



**TRADE DEVELOPMENT AUTHORITY OF PAKISTAN (TDAP)
(MINISTRY OF COMMERCE)**



**GUIDE TO AVAIL LONG-TERM FINANCING FACILITY OF
STATE BANK OF PAKISTAN**

December 2020

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DISCLAIMER

The analyses, interpretations, and conclusions expressed in this study do not necessarily reflect the view of the Board of Directors, Chief Executive, and Secretary of the Trade Development Authority of Pakistan.

Any conclusion, interpretation, and analysis based on the export facilitation scheme of the State Bank of Pakistan (SBP) are the responsibility of the author and do not necessarily reflect the opinion of the SBP. Although every effort has been made to accurately convey the message of the original content.

For any queries or feedback regarding this publication, please contact the author

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List of Acronym

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BMR	Balancing, Modernization and Replacement
C&F	Cost and Freight
CIB	Credit Information Bureau
DP Note	Demand Promissory Note
FEOD	Foreign Exchange Operations Department
IBIs	Islamic Banking Institutions
ILC	Inland Letter of Credit
ILTFF	Islamic Long Term Financing Facility
LC	Letter of Credit
LTF	Long Term Financing Facility
M.R	Mate's Receipt
PFI	Participating Financial Institutions
PIBI	Participating Islamic Banking Institution
ROE	Return on Equity
SBP	State Bank of Pakistan
SME	Small & Medium Enterprises
SPO	Standardized Purchase Order

INTRODUCTION TO THE STUDY

The State Bank of Pakistan (SBP) has introduced the Long-term Financing Facility (LTFF) to promote export-led industrial growth in the country. A subsidized financing is provided to the exporters, through commercial banks/ Participatory Financial Institutions (PFIs), and Islamic Banking Institutions (IBIs)/Participatory Islamic Banking Institutions (PIBIs) for setting up export-orientated projects and modernize their plant and machinery. The facility operates in two modes:

- 1. Long Term Financing Facility¹**
- 2. Islamic Long Term Financing Facility (ILTFF)²**

This study analyzes the facility, with the purpose to provide basic information and make the procedures simple enough to understand by exporters easily. The above schemes are analyzed and simplified by reflecting on, the scope of the schemes, their intended beneficiaries, documents required along with the procedures to avail them.

The study is divided into two sections. Section one discusses LTFF with respects to its scope, documents required in addition to, procedures to avail the scheme, while section two ILTFF is discussed related to scope, documentation and procedures.

¹ <https://www.sbp.org.pk/MFD/2018/Instructions-LTFF.pdf>

² <https://www.sbp.org.pk/sme/d/circulars/2018/C1-Annex-I.pdf>

SECTION ONE

LONG TERM FINANCING FACILITY

1.1. Long Term Financing Facility (LTFF): An Overview

As per the directives of SBP, the commercial banks/PFIs provide long-term local currency financing facility to the eligible export-oriented projects for purchasing imported and locally manufactured new plant and machinery for a period up to ten years. The eligible export-oriented projects should have at least 50% of their sales constituting exports or their annual exports are equivalent to US\$ 5 million.

The facility is extended against Letter of Credit (LC) to the extent of Cost and Freight (C&F) value of imported machinery and against Inland Letter of Credit (ILC) to the extent of ex-factory /showroom price of locally manufactured machinery. However, a ceiling of Rs. 5 Billion is fixed by the SBP to the amount of the financing facility extended to a single export-oriented unit. Moreover, the financing is also provided based on projected exports for new projects or for expansion/ Balancing, Modernization and Replacement (BMR) of existing projects. Such export-oriented projects will be required to meet the minimum export target prescribed under this scheme.

Particulars	LTFF						
1.2. Basic Information and Scope of the Facility							
What is the Scheme About	<p>i. Under this scheme, the banks/PFIs extend a long-term ‘local currency’³ financing facility to the eligible export-oriented projects for purchasing imported and locally manufactured new plant and machinery to be utilized by them for export purpose. Such export-oriented projects include those sectors allowed for export as per the “Export Policy Order”⁴ issued by the Ministry of Commerce from time to time. A list of the eligible sector is provided at <i>Annexure. II</i>.</p> <p>ii. 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) are eligible to avail the facility.</p> <p>iii. The facility is extended against LC to the extent of C&F value of imported machinery and against ILC to the extent of ‘ex-factory /showroom price’⁵ of locally manufactured machinery as per payment/delivery schedule agreed between the manufacturer and the purchaser.</p> <p>iv. Financing is also provided based on projected exports for new projects or for expansion/BMR of existing projects. Such export-oriented projects will be required to meet the minimum export target prescribed under this scheme (as stated in para ii above) within a maximum period of four (04) years as provided in the table below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="background-color: #d9e1f2;">Exports in the First Two Years</td> <td>Total exports of US\$ 2 million or 20% of the total sales of the project, whichever is lower.</td> </tr> <tr> <td style="background-color: #d9e1f2;">Exports in Third Year</td> <td>US\$ 3 million or 30% of sales, whichever is lower.</td> </tr> <tr> <td style="background-color: #d9e1f2;">Exports in Fourth Year</td> <td>US\$ 5 million or 50% of sales, whichever is lower.</td> </tr> </tbody> </table> <p>Amid Covid-19, the SBP “vide IH & SMEFD Circular No. 5 of 2020”⁶ has allowed one-year additional period for export performance requirement under the projected exports for each category (i.e. 1st two years, 3rd year and 4th-year requirement) falling in the calendar year 2020.</p>	Exports in the First Two Years	Total exports of US\$ 2 million or 20% of the 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.
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³ The PFIs of the borrower shall purchase foreign currency from the inter-bank market at prevailing rates in case foreign currency is required for making payment to import the plant and machinery against an LC.

⁴ <http://www.commerce.gov.pk/wp-content/uploads/2020/09/Export-Policy-Order-25-09-2020.pdf> (Export of all goods are allowed, except those specified in Schedule-I of this order).

⁵ The selling cost of goods from Seller's factory. All other expenses from the factory of seller to buyer's premise has to be borne by the buyer.

⁶ <https://www.sbp.org.pk/smeffd/circulars/2020/C5.htm>

	<p>v. Moreover, a consortium financing⁷ option is also available under the LTFF, where a number of PFIs group together to jointly finance a single borrower. SBP encourages banks/PFIs to provide finance under consortium arrangements in the cases where financing requirements of the borrower are over Rs 300 million.</p> <p>vi. If the term of the contract between the borrower and supplier/manufacturer requires a down payment, the importer/purchaser can request his bank/PFI for the advance payment to the extent of 20% of the C&F value/ex-factory showroom price of the machinery. Banks/PFIs are liable to ensure such payments.</p>														
Products Covered under the Facility	<p>i. Export-oriented projects of the sectors allowed for export as per the “Export Policy Order”⁸ issued by Ministry of Commerce from time to time are eligible to avail the facility given that they fulfil the minimum export criteria (as mentioned para ii above). A list of the eligible sectors is provided <i>at Annexure. II</i>.</p>														
Who Can Apply?	Exporters including SMEs of the eligible export-oriented sectors														
Mark Up Rate	The ‘current markup rate for the end-users (borrowers) is 5% ’ ⁹ for both textile and non-textile sectors. The refinancing rates, banks/PFIs spread and end-user mark-up distribution is given in the table below.														
	<table border="1"> <thead> <tr> <th>Period of financing</th> <th>Rate of Refinance for Banks/PFIs</th> <th>Banks/PFIs Spread</th> <th>Mark up Rate f Borrowers</th> </tr> </thead> <tbody> <tr> <td>Up to 3 years</td> <td>3.50%</td> <td>1.50%</td> <td rowspan="3">5.00%</td> </tr> <tr> <td>Over 3 years and up to 5 years</td> <td>2.50%</td> <td>2.50%</td> </tr> <tr> <td>Over 5 years and up to 10 years</td> <td>2.00%</td> <td>3.00%</td> </tr> </tbody> </table>	Period of financing	Rate of Refinance for Banks/PFIs	Banks/PFIs Spread	Mark up Rate f Borrowers	Up to 3 years	3.50%	1.50%	5.00%	Over 3 years and up to 5 years	2.50%	2.50%	Over 5 years and up to 10 years	2.00%	3.00%
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Financing Limits	<p>i. 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.</p> <p>ii. Maximum financing of banks/DFIs to a single export-oriented unit ‘shall not exceed Rs 5 billion under LTFF’¹⁰. However, banks/PFIs may provide financing facilities as</p>														

⁷ In case of consortium financing, the payment to the borrower shall be made by the leader of the consortium, who is liable 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. 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.

