maximum period of 3 years the repayment shall be made in five (5) equal half yearly installments or ten (10) equal quarterly installments, commencing after a grace period of 6 months.
 - d. If the financing is availed for a maximum period of two (2) years, the repayment shall be made in four (4) equal half yearly or eight (8) equal quarterly installments without any grace period.
 - e. In case where the Banks / DFIs allow rescheduling of the loan granted to the borrower under the Scheme refinance shall continue to be repayable during the maximum period of 7 ½ years including the

grace period in accordance with the original repayment schedule fixed by the bank at the time of sanction of the facility. The Bank/DFI shall however be entitled to charge normal mark up on the differential amount worked out on the basis of the rescheduling. The repayment of refinance in respect of facilities extended for the purpose of development of brand / acquisition of franchise (as per para 3-B) shall be repayable in (8) eight equal half yearly installments or (16) equal quarterly installments as the case may be after a grace period of one year.

The banks /DFIs shall be under obligation to repay the refinance availed from the State Bank as per the respective repayment schedule mentioned at a) to e) above.

- ii) Where the bank/DFI has allowed rescheduling of the loan amount, the borrower shall be liable to make payment of mark up at the rate applicable on the date of such rescheduling, or the original rate whichever is high.
- iii) In case the bank/DFI has sanctioned the facility for a shorter period, the period of refinance from the State Bank shall also be adjusted accordingly.
- iv) The bank/DFI would ensure that at no point of time, outstanding amount (principal) repayable to them by their borrower and appearing in bank's/DFI's books of account falls below the outstanding amount of refinance which they owe to State Bank of Pakistan.
- v) Where their borrowers have repaid their obligations in part or in full, whether premature or on due date (s), the banks/DFIs shall be under obligations to repay the amount(s) so received within three working days to the concerned office of the State Bank failing which fine for late adjustment of amount will be charged from the bank/DFI at the rate of paisa 60 per day per Rs 1,000 or part thereof.

- vi) In case the banks/DFIs fail to repay the amount of refinance fallen due, as per repayment schedule reported to SBP at the time of availing refinance, the State Bank BSC (Bank) shall recover the amount, on the next working day. **Banks/DFIs are, therefore, required to ensure that the repayments under the Scheme are made promptly, to avoid automatic deductions by the State Bank office, which may result in delinquency in respect of the cash reserve/liquidity requirements, attracting fine at the prescribed rate.**

11. OTHERS

- i) The grant of the facilities 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. The borrowers shall have to fulfill all other requirements, if any, prescribed by the financing bank/DFI, concerned departments of the Federal / Provincial/ Local governments.
- ii) In case of consortium financing, the payment to the supplier/manufacturer abroad shall be made by the leader of the consortium. It shall therefore, be under obligation to certify the share of each member and the amount disbursed by it, to enable the member of the consortium to avail refinance from State Bank to the extent of its share, and only after the payment has been made abroad through the leader of the consortium. The consortium members may like to make arrangements for sharing of the 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 the rates published by the lead bank in its schedule of charges.
- iv) As the machinery shall be directly imported by the borrowers, the foreign currency required for making payment to the machinery manufacturer or the suppliers abroad, against LC, shall be purchased by the exporters out of the rupee proceeds of the loan, from the inter-bank market at prevailing

rates. In case the machinery is to be imported under usance LC, the exporter and its bank/DFI would ensure that they have made necessary arrangements to hedge their position against adverse movements in the rupee parity.

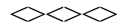
- iii) Where the terms of the contract between supplier/manufacturer abroad require making of down payment, the bank/DFI would be free to make advance payment to the extent of 25% of the C&F value of the machinery as the shipping terms may state.
- iv) The quantum of the loan amount in equivalent Pak rupees shall be determined on the basis of the spot/forward exchange rates for the relevant currency in the inter bank market, as the case may be, and shall be released in accordance with the payment terms. In case of used machinery under relocation of projects, it would be obligatory on the part of the entrepreneur to ensure and make it documentary from the valuer of repute on the panel of Pakistan Banks' Association and acceptable to all members of the consortium, that the remaining life of the machinery is not less than the period of loan itself. However the requirement regarding acceptance of the valuer by all members of the consortium shall not be allowed to delay the financing decision.