⁸<http://www.commerce.gov.pk/wp-content/uploads/2020/09/Export-Policy-Order-25-09-2020.pdf> (Export of all goods are allowed, except those specified in Schedule-I of this order)

⁹ <https://www.sbp.org.pk/sme/d/circulars/2020/CL19.htm>

¹⁰ <https://www.sbp.org.pk/sme/d/circulars/2020/CL2.htm>

	<p>per their credit policies over and above the said maximum limit from their own sources subject to adherence of applicable Prudential Regulations.</p> <p>iii. While providing finance to the SME borrowers under LTFF, the Banks/PFIs, however, will ensure that financing under the facility, when taken together with other borrowings, does not exceed the borrowing ceiling fixed (Rs. 5 million) as mention in ‘the Prudential Regulations for SMEs’ financing¹¹.</p>
Loan Period	<p>i. The maximum period financing under the facility is 10 years including a maximum grace period of 2 years. In the case where financing is provided for a period of up to 5 years, the grace period shall not be more than one year.</p>
Documents Required	<p>i. LC/ILC</p> <p>ii. Undertaking by Borrower (<i>Annexure. III</i>)</p> <p>iii. DP Note by Borrower (<i>Annexure. IV</i>)</p> <p>iv. Statement of Total Sales & Exports by Borrower (<i>Table. I of Annexure. VIII</i>)</p> <p>v. Refinance Application by Bank/PFI (<i>Annexure. V</i>)</p> <p>vi. Repayment Agreement by Bank/PFI (<i>Annexure. VI</i>)</p> <p>vii. DP Note by Bank/DFI (<i>Annexure. VII</i>)</p> <p>viii. Statement of Total Sales & Exports for each project by Bank/PFI (<i>Annexure. VIII</i>)</p> <p>ix. Undertaking for New Projects or BMR of Existing Projects Based on Projected Exports (<i>Table. II of Annexure. VIII</i>)</p>
Repayment	<p>i. The borrower can make repayment of the principal amount of the loan availed under this facility in equal half-yearly/quarterly instalments after the grace period if any. For the markup/ service charges the borrower can pay at a frequency of not less than three months except at the time of pre-payments/liquidation of loan. Banks/PFIs are supposed to adhere to such repayment schedules.</p> <p>ii. In case, a borrower repays the loan amount or its instalment, in part or in full, on or before the due date(s), the Banks/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 bank/PFI at the rate of paisa 70 per day per Rs.1,000 or part thereof.</p>

¹¹ <https://www.sbp.org.pk/sme/d/2017/SME-PRs-Updtd-Dec-2017.pdf>

	<p>iii. The refinance granted to the banks/PFIs shall be recovered on the due date(s) and reported to SBP BSC as per the original repayment schedule, from the account of the bank/PFI maintained with the concerned office of the SBP BSC. In case the borrowers fail to make repayment of the amount of instalment as per the original repayment schedule, the bank/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.</p> <p>iv. When a bank/PFI has allowed rescheduling of a loan, the borrower is 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 refinancing will only be rescheduled to be repaid within a maximum period of 10 years from the date of the original disbursement. Any rescheduling that allows the borrowers to avail funding facilities under the facility for a period longer than 10 years will not be considered and in all such cases, the entire loan would be considered to have been repaid within the period of 10 years.</p>
<p>Risk Assessment</p>	<p>a. Each bank/PFI shall be required to have:</p> <ul style="list-style-type: none"> i. Well defined policy and established procedures for appraisal of projects to be financed under the facility, particularly concerning their technical and financial viability; ii. An efficient system for assessing the 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 fulfil all requirements/conditions of project financing including collateral requirements to mitigate the risk of borrowers' failure to honour their commitments. <p>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.</p> <p>c. Banks/PFIs shall undertake necessary due diligence process as per their lending policies before sanctioning of the loan under the facility. Such due diligence shall invariably be subjected to the applicable Prudential Regulations as prescribed by SBP for each type of borrower. Further, in case of imported machinery, banks/PFIs shall also obtain satisfactory</p>

credit reports on suppliers & manufacturers of plant and machinery as required under ‘Chapter 13 of Foreign Exchange Manual’¹².

- d. Banks/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 bank/PFI may, however, ask for a higher contribution of equity from the borrowers keeping in view individual risk profile.
- e. In the case of new projects, the sponsor will be required to contribute their equity share in an **escrow account maintained with the bank/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. 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. In that case, the lending bank/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. Banks/PFIs shall ensure that the working capital facilities in respect of the new project are adequately secured/agreed to, preferably by a financing bank/PFI or one of the members of the consortium, before the approval of financing under the facility, so that project does not suffer due to lack of working capital facilities in future.
- g. 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.

¹² https://www.sbp.org.pk/fe_manual/pdf/2020/Chp-13.pdf

1.3. Procedures to Avail the Facility

- i. The borrower can submit a loan application to avail the financing facility to his bank/PFI along with undertaking (*Annexure.III*), DP Note (*Annexure.IV*), statement of sales & exports (*Table.I of Annexure.VIII*) and LC or ILC whichever is applicable.
- ii. Bank/PFI is liable to evaluate the application complete in all respects **within two months** from the date of receipt from the borrower. Banks/PFIs shall undertake necessary due diligence process as per their lending policies before sanctioning of the loan under the facility.
- iii. In case, the loan application is declined, the bank/PFI will explicitly apprise the reason for rejecting the application to the prospective borrower.
- iv. Once the loan application under the facility is approved the banks/PFIs will not disburse the amount to the borrower directly instead payments will be made to the manufacturers/suppliers or foreign seller of the machinery through LC as per payment/delivery schedule agreed between the manufacturer and the purchaser. Likewise, payment for the locally manufactured machinery shall invariably be made through ILC as per payment/delivery schedule agreed between the manufacturer and the purchaser.
- v. After disbursements of the loan under the facility to the customer, the bank/PFI can approach the concerned office of SBP BSC for availing refinance. The Bank/PFI has to submit the required documents including refinancing application (*Annexure.V*), DP Note (*Annexure.VII*) covering the full value of the limit in addition to submission of repayment agreement (*Annexure.VI*) and statement of sales & exports (*Annexure.VIII*). Moreover, the application should be accompanied by all the documents submitted by the borrower to the bank/PFI.
- vi. In case financing is made to the new projects or BMR of existing projects on the basis of Projected Exports, concerned Banks/PFIs will be required to report export data as per (*Table-I of Annexure-VIII*), within two months after completion of First Two Years, Third Year and Fourth Year of disbursement of the first instalment of refinancing to the concerned office of SBP BSC. Further, they will also give the undertaking to furnish details of shipments made by such new projects during the relevant period, as per (*Table-II of Annexure-VIII*). Moreover, if banks/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.
- vii. On receipt of the application complete in all respects, the SBP BSC office will have to provide the refinance **within two working days** from the date of such receipt.

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



SECTION TWO

**LONG TERM ISLAMIC
FINANCING FACILITY**

2.1. Islamic Long Term Financing Facility (ILTFF): An Overview

The Islamic Long Term Financing Facility (ILTFF) is being offered to Islamic Banking Institutions (IBIs) by the SBP. SBP makes ‘mudarabah investment’¹³ in the IBIs participating in the scheme under section 17 (6B) of the SBP Act, 1956 (the “SBP Act”). SBP acts as *Rab-ul-Maal* by providing mudarabah investment facility to the Participating Islamic Banking Institutions (PIBIs), in the form of investment in the PIBI’s general pool, and the PIBI shall act as the *Mudarib* of general pool. The exposure of SBP under the scheme shall be on all assets of the PIBI’s general pool to the extent of SBP’s investment in the general pool, and therefore shall not be limited to the assets financed under the scheme.

Under the scheme, PIBIs provide a long-term local currency financing facility to the eligible export-oriented projects for purchasing imported and locally manufactured new plant and machinery for a period up to ten years. The financing is extended based on Islamic modes of financing, approved by the Shari’ah Board of the concerned PIBI.

To avail the facility the eligible export-oriented projects should have at least 50% of their sales constituting exports or their annual exports are equivalent to US\$ 5 million.

The facility is extended against Letter of Credit (LC) to the extent of Cost and Freight (C&F) value of imported machinery and Inland Letter of Credit (ILC) to the extent of ex-factory /showroom price of locally manufactured machinery. However, a ceiling of Rs. 5 Billion is fixed by the SBP to the amount of the financing facility extended to a single export-oriented unit. Moreover, the financing is also provided based on projected exports for new projects or for expansion/ Balancing, Modernization and Replacement (BMR) of existing projects. Such export-oriented projects will be required to meet the minimum export target prescribed under this scheme.

¹³ A form of partnership where one party provides the funds while the other party provides expertise. The people who bring in money are called "Rab-ul-Maal" while the management and work is an exclusive responsibility of the "Mudarib". The profit-sharing ratio is determined at the time of entering into the Mudarabah agreement whereas in case of loss it is borne by the Rab-ul-Maal only. In case of Islamic banks, the depositors are called Rabb-ul-Maal and the bank is called Mudarib.

Particulars	ILTFF
2.2. Basic Information and Scope of the Facility	
What is the Scheme About	<p>i. The PIBIs extent a long-term ‘local currency’¹⁴ financing facility for imported and locally manufactured new plant and machinery to be utilized for the export purpose by the export-oriented projects. Such export-oriented projects include those sectors allowed for export as per the “Export Policy Order”¹⁵ issued by the Ministry of Commerce from time to time. A list of the eligible sector is provided at <i>Annexure. II</i>.</p> <p>ii. The financing is extended based on Islamic modes of financing, approved by the Shari’ah Board of the concerned PIBI. Such modes of finance include all those listed in <i>Section E of Annexure I. of IBD Circular No.02 of 2008</i>¹⁶, including a combination of those Islamic modes of financing (Hybrid arrangements).</p> <p>iii. Only those export-oriented projects can avail the facility whose annual exports are equivalent to US\$ 5 million or if 50% of their sales constituting exports (whichever is lower).</p> <p>iv. An entity being financed under the scheme should have a minimum rating of 4 as per “SBP’s Guidelines on Internal Credit Risk Rating Systems in Banks/DFIs” issued vide BSD Circular No.8, 2007¹⁷.</p> <p>v. The facility is extended against LC to the extent of C&F value of imported machinery and against ILC to the extent of ‘ex-factory /showroom price’¹⁸ of locally manufactured machinery as per payment/delivery schedule agreed between the manufacturer and the purchaser.</p> <p>vi. Financing is also provided based on projected exports for new projects or expansion/BMR of existing projects. Such export-oriented projects will be required to meet the minimum export target prescribed under this scheme (as stated in para ii above) within a maximum period of four (04) years as provided in the table below:</p>

¹⁴ The PIBI of the borrower shall purchase foreign currency from the inter-bank market at prevailing rates in case foreign currency is required for making payment to import the plant and machinery against an LC.

¹⁵ <http://www.commerce.gov.pk/wp-content/uploads/2020/09/Export-Policy-Order-25-09-2020.pdf> (Export of all goods are allowed, except those specified in Schedule-I of this order).

¹⁶ <https://www.sbp.org.pk/ibd/2008/Annex-c2-1.pdf>

¹⁷ <https://www.sbp.org.pk/bsrvd/2007/C8.htm>

¹⁸ The selling cost of goods from Seller’s factory. All other expenses from the factory of seller to buyer’s premise has to be borne by the buyer.

	<table border="1"> <tr> <td>Exports in the First Two Years</td> <td>Total exports of US\$ 2 million or 20% of the total sales of the project, whichever is lower.</td> </tr> <tr> <td>Exports in Third Year</td> <td>US\$ 3 million or 30% of sales, whichever is lower.</td> </tr> <tr> <td>Exports in Fourth Year</td> <td>US\$ 5 million or 50% of sales, whichever is lower.</td> </tr> </table> <p>Amid Covid-19, the SBP “vide IH & SMEFD Circular No. 5 of 2020”¹⁹ has allowed one-year additional period for export performance requirement under the projected exports for each category (i.e. 1st two years, 3rd year and 4th-year requirement) falling in the calendar year 2020.</p> <p>vii. Moreover, a consortium financing²⁰ option is also available under the ILTFF, where a number of PIBIs group together to jointly finance a single borrower. In case of large financing requirements i.e. over Rs 300 million PIBIs are encouraged to provide finance under consortium or syndicate arrangements as per applicable SBP instructions, standards of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) on syndication and instructions of the Shari’ah Advisor of the syndicate.</p> <p>viii. If the term of the contract between the borrower and supplier/manufacturer requires a down payment, the importer/purchaser can request his PIBIs for the advance payment to the extent of 20% of the C&F value/ex-factory showroom price of the machinery. PIBIs are liable to ensure such payments.</p>	Exports in the First Two Years	Total exports of US\$ 2 million or 20% of the 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.
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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.						
Products Covered under the Facility	<p>i. Export-oriented projects of the sectors allowed for export as per the “Export Policy Order”²¹ issued by Ministry of Commerce from time to time are eligible to avail the facility given that they fulfil the minimum export criteria (as mentioned para ii above). A list of the eligible sectors is provided <i>at Annexure. II</i>.</p>						
Who Can Apply?	Exporters including SMEs of the eligible export-oriented sectors						

¹⁹ <https://www.sbp.org.pk/sme/d/circulars/2020/C5.htm>

²⁰ In case of consortium financing, the payment to the borrower shall be made by the leader of the consortium, who is liable to certify the share of each member PIBI and the amount disbursed by it, to enable the consortium members to avail refinance from State Bank to the extent of their share. 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.

²¹ <http://www.commerce.gov.pk/wp-content/uploads/2020/09/Export-Policy-Order-25-09-2020.pdf> (Export of all goods are allowed, except those specified in Schedule-I of this order).

Expected Return on Financing under the Scheme	The expected rate of return on financing provided by the PIBI to its customer under the scheme may not exceed rates announced by SBP on similar refinance facilities. Further, SBP expects profit rates/return on its investment close to its return on such type of refinance facilities.
Financing Limits	<ul style="list-style-type: none"> i. 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. ii. Maximum financing of PIBIs to a single export-oriented unit ‘shall not exceed Rs 5,000 million under ILTFF’²². iii. While providing finance to the SME borrowers under ILTFF, the PIBIs, however, will ensure that financing under the facility, when taken together with other borrowings, does not exceed the borrowing ceiling fixed (Rs. 5 million) as mention in ‘the Prudential Regulations for SMEs’ financing²³.
Loan Period	<ul style="list-style-type: none"> i. The maximum period financing under the facility is 10 years including a maximum grace period of 2 years. In the case where financing is provided for a period of up to 5 years, the grace period shall not be more than one year.
Documents Required	<ul style="list-style-type: none"> i. LC/ILC ii. Undertaking by Borrower (<i>Annexure. IX</i>) iii. DP Note by Borrower (<i>Annexure. X</i>) iv. Statement of Total Sales & Exports by Borrower (<i>Table. I of Annexure. VIII</i>) v. Mudarabah Agreement between SBP & PIBI (<i>Annexure. XI</i>) vi. Mudarabah Investment Request Form to be submitted by PIBI to SBP (<i>Annexure. XII</i>) vii. Debit Authority to be submitted by PIBI to SBP (<i>Annexure. XIII</i>) viii. Statement of Total Sales & Exports for each project by PIBI (<i>Annexure. VIII</i>) ix. Undertaking for New Projects or BMR of Existing Projects Based on Projected Exports (<i>Table. II of Annexure. VIII</i>)
Repayment	<ul style="list-style-type: none"> i. The borrower can make repayment of the principal amount of the loan availed under this facility in equal half-yearly/quarterly instalments depending upon the tenure for