12. GENERAL

- i) The banks/DFIs shall not take more than two months to examine the feasibility of any project where finance is required for purchase of imported machinery, plant, equipment and accessories thereof (not manufactured locally) under this Scheme.
- ii) The financing bank /DFI 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 accounts is shown separately in their Annual Accounts, under appropriate heads, vis-à-vis their claims

(principal amounts only) against their constituent to whom the facility has been sanctioned by them.

- iii) The State Bank shall have the right to appoint the independent consultant to verify the use of the refinance under the Scheme for the purposes spelt out under the Scheme. In case the report of the consultant points out irregularity on the part of the financing bank/ DFI or the borrower the State Bank shall reserve the right to recover the amount of refinance granted to the bank/DFI alongwith fine at the rate of paisa 60 per day per Rs 1000/= or part thereof including the cost of such verification. As the banks/DFIs are expected to fulfill the conditions prescribed by SBP under the Scheme, fine so recovered shall be absorbed by them. In case, they pass on the fine so recovered from them to the borrower, the bank/DFI 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.



ANNEXURES

EOP- 1

**REFINANCE APPLICATION FORM TO BE SUBMITTED
BY THE APPROVED BANK / DFI's UNDER THE SCHEME FOR LONG TERM
FINANCING FOR THE EXPORT ORIENTED PROJECTS (LTF-EOP)**

The Chief Manager,
State Bank of Pakistan
Banking Services Corporation BSC (Bank),

Dear Sir,

**REQUEST FOR RELEASE OF REFINANCE
FACILITIES UNDER THE CAPTIONED SCHEME**

With reference to the Letter No. _____ dated _____ issued by the Banking Policy Department, State Bank of Pakistan allowing therein necessary permission to our bank for entitlements financing facilities under the captioned Scheme to our borrower detailed hereunder:-

We submit herewith our application for refinance facility amounting to Rs. _____ against the finance disbursed by us on _____ (date) _____ under the Scheme for the projects as per particulars given hereunder:-

- (i) Name of the borrower/ sponsor of project _____
- (ii) **Business address of the borrower / sponsor of the project.** _____
- (iii) Main Business of the borrower / sponsor of the project _____
- (iv) Broad type of **machinery which is to be imported** _____
- (v) Amount of Finance as per Financing Agreement. _____
- (vi) Date of Financing Agreement. _____
- (vii) Rate of **mark up**. _____
- (viii) Period for which finance sanctioned _____

2. The details of the contract(s) finalized by the above-named **borrower / sponsor of the project** and the payments made by us to them against the aforesaid contract are given in the Annexure-A

3. We have already submitted / submit herewith a Demand Promissory Note for Rs. _____ (Rupees _____ only) signed by M/s. (Name of borrower/project) referred to above and endorsed by us in your favour and request you to provide refinance of Rs. _____ (Rupees _____ only) being mobilization advance / cost of machinery **imported** out of our above referred financing limit and credit our Current Account with you.

4. We hereby certify that :-

- (i) the terms & conditions contained in BPD's sanction letter referred to above have been complied with;
- (ii) all the requirements of the Scheme including those at (iii) & (iv) below have been fully met;
- (iii) the eligibility of borrower and the relevant plant, equipment, machinery or accessories thereof against which refinance is applied for has been properly determined by us in accordance with the prescribed criteria / conditions set out in the **Scheme in force on the date of the Financing Agreement referred to above;**
- (iv) the procedure for procurement of the machinery purchased and the mode of payment are in accordance with the procedure prescribed by our bank;
- (v) the information / data given in the Application Form and the Annexure-A are complete and correct.

5. We understand that the BPD, State Bank of Pakistan has right to appoint independent consultants for verifying cases of refinance on random basis and agree to reimburse the cost so incurred in case the report of consultants indicates any irregularities on our part. We also agree to pay back any amount of refinance disbursed to us by the State Bank on the basis of this application if the State Bank subsequently concludes that such refinance was wrongfully claimed and also pay fine on such finance @ paisa 60 per day per Rs. 1,000 or part thereof, for the period for which such finance is availed by us immediately, on demand made by the State Bank.

6. We also authorize SBP BSC (Bank) to recover the full or remaining outstanding amount of refinance alongwith mark up, if any, in case the amount(s) falling due is not repaid by us on the due date agreed to by us as per Agreement on Form EOP-2 executed by us.