²² <https://www.sbp.org.pk/sme/d/circulars/2020/CL2.htm>

²³ <https://www.sbp.org.pk/sme/d/2017/SME-PRs-Updtd-Dec-2017.pdf>

which the facility is availed and underlying mode of Islamic finance used by PIBI. PIBIs, however, shall not be permitted to require their customers to pay the profit/return/ rental amounts at a frequency of less than three (03) months except at the time of early-payments/liquidation of financing.

- ii. In case, a borrower repays the loan amount or its instalment, in part or in full, on or before the due date(s), SBP's share in the general pool will be redeemed equal to the payment received from the borrower. PIBIs shall adjust the financing amount so received from the customer by purchasing the SBP's proportionate share in the general pool immediately, but **not later than two working days** from the concerned office of SBP BSC. If the PIBI fails to do so, the SBP shall also be given the profit, as per the actual profit of the general pool, for the number of days this proportionate share is not purchased by the PIBI.
- iii. In case the customer(s) fails to make instalment payments as per the original payment schedule, the PIBIs will collect charity²⁴ from the customer as per the undertaking given by him. Similarly, in case of delay, the PIBI has the right to recourse to the security of the customer, where such risk management provisions have been adopted to recover the amounts due. In some mode of financing, the PIBI has a right to take an additional amount in cases of delays and defaults as rent on un-purchased share in the underlying asset. The same shall be approved by Shari'ah Board of PIBI.
- iv. In cases where the financing amount has not been disbursed in full during the validity of an applicable rate, the un-disbursed amount shall attract the new expected rate of return applicable from the date of disbursement by the PIBI.

²⁴ Any charity amount collected by the PIBI from customers relating to the delay in payment of financing will be given by the PIBI to charity.

**Risk
Assessment**

a. Each PIBIs shall be required to have:

- i. Well defined policy and established procedures for appraisal of projects to be financed under the facility, particularly concerning their technical and financial viability;
 - ii. Good internal controls to protect depositors’/rab-ul-maals’ and PIBIs interest and to fulfil all requirements/conditions of project financing including collateral requirements to mitigate the risk of borrowers’ failure to honour their commitments.
- a. In case of financing for imported plant and machinery, both the customer and it's PIBI(s) would ensure that they have made necessary arrangements to hedge their position against adverse exchange rate movements as per the Shari'ah-compliant structure.
 - b. PIBIs shall undertake necessary due diligence process as per their lending policies before sanctioning of the loan under the facility. Such due diligence shall invariably be subjected to the applicable Prudential Regulations as prescribed by SBP. Further, in case of imported machinery, PIBIs shall also obtain satisfactory credit reports on suppliers & manufacturers of plant and machinery as required under ‘Chapter 13 of Foreign Exchange Manual’²⁵.
 - c. In the case of new projects, the sponsor will be required to contribute their equity share in an **escrow account maintained with the PIBI**. 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. 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. In that case, the lending PIBI should place a certificate on record in this regard in the relevant credit file for subsequent inspection by SBP.
 - d. PIBIs shall ensure that the working capital facilities in respect of the new project are adequately secured/agreed to, preferably by a financing PIBI or one of the members of the consortium, before the approval of financing under the facility, so that project does not suffer due to lack of working capital facilities in future.
 - e. PIBIs 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.

²⁵ https://www.sbp.org.pk/fe_manual/pdf/2020/Chp-13.pdf

2.3. Procedures to Avail the Facility

- i. The borrower can submit a loan application to avail the financing facility to his PIBIs along with undertaking (*Annexure.IX*), DP Note (*Annexure.X*), statement of sales & exports (*Table.I of Annexure.VIII*) and LC or ILC whichever is applicable.
- ii. PIBI is liable to evaluate the application complete in all respects **within two months** from the date of receipt from the borrower. PIBIs shall ensure fulfilment of the pre-disbursement formalities by the customer through necessary due diligence process as per their lending policies before sanctioning of the loan under the facility. Moreover, PIBIs shall comply with relevant regulations issued by SBP from time to time regarding the mode under which the financing has been extended.
- iii. In case, the loan application is declined, the PIBIs will explicitly apprise the reason for rejecting the application to the prospective borrower.
- iv. Once the loan application under the facility is approved the PIBIs will not disburse the amount to the borrower directly instead payments will be made to the manufacturers/suppliers or foreign seller of the machinery through LC as per payment/delivery schedule agreed between the manufacturer and the purchaser. Likewise, payment for the locally manufactured machinery shall invariably be made through ILC as per payment/delivery schedule agreed between the manufacturer and the purchaser.
- x. After disbursements of the loan under the facility to the customer, the PIBI can approach the concerned office of SBP BSC for obtaining mudarabah investment to the extent of the amount disburse/financed to customer. The PIBI has to submit the required documents including mudarabah agreement form (*Annexure. XI*), mudarabah investment request form (*Annexure. XII*), debit authority (*Annexure. XIII*) and statement of sales & exports (*Annexure.VIII*). Moreover, the application should be accompanied by all the documents submitted by the borrower to the PIBI.
- v. In case of financing is made to the new projects or BMR of existing projects on the basis of Projected Exports, concerned PIBIS will be required to report export data as per (*Table-I of Annexure-VIII*), within two months after completion of First Two Years, Third Year and Fourth Year of disbursement of the first instalment of refinancing to the concerned office of SBP BSC. Further, they will also give the undertaking to furnish details of shipments made by such new projects during the relevant period, as per (*Table-II of Annexure-VIII*). Moreover, if PIBIs 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.

- vi. On receipt of the application complete in all respects, the SBP BSC office will have to provide the mudarabah investment **within two working days** from the date of such receipt.

The customers shall continue to remain liable for payment of fines/penalties²⁶ on account of their non-performance²⁷/non-compliance to the requirements of the scheme. Such fines/penalties as and when recovered, from the customers, shall invariably be passed on to SBP by the concerned PIBI. The failure of the PIBIs on this account shall be construed as their non-compliance of the schemes and would attract punitive measures as prescribed by SBP.

²⁶ In case of violation of the terms & conditions laid down in the scheme, the SBP shall reserve the right to impose & recover the fine/penalty at the rate of paisa 60 per day per Rs. 1000/- or part thereof including the cost of verification.

²⁷ <https://www.sbp.org.pk/sme/d/circulars/2010/CL5.htm>

ANNEXURE

I. List of Approved Banks and PFIs

Sr. #	Name of Bank/PFI
Banks	
1	National Banks of Pakistan
2	Habib Bank Limited
3	United Bank Limited
4	MCB Bank Limited
5	Allied Bank Limited
6	ABN AMRO BANK
7	Askari Bank
8	Bank Al-Falah
9	Bank Al-Habib
10	Bank of Punjab
11	Citi Bank
12	Faysal Bank Limited
13	KASB Bank Limited
14	Habib Metropolitan Bank Limited
15	Mybank Ltd.
16	NIB Bank Limited
17	Soneri Bank Limited
18	Union Bank Limited
19	Saudi Pak Commercial Bank
20	Hong Kong And Shanghai Banking Corp. Ltd
21	Standard Chartered Bank
22	PICIC Commercial Bank Limited
23	Prime Commercial Bank Limited
DFIs	
24	Pak Oman Investment Co. Limited
25	Pakistan Industrial Credit & Investment Corporation
26	Saudi Pak Industrial & Agricultural Investment Company Limited
27	Pak. Libya Holding Company Limited
28	Pak Kuwait Investment Company Limited

II. List of Sectors Eligible to Avail LTFF

S. No.	Sector
1	Textile & Garments (viz. Spinning & Ginning, Fabrics, Garments, made up, Towels & Art silk & synthetic textiles)
2	Rice Processing
3	Leather & Leather products
4	Sports goods
5	Carpets & Wools
6	Surgical Instruments
7	Fisheries
8	Poultry & Meat
9	Fruits/Vegetable & Processing, Cereals
10	I.T.– Software & Services
11	Marble & Granite
12	Gems & Jewelry
13	Engineering goods
14	Ethanol
15	Furniture and Pharmaceutical
16	Regeneration of Textile Waste
17	Glass
18	Dairy
19	Soda Ash

III. Agreement to Be Submitted by the Borrower Under LTFF

UNDERTAKING/AGREEMENT TO BE SUBMITTED BY THE BORROWER UNDER THE LONG-TERM FINANCING FACILITY (LTFF) FOR IMPORTED AND LOCALLY MANUFACTURED PLANT & MACHINERY

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

The Manager,

_____ Bank Limited/DFI,
_____ Branch,
_____ (CITY)

Dear Sir,

(Place) _____ Date ____

I/We do hereby certify and confirm that a finance of Rs. _____ (Rupees _____ only) has been allowed to me/us by you under Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery of the State Bank of Pakistan on service charges basis @ ___% p.a.

2. I/We, further confirm and undertake that the aforesaid finance will be / has been obtained by me/us for import / purchase of an eligible machinery item described hereunder against valid contract/letter of credit as per the provisions of the Facility under reference. Further I/We, confirm that aforesaid finance or any part thereof shall not be utilized except for the purpose spelt out in the Facility.

3.* I/We, further confirm and undertake that the aforesaid amount of finance that will be availed by me/us shall be utilized exclusively to meet the cost of machinery being imported /purchased against contract/letter of credit, particulars of which are given at table 1 below:-

Table -1

Broad type of machinery imported / purchased	Amount of contract / letter of credit					Expected date of import / delivery of the machinery
	No.	Date	Amount in Fcy	Value in Date	Amount in equivalent Rupee Pak	
1.	2.	3.	4.	5.	6.	7.

4. I/We, do certify that the finance is being obtained by Me/Us against bonafide transaction and I/We submit the requisite documents alongwith this application for your consideration of extension of finance facility to us from your bank/DFI under the Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery.

5. I/We, certify and confirm that I/We have not obtained any finance against the above- mentioned contract / Import / Inland letter of credit from any other Bank/DFI, except as under.
Amount of; Import LC. (for Import of machinery)

Inland LC/contract/order

(for purchase of locally manufactured _____ machinery)

Less: Amount of loan already taken	_____
Balance Amount	_____
Amount of loan now being obtained	_____

6. I/We, hereby confirm and agree that in the event of My/Our failure to make payment on due date you have our Irrevocable Authority without reference to us, to recover from Me/Us and debit My/Our Account No. _____ maintained with you alongwith fine, if any as prescribed under the Facility. I/We, authorize the bank/DFI to reimburse itself with the fine amount even if we have made a representation to SBP against imposition of fine under the Facility.

7. I /We, M/s. certify that no export bills for more than 365 days are overdue for repatriation.

8. I/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 immediately, if we commit breach of any of the terms and conditions of this agreement.

Yours faithfully,

Authorized Signature of the Borrower

Signature verified by the authorized officials of Branch of Bank/DFI

(* Strike out the purpose whichever is not applicable)

IV. Demand Promissory Note to be Submitted by the Borrower Under LTFF

DEMAND PROMISSORY NOTE

(TO BE SUBMITTED BY THE BORROWER)

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 valuereceived plus service charges @% p.a. determined by(name of the bank/DFI) for financing under Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery.

(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.

* To be stamped in accordance with the law in force in each Province.

V. Refinance Application Form for Approved Bank / PFIs

REFINANCE APPLICATION FORM TO BE SUBMITTED BY THE APPROVED BANK / DFI UNDER THE LONG-TERM FINANCING FACILITY (LTFF) FOR IMPORTED AND LOCALLY MANUFACTURED PLANT & MACHINERY

The Chief Manager, State
Bank of Pakistan

Banking Services Corporation BSC (Bank),

_____ (City)

Dear Sir,

REQUEST FOR RELEASE OF REFINANCE FACILITIES UNDER THE CAPTIONED FACILITY

With reference to the Limit of Rs. (total) sanctioned by MICROFINANCE Department of State Bank vide its Letter No. _____ dated _____ under the captioned Facility for the Financial Year; we submit herewith our application for refinance facility amounting to Rs. (current application) only against the finance disbursed by us on (date) under the Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery to our borrower as per particulars given hereunder: -

- (i) Name of the borrower/ sponsor of project _____
- (ii) Business address of the borrower / sponsor of the project. _____
- (iii) Broad type of machinery for which facilities have been sanctioned

Imported	Local*
----------	--------
- (iv) Particulars of Finance as per Financing Agreement executed by us with our borrower.
 Amount _____ Date _____ Rate of mark up ...
- (v) Period for which finance sanctioned _____
- (vi) Financing provided to borrower _____ as:
- (vii) Purpose of the financing
 - i) For import of machinery, ii) for purchase of locally manufactured machinery*.

* Please strike out whichever is not applicable

2. We certify that 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 have been placed in our record and shall be invariably provided to the inspection team(s) of SBP during the inspection of our bank/DFI.

3. We have already submitted / submit herewith the securities documents required under the

captioned Facility for the purpose of availing refinance to the extent of the limit sanctioned by the Microfinance Department in our favour to your office vide our letter No. _____ dated _____. We also submit herewith/have already submitted 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 purchased / imported out of our above referred financing limit and credit our Current Account with you.

4. We hereby certify that:-

- i) the terms & conditions as stipulated in the captioned Facility have been complied with;
- ii) all the requirements of the Facility 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 Facility in force on the date of the Financing Agreement/Undertaking 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/DFI, as also guidelines given in the Facility;

5. We understand that the Microfinance Department, 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 undertake that in case such irregularities are found to have been committed by the borrower due to negligence of our concerned officials/staff to ensure compliance of the same or that such irregularities have been made by the borrower with the involvement of our staff/officer, besides initiating appropriate action against our staff under our staff regulations or code of conduct, 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 fine thereof for availing of refinance to which we were not entitled otherwise.

7. We hereby also authorize SBP BSC (Bank) to recover the full or remaining outstanding amount of refinance along with 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 LTFF-2 executed by us.

Yours faithfully,

(Authorized Signature with name and designation)

(Authorized Signature with name and designation)

VI. Form of Agreement to be Submitted by Banks/PFIs to SBP BSC Office Under LTFF

**FORM OF THE AGREEMENT TO BE OBTAINED FROM THE BANK /DFI UNDER THE
LONG-TERM FINANCING FACILITY (LTFF) FOR IMPORTED AND LOCALLY
MANUFACTURED PLANT & MACHINERY**

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

(Place).....

Date.....

The Chief Manager, SBP BSC (Bank),
(City)

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) under State Bank of Pakistan's Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery, for _____ years vide MFD Letter No.----- dated.....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 in your favour, as are acceptable to you and drawn on and payable in Pakistan, arising out of bonafide finance provided by us to our borrowers, an entity eligible for financing as per criteria spelt out in the Facility, for import of machinery (in case financial assistance is extended for import of machinery) or purchase of machinery (in case financial assistance is extended for the purchase of locally manufactured machinery) under the Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery and it is understood that the aforesaid accommodation may 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. Strike out whichever is not applicable. The maximum rate of mark up to be charged by us from the borrower shall not exceed ___* ___% p.a. from the service charges (*mark up*) payable to you on refinance as worked out under the provisions of the Facility.
 - d. Service charges shall be payable by us to you on quarterly basis on 31st March, 30th June, 30th September and 30th December each year or on maturity of the bills or promissory notes, whichever is earlier. Where the above schedule date falls on a public /weekly holiday we shall make payment of the due amount of service charges on a working day preceding such due date.