7. We also undertake that in case such irregularities are found to have been committed by the borrower with or without of assurance of our staff/officer, we shall indemnify the State Bank against any losses that it may suffer due to litigation filed by the borrowers on account of recovery of amount of refinance and the finance thereof for availing of refinance to which we have not entitlements otherwise.

Yours faithfully,

(AUTHORIZED SIGNATURE OF BANK) (AUTHORIZED SIGNATURE OF BANK)
Name & Designation Name & Designation

**FORM OF THE AGREEMENT TO BE OBTAINED FROM THE
BANK /DFI UNDER THE SCHEME FOR LONG TERM
FINANCING FOR EXPORT ORIENTED PROJECTS (LTF-EOP)**

(TO BE STAMPED AS AN AGREEMENT IN ACCORDANCE WITH THE
LAW IN FORCE IN EACH PROVINCE)

(Place) _____

Date _____

The Chief Manager,
SBP BSC (Bank),

Dear Sir,

In consideration of your agreeing to make available to us refinance under Section 22 read with section 17 (2) (d) of State Bank of Pakistan Act, 1956, not exceeding Rs. _____ (Rupees _____ only) in terms of State Bank of Pakistan's Scheme for Long Term Financing for the Export Oriented Projects (LTF-EOP), for a period not exceeding _____ years for which amount we i.e. _____ (concerned bank / DFI) have delivered to you a Demand Promissory Note made by us in your favour.

2. Now, we do hereby agree to the terms and conditions as set out herein under :-
- a) As security for the said refinance on each occasion we intend to avail refinance against finance extended by us, we shall deliver to you, bills of exchange / demand promissory notes duly endorsed to you, as are acceptable to you and drawn on and payable in Pakistan, arising out of bonafide finance provided by us to importers for import of machinery under the **scheme for long term financing for the export oriented projects referred to as "Scheme" hereinafter** and it is understood that the aforesaid accommodation will be made and will continue on the faith of the truth and correctness of such certificates.
 - b) We undertake that we shall not extend finance or deliver to you any bill of exchange / demand promissory note in terms of this agreement unless we are satisfied that all parties liable thereon are financially sound and credit worthy.
 - c) The maximum rate of mark up to be charged by us from the borrower shall not exceed 3% p.a. from the rate of refinance as worked out under the provisions of the scheme.
 - d) Service charges shall be payable by us to you on quarterly basis on 31st March, 30th June, 30th September and 31st December each year upto 7th of next month or on maturity of the bills or promissory notes, whichever is earlier. It shall be open to you to reimburse yourselves with the amount of mark up by charging the same to our current account with you.

- e) The maximum amount of finance that you shall provide to us in the case of each project financed by us would be an amount equal to the actual amount disbursed by us under the Scheme.
- f) The Demand Promissory Note (notice of dishonour of which Promissory Note is hereby waived in terms of Section 98 of Negotiable Instrument Act, 1881) furnished by us with this agreement and the demand promissory notes delivered to you in terms of clause (h) below shall, notwithstanding the existence of a credit balance at any time or any partial payments or fluctuations of accounts or withdrawal of any part of this security, be a continuing security for repayment of all sums due or found due under this agreement, alongwith **Service Charge due thereon to you**, and all costs, charges or expenses, which you may be entitled under the law to recover from us.
- g) We shall neither sanction nor permit any of our customers to use the finances for any purpose other than those prescribed under the Scheme. Any finances provided by us under this Scheme shall be subject to the terms of our Charter. Further, we shall obtain a declaration from our customer to the effect that he shall not utilize the finances or any part thereof except for the purpose spelt out in the Scheme.
- h) No financial assistance shall be given by us to any of our Directors or to any company, firm or group or association or project in which any of our Director is interested either directly or indirectly except in financial assistance against tangible security which will be provided with the approval of the majority of our Directors excluding the Director concerned.
- i) We shall endorse and deliver to you demand / usance Promissory Notes executed in our favour by our Customers under this financing arrangement with a certificate that (i) the same arises out of bonafide finances provided by us under the Scheme (ii) all parties liable thereon are financially sound, solvent and credit-worthy and that by virtue of such endorsement and delivery, we certify the genuineness of signatures as well as authority of all persons thereon (ii) the finances provided to parties liable on such promissory notes have not been classified by you as doubtful / loss.
- j) Without prejudice to your rights as financier against us for the realization of any demand / usance promissory note delivered to you under clause i at maturity, we agree, if you so desire, to take at our expense, all steps as may be necessary to realize the money from our customer and forthwith pay the same to you. We agree that the fact of your not taking steps to endorse payment of such demand / usance promissory note or any of them against the signatory or signatories thereon shall in no way release us from our liability thereon and we agree that it shall not be necessary for you to give any notice of dishonour of such Promissory Note.
- k) In addition to clauses (h) & (i), we shall hold upon trust securities / security documents presently held by us or which may be obtained by us from our customers to whom finance is made available under this Scheme as security for due repayment of finance with return / profit thereon. Further, on your demand we undertake to assign to you all such securities and secured documents, and agree that upon such assignment the provisions of clauses (h) and (i) shall, mutatis mutandis, apply.
- l) In addition to the preceding three clauses, we agree that as and when you demand, we shall create valid legal charge on any or all of our assets as may be demanded by you.