It shall be open to you to reimburse yourselves with the amount of service charges by charging the same to our current account with you in case we fail to make payment on the due date in full, as required under the Facility without seeking any debit authority from us. You shall also be entitled to charge fine on us, at a rate specified in the Facility from time to time, on our failure to make payment on account of inadequate balance in our account.

- e. The maximum amount of finance that you shall provide to us in the case of each project (for purchaser/importer as the case may be), financed by us would be an amount equal to the amount actually disbursed by us under the Facility.
- 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 (i) 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, along with 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 Facility. Any finances provided by us under this Facility 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 Facility.
- 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 Facility (ii) all parties liable thereon are financially sound, solvent and credit- worthy and that by virtue of such endorsement and delivery, we certify the

* As applicable for respective tenure of financing genuineness of signatures as well as authority of all persons thereon (iii) 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 (i) & (j), 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 Facility 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 (i) and (j) 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 Facility and that by executing a promissory note in your favour of lodging demand / usance promissory note under clause (i) 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 Facility. 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 money 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.
 - p. No indulgence or delay in exercising any of your rights hereunder shall be deemed a waiver of any right and no waiver of any of your right hereunder shall be construed as a waiver of any other rights you may have.

Yours faithfully,

(Authorized Signature with name and designation)

(Bank / DFI)

(Authorized Signature with name and designation)

(Bank / DFI)

VII. Demand Promissory Note to be Submitted by Banks/PFIs

DEMAND PROMISSORY NOTE *
(TO BE SUBMITTED BY BANK/DFI)

Rs. _____

Place.....

Date.....

On demand we.....(name of the bank/DFI) promise to pay to the State Bank of Pakistan, Banking Services Corporation (Bank), (City).....or order the sum of Rs.....(Rupees..... only) for value received plus service charges @.....% p.a. determined by SBP for re- financing under Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery.

(Authorized signature of the PFI)
(Name & Seal)



* To be stamped in accordance with the law in force in each Province.

VIII. Statement of Total Sales & Exports

On the Letter head of the Bank/DFI

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

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)
			Equivalen t to US\$	Equivalen t 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

IX. Undertaking to be submitted by the Customer Under ILTFF

**UNDERTAKING TO BE SUBMITTED BY THE CUSTOMER
UNDER THE ISLAMIC LONG TERM FINANCING FACILITY FOR PLANT AND
MACHINERY**

(to be stamped in accordance with the law in force in each province)

The Manager, ABC bank),

_____ (City) _____.

(Place) _____ Date _____

I/We do hereby certify and confirm that a finance of Rs. _____ (Rupees _____ only) has been allowed to me/us by you under Islamic Financing Facility For Plant and Machinery of the State Bank of Pakistan on the basis of (Islamic Modes of Financing) _____, it being understood that return/profit to be derived by the PIBI shall not exceed _____ % when converted into annual percentage terms:-

2 I/We, further confirm and undertake that the aforesaid finance will be/has been obtained by me/us for import/purchase of an eligible machinery item described hereunder against valid letter of credit/contract as per the provisions of the scheme under reference. Further I/we, confirm that aforesaid finance or any part thereof shall not be utilized except for the purpose spelt out in the scheme.

3 I/We, further confirm and undertake that the aforesaid amount of finance that will be availed by me/us shall be utilized exclusively to meet the cost of machinery being imported/purchased against letter of credit/contract, particulars of which are given at table below:-

Broad type of machinery imported/purchased	Amount of contract/letter of credit					Expected date of import/delivery of the machinery
	No.	Date	Amount in Foreign Currency	Value Date	Amount equivalent in Rupee Pak	
1.	2.	3.	4.	5.	6.	7.

4. I/We do certify that the finance is being obtained by me/us against bonafide transaction and I/we submit the requisite documents along-with this application for your consideration of extension of finance facility to us from your the PIBI under Islamic Long Term Financing Facility for Plant and Machinery.

5. I/We certify and confirm that I/we have not obtained any finance against the above-mentioned letter of credit/contract from any other the PIBI, except as under:-

Amount of: □

Import LC.	(for Import of machinery)	_____
Inland LC/contract order	(for purchase of locally manufactured machinery)	_____

Less: Amount of finance already availed	_____
Balance Amount	_____
Amount of finance now being obtained	_____

6. I/We, hereby confirm and agree that in the event of my/our failure to make payment on due date, you have our Irrevocable Authority without reference to us, to recover from me/us and debit my/our Account No. _____ maintained with you along-with charity if any as prescribed under the scheme. I/We authorize you to recover the fine amount even if I/we have made a representation to SBP against imposition of fine under the scheme.

7. I/We agree and understand that in the event that either SBP or PIBI avail their right of withdrawal from the scheme for any reasons, all financing made as per the terms of the scheme shall convert to mutually agreed regular terms and conditions of the concerned PIBI and in case of no agreement this will constitute an event of termination.

8. I/We agree that notwithstanding anything contained elsewhere in this undertaking, the amount of this finance along-with profit due thereon due to you will become due and payable immediately, if I/we commit breach of any of the terms and conditions hereof.

*Strike out the purpose whichever is not applicable

Yours faithfully,

Authorized Signature of the Customer

Witnesses:

Signature verified by the Authorized Officials of Branch of the PIBI

1. _____
2. _____

X. Demand Promissory Note to be Submitted by the Customer Under ILTFF

DEMAND PROMISSORY NOTE

(To be submitted by the PIBI's Customer)

(To be stamped in accordance with the law in force in respective Province)

Place:

Date

Rs. _____

On demand we _____ (Name of Customer) _____ promise to pay to _____ (Name of the PIBI) _____ or order the sum of Rs. _____ (Rupees only) for value received plus the profit accruing to _____ (Name of the PIBI) _____ in respect of finances made available to us and fine, if any, as laid down in the Islamic Long Term Financing Facility for Plant and Machinery.

(Authorized signature of the Customer)

(Name & Seal)

Note: - Demand Promissory Note required to be endorsed by the PIBI concerned in favour of its head office/principal office through which mudarabah investment is being claimed.

Witnesses:

1. _____

2. _____

XI. Mudarabah Agreement Between SBP and PIBI

MASTER MUDARABAH AGREEMENT**BETWEEN STATE BANK OF PAKISTAN AND (NAME OF PIBI)**

under Islamic Long Term Financing Facility for Plant and Machinery
(To be stamped as an agreement in accordance with the law in force in each province)

THIS AGREEMENT FOR INVESTMENT ON MUDARABAH BASIS

is made on the _____ day of _20

Between

[Name of the PIBI] _____, having its place of business at _____ hereinafter referred to as the PIBI (which expression shall, where the context admits, mean and include its successors in interest and assigns) acting as Mudarib of the ONE PART;

And

State Bank of Pakistan (SBP), incorporated under the State Bank of Pakistan Act, 1956, having its Registered Office at I.I. Chundrigar Road, Karachi, hereinafter referred to as SBP, (which expression shall, where the context admits, mean and include its successors in interest and assigns) acting as Rab-ul-Maal of the OTHER PART.

In consideration of SBP agreeing to provide mudarabah investment under Section 17 (6B) of State Bank of Pakistan Act, 1956, not exceeding Rs. _____ (Rupees _____ only) under State Bank of Pakistan's Islamic Long Term Financing Facility for Plant and Machinery, as may be amended from time to time (the 'Scheme') in the general pool of assets of PIBI (referred to hereinafter as the 'Pool') for _____ years vide Letter No. _____ dated _____.

Now, both the parties to this agreement do hereby agree to the terms and conditions as set out herein under:-

- 1) The maximum amount of mudarabah investment that SBP shall provide to the PIBI in the case of each customer financed by the PIBI will not exceed the amount actually disbursed by the PIBI under the Scheme.
- 2) The PIBI undertakes that it shall not seek mudarabah investment from SBP in terms of this agreement unless it is satisfied that all parties liable there under are financially sound and credit worthy.
- 3) Any demand to be made by SBP under the agreement for tendering the documents prescribed under this agreement shall be sufficiently made if it is made in writing and addressed and sent by post or otherwise to the PIBI's Head Office or its branch.

Investment Maturity/Redemption:

- 4) At maturity the PIBI shall redeem SBP's share in the general pool by purchasing SBP's proportionate share in the general pool as per schedule of payment under the scheme after taking into consideration profit and loss, as the case may be.
- 5) The PIBI expressly agrees that SBP is entitled to redeem or advance the date of redemption

- for mudarabah investment (as per “Instructions for Profit & Loss Distribution and Pool Management for Islamic banking Institutions (IBIs)” issued vide IBD Circular No.3 dated November 19, 2012, as amended from time to time, for profit/loss arising from the general pool) under this agreement at any time and for any reasons without any prior notice. Further, SBP can also cancel/alter the financing limit allocated to PIBI under the scheme. SBP is not obliged to invest in a PIBI any time and for any reason against this scheme.
- 6) The PIBI also expressly agrees that SBP has the right to vary, amend, alter or add to the terms and conditions of the scheme without any reference to the PIBI who agrees to invariably comply with the same. The PIBI shall also have the right to withdraw from the scheme and redeem SBP’s outstanding mudarabah investment (after taking into consideration “Instructions for Profit & Loss Distribution and Pool Management for Islamic banking Institutions (IBIs)” issued vide IBD Circular No.3 dated November 19, 2012, as amended from time to time, for profit/loss arising from the general pool) uptill such date, if it does not agree to the amendments made by SBP.
 - 7) The PIBI agrees that on delay of payment by the PIBI on any date agreed, SBP has the authority to debit without further reference to the PIBI, all of its accounts now held or held hereafter or adjust any amounts which may, howsoever, become due from SBP or come into SBP’s possession or control to the extent of SBP’s mudarabah investment (after taking into consideration “Instructions for Profit & Loss Distribution and Pool Management for Islamic banking Institutions (IBIs)” issued vide IBD Circular No.3 dated November 19, 2012, as amended from time to time, for profit/loss arising from the general pool).

Profit Payments:

- 8) The PIBI agrees that all income of general pool of assets shall be applied in deriving the profit to the mudarabah participants in the general pool including SBP and that the profit allocation would be according to “Instructions for Profit & Loss Distribution and Pool Management for Islamic banking Institutions (IBIs)” issued vide IBD Circular No.3 dated November 19, 2012, as amended from time to time. The PIBI shall hold SBP’s share in profit separately for and on SBP’s behalf.
- 9) The PIBI will make payment of profit of the SBP’s share in the profit of the pool, as per profit weightage fixed at the beginning of each month based on the SBP’s expected return on similar refinance facilities. At the end of each quarter, the profitability from the pool shall be determined on the basis of the un-audited accounts of the pool, and distributed between the PIBI and depositors (alongwith SBP) according to the weightages of the funds contributed by all participants in the general pool.
- 10) Profit shall be calculated and assigned to the SBP on monthly basis but will be payable by the PIBI to SBP on quarterly basis, within 7 working days of completion of calendar quarters, each year or on maturity/redemption of the investment, whichever is earlier. Where the above schedule date falls on a public/weekly holiday the PIBI shall make payment of the due amount of profit on next working day after such due date. The monthly profits assigned to SBP but not distributed till the calendar quarter or otherwise as the case may be shall be kept on account by PIBI on behalf of SBP; this amount shall not form part of the general pool and no profit shall be entitled on this amount

ILTFF - Reserve Fund (RF-ILTFF):

- 11) SBP shall create a Reserve Fund (RF) at SBP-BSC (Bank) from its share in profits of the scheme. If in any month, SBP’s share in profit is more than the expected return; such excess profits shall be transferred to the RF-ILTFF. The PIBIs shall advise the SBP BSC (Bank) offices accordingly, within 7 working days of close of quarter, by issuing separate advices

for transfer of profit amount into 'Profit Account', and for transfer of excess amount into 'LTFF Reserve Fund'. If any profits in the subsequent quarter(s) are less than the desired returns, the shortfall in the profit may be made good by withdrawing from the amount lying in the RF-LTFF by SBP.

- 12) If, upon annual audit, SBP's share of profit is found to be less than the expected rate, such deficit amount shall be fulfilled by withdrawing from the amount in the RF-Islamic LTFF.
- 13) If at any time, the general pool of a PIBI suffers a loss, it shall be borne by all the participants of the general pool, including SBP, to the extent of their respective ratios of investments in the general pool. SBP shall meet its share of the loss from the RF-Islamic LTFF first, and where RF-Islamic LTFF is insufficient, SBP will absorb the remaining loss as per share of its investment in general pool.
- 14) The PIBI will be responsible for any loss incurred to SBP in transactions taken under this agreement, if the said loss is subsequently proved to have been caused on account of negligence/mis-statement and/or misrepresentation, on the part of PIBI.

Documentation, Security & Charge:

- 15) The PIBI agrees and undertakes that the PIBI shall at all times execute or maintain separate legal documentation and records including letters of credits/inland letters of credit and further security documents, notes, indemnity bonds, agreements etc., including the assignment deed of securities now held by the PIBI or which may be obtained by the PIBI from its customers subsequently, as are adequate to safeguard the PIBI's interest against the finances for which this agreement has been executed. The PIBI also agrees and undertakes to keep all such documents in trust for a reasonable period as per provisions of the scheme. The PIBI further agrees that SBP or any official authorized by SBP shall have the right of inspection of the PIBI's records and documents for which mudarabah investment has been made by SBP. SBP shall have the right to seek and obtain full assistance and cooperation from the PIBI for discharging SBP's duties and performing SBP's functions.
- 16) The PIBI agrees to hold the securities/security documents now held or which may be held by it as security for finance given to the customer as trust on behalf of the general pool by way of security for due redemption thereof and the PIBI undertakes to deal with the same as SBP (as regulator) may direct. The PIBI further agrees that if and when it realizes these securities or any part of it, it shall pay to the participants of the general pool, from all such realizations, in proportion to their share. Pending such payment, PIBI shall hold the same for and on behalf of the general pool.
- 17) The PIBI shall submit to SBP copies of the Demand Promissory Notes executed in the PIBI's favour by its customers, under this agreement with a certificate that
 - (i) the same arises out of bonafide finances provided by the PIBI under the scheme (ii) all parties liable there under are financially sound, solvent and credit- worthy and that by virtue of such endorsement and delivery, the PIBI certifies the genuineness of signatures as well as authority of all persons thereon (iii) the finances provided to parties liable have not been classified by SBP as doubtful/loss.
- 18) In addition to clause (20), the PIBI shall hold upon trust securities/security documents presently held by it or which may be obtained by it from its customers to whom finance is made available under this scheme, as security for due payment of finance with return/profit thereon. Further, on SBP's (as a regulator) demand, the PIBI undertakes to assign to SBP all such securities and secured documents, and agrees that upon such assignment the provisions of clause (20) shall, mutatis mutandis, apply.
- 19) In addition to the preceding clauses, the PIBI agrees that as and when SBP demands, it

shall create valid legal charge on any or all of its assets as may be demanded by SBP for payment of any amount that is due under this agreement.