- m) We expressly understand that you are entitled to cancel or recall or advance the date of repayment of this finance at any time and for any reasons without any prior notice to us and that you are not obliged to provide any finance to us any time and for any reason against this Scheme and that by executing a promissory note in your favour of lodging demand / usance promissory note under clause (h) or by providing finance to any customer on the faith of this agreement, we have acquired no right or claim to demand finance from you under this Scheme. We also expressly agree that you have the sole right to vary, amend, alter or add to the terms and conditions of this agreement without any reference to us and we agree to invariably comply with the same.

- n) We agree that on default of repayment by us on any promissory note tendered under this agreement, you have our authority to debit without further reference to us, all of our accounts now held or held hereafter or adjust any moneys worth which may, howsoever, become due from you or come into your possession or control to the extent of the amount due from us under any such promissory note or in terms of the clauses referred herein before or otherwise under this agreement.

- o) We agree that notwithstanding anything contained elsewhere in this agreement, the amount of this finance alongwith **Service Charge due thereon** due to you will become due and payable, if we commit breach of any of the terms and conditions of this agreement.

Yours faithfully,

 (Authorized Signature with name and designation)
 for _____(Bank / DFI)_____

 (Authorized Signature with name and designation)
 for _____(Bank/ DFI)_____

DEMAND PROMISSORY NOTE

Place: _____
Date _____

Rs. _____

On demand we _____ (name of the borrower / sponsor of the project) _____ promise to pay to the _____ (name of the bank / DFI) _____ or order the sum of Rs. _____ (Rupees _____ only) for value received plus mark up applicable under the Scheme.

(Authorized signature of the borrower)

(Name & Seal)

Note :- Demand Promissory Note requires to be endorsed by the bank / DFI concerned in favour of its head office / principal office through which refinance is being claimed and further endorsed by them in favour of the Office of SBP BSC (Bank) concerned.

Annexure -A

**DETAILS OF THE CONTRACT FINALISED BETWEEN THE BORROWER / PROJECT
AND THE BANK / DFI SPECIFYING THE SCHEME FOR LONG TERM FINANCING FOR THE EXPORT ORIENTED PROJECTS AND
FINANCES AGREED TO BY THEM UNDER CONTRACT.**

Sr. No.	Name & address of borrower / project.	Broad type of machinery imported	Date of the Contract with the importer.	Date of the actual delivery of the machinery	Total cost of machinery as per Financing Contract	Cost of machinery which does not form an integral part of machinery imported	Amount of Finance admissible under the Scheme (6-7)	Date & amount paid to the project by the Financing Institution concerned out of the admissible amount given in Col.8	Date and Amount of Refinance already availed of from State Bank of Pakistan SBP BSC (Bank), Office	Date and amount of present request
1.	2.	3.	4.	5.	6.	7.	8.	9	10	11

It is certified that : (i) the cost of machinery indicated in column 6 and the cost of machinery imported / to be imported excludes cost of machinery which does not form an integral part of machinery and (ii) the figures given in column 9 and 10 are correctly arrived at

Authorised signature with name of a Senior Executive
of the borrower / Project

Counter signature with name of a Senior Officer
of the Bank / DFI