- 20) The PIBI agrees to obtain an undertaking from the customer concerned to the effect that the finances provided by it to them, shall be exclusively used by them for purposes prescribed under the Scheme and that they would promptly furnish, at their expense, such information, in such form and at such time as the PIBI/SBP may demand from time to time.
- 21) The PIBI agrees that notwithstanding anything contained elsewhere in this agreement, if the PIBI commits breach of any of the terms and conditions of this agreement SBP shall have a right to immediately redeem SBP’s outstanding mudarabah investment and profit (in accordance with “Instructions for Profit & Loss Distribution and Pool Management for Islamic banking Institutions (IBIs)” issued vide IBD Circular No.3 dated November 19, 2012, as amended from time to time) up till such date.
- 22) No indulgence or delay in exercising any of SBP’s rights hereunder shall be deemed a waiver of any right and no waiver of any of SBP’s right hereunder shall be construed as a waiver of any other rights you may have.

PIBI’s Authorized Signatory (with name and designation)	State Bank of Pakistan’s Authorized Signatory (with name and designation)
--	---

Witnesses:

- 1. _____
- 2. _____

MUDARABAH AGREEMENT

BETWEEN THE STATE BANK OF PAKISTAN AND (NAME OF PIBI)

under Islamic Long Term Financing Facility for Plant and Machinery

(To be stamped as an agreement in accordance with the law in force in each province)

THIS AGREEMENT FOR INVESTMENT ON THE BASIS OF MUDARABAH

is made on the _____ day of _____ 20

Between

[Name of the PIBI] _____, having its place of business at _____ hereinafter referred to as the PIBI (which expression shall, where the context admits, mean and include its successors in interest and assigns) acting as Mudarib of the ONE PART;

And

State Bank of Pakistan, incorporated under the State Bank of Pakistan Act, 1956, having its Registered Office at I.I. Chundrigar Road, Karachi, hereinafter referred to as SBP, (which expression shall, where the context admits, mean and include its successors in interest and assigns) acting as Rab-ul-Maal of the OTHER PART.

As per terms and conditions agreed between SBP and _____ (name of PIBI) in the Master Mudarabah Agreement signed between the two on (date) _____, SBP agrees to provide Mudarabah Investment under Section 17 (6B) of State Bank of Pakistan Act, 1956, not exceeding Rs. _____ (Rupees _____ only) under State Bank of Pakistan’s Islamic Financing Facility for Plant and Machinery, as may be amended from time to time (the ‘Scheme’) on the basis of participation in the profit and loss of the general pool of Assets (referred to hereinafter as the ‘General Pool’) for _____ years vide Letter No. _____ dated _____

PIBI’s Authorized Signatory (with name and designation)

SBP’s Authorized Signatory (with name and designation)

Witnesses:

- 1. _____
- 2. _____

XII. Mudarabah Investment Request Form to be Submitted by PIBI to SBP

MUDARABAH INVESTMENT REQUEST FORM
UNDER ISLAMIC FINANCING FACILITY FOR PLANT AND MACHINERY
 (TO BE SUBMITTED BY THE PARTICIPATING ISLAMIC FINANCIAL
 INSTITUTIONS (PIBI))

The Chief
 Manager,
 SBP BSC
 (Bank),

_____ (City)

Dear Sir,

INFORMATION MEMORANDUM & REQUEST FOR MUDARABAH INVESTMENT

With reference to letter No. _____ dated _____ issued by the (Name of Department) of State Bank of Pakistan conveying the availability of funds under the scheme; we (Name of PIBI) submit herewith details of disbursement made as per terms & conditions of the scheme and request SBP for mudarabah investment facility upto the amount already disbursed by us on (date) equivalent to Rs. (current application) (Rupees in words) only. The particulars of our above referred financing are given hereunder: -

- | | | |
|--------|--|---|
| (i) | Facility sanctioned under | (Name of scheme & reference of Circular No. and date) |
| (ii) | Name of the customer/sponsor of project | _____ |
| (iii) | Business address of the customer/sponsor of the project | _____ |
| (iv) | Broad type of machinery for which facilities have been sanctioned | _____ |
| (v) | Particulars of finance as per financing agreement executed with the customer | Amount _____
Date of execution _____
Rate of profit _____ |
| (vi) | Period for which finance has been sanctioned | _____ |
| (vii) | Mode of financing | _____ |
| (viii) | Purpose of the financing | _____ |

2. We certify that

- a. The details of the contract(s) finalized with the above-named customer/sponsor of

- the project and the financing made by us to them against the aforesaid contract has been placed in our record and shall be invariably provided to the inspection team(s) of SBP during the inspection of our bank/branches.
- b. the terms and conditions as stipulated in the captioned scheme have been complied with;
 - c. all the requirements of the scheme, including those at (c) and (d) below have been fully met;
 - d. the eligibility of customer and the relevant plant, equipment, machinery or accessories thereof against which mudarabah investment is requested, 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/undertaking referred to above;
 - e. the procedure for procurement of the machinery imported/purchased and the mode of payment are in accordance with our prescribed procedure, as also guidelines given in the Scheme.
3. We request you to provide mudarabah investment of Rs. _____ (Rupees _____ only) being equivalent to mobilization advance/cost of machinery imported/purchased out of our above referred amount and credit our current account with you.
4. We understand that the SBP has the right to appoint independent consultants to verify cases of mudarabah investment 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 mudarabah investment provided to us by the SBP on the basis of this application if the SBP subsequently concludes that such mudarabah investment was wrongfully claimed and also to immediately pay fine on such finance @ paisa 60 per day per Rs. 1,000 or part thereof, or such other rate as may be announced by the SBP from time to time, for the period for which such finance was availed by us.
5. We also undertake that in case irregularities are found to have been committed by the customer due to negligence of our officials/staff to ensure compliance of the same or that such irregularities have been made by the customer with the involvement of our staff/officer(s), besides taking appropriate action against our staff under our staff regulations or code of conduct, we shall indemnify and agree to indemnify and save harmless the SBP against any action, cost, loss and expense that it may incur due to litigation or otherwise on account of recovery of amount of mudarabah investment and the fine thereof for availing of mudarabah investment to which we/the customer were not entitled otherwise.
6. The PIBI agrees that notwithstanding anything contained elsewhere in this agreement, if the PIBI commits breach of any of the terms and conditions of this agreement SBP shall have a right to immediately redeem SBP's outstanding mudarabah investment and profit amount earned (after taking into consideration any loss arising) up till such date.

Yours faithfully,

(Authorized Signature with name
and designation)

(Authorized Signature with
name and designation)

DOCUMENTS ENCLOSED WITH THE REQUEST:

- i. Undertaking by customer as per format at ILTFF: 5.
- ii. Copy of customer's payment schedule.
- iii. Security documents (including ILTFF-3) required under the captioned scheme for the purpose of availing mudarabah investment, to the extent of the amount mentioned in (Name) Department's letter referred to above.

- iv. Demand Promissory Note for Rs. _____
(Rupees

_____ only) signed by M/s. (Name of
Customer/Project) referred to above and endorsed by the PIBI in SBP's favour.

Note: Mudarabah Investment made by SBP shall constitute as acceptance and acknowledgement on its behalf.

(On the Letterhead of the issuing Participating Islamic Banking Institution)

XIII. Debit Authority to be Submitted by PIBI to SBP

Debit Authority

In consideration of the State Bank of Pakistan having deposited/invested in (Name of the PIBI) the sum of Rs. (Rupees only) under the Islamic Long Term Financing Facility for Plant and Machinery, we hereby authorize SBP to debit our current account being maintained with SBP BSC, (City) for any amount due, as per the rules of Mudarabah, under the schedule¹.

This authority is irrevocable and effective from (date) and will remain valid and in force till the time it is released in writing by SBP.

For & on behalf of (Name of the PIBI):

 Authorized Signatory

¹ Schedule of redemption to be attached with this debit authority(s)



TRADE DEVELOPMENT AUTHORITY OF PAKISTAN | MINISTRY OF COMMERCE

FTC Building, Block - A, Shahrah-e-Faisal, Karachi - Pakistan

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