# Long Term Financing Facility (LTFF)

Finance is the life line of any business, and it is impossible to achieve the short and long term business goals without effectively managing the finances. Entrepreneurs need funds for growth, market competition, and to keep their business operational and maintain their customer base etc. as well as finance is needed to fulfill the long-term goals and new additions like purchase of machinery and plants etc. It is difficult for the small & medium enterprises to arrange huge finance for such addition in business. Therefore, SMEs approach the banks and other financial institutions for long-term loans and advances to fulfill the need and to run the business circle smoothly. In order to meet such demands of businesses, State bank of Pakistan offers many refinancing schemes e.g. "Long Term Financing Facility (LTFF)".

**Long Term Financing Facility (LTFF) for Plant & Machinery**

Over the years, SBP has introduced special schemes under its refinance window to ensure adequate supply of financing to the value added industries at competitive rates to enhance their production capacity. These schemes mainly include Export Finance Scheme (EFS) to ensure short term credit availability for exporters and Long Term Financing Facility (LTFF) for encouraging export led growth on the long term basis. Therefore, to facilitate export led growth through setting up export oriented projects, LTFF was introduced to provide funds on long term basis (up to 10 years) for import of machinery and purchase locally manufactured plants, and it is available at mark-up rate of 6 percent per annum.

As SBP mentioned on their website that there are more than 20 banks and financial institutions are offering the said scheme, some of those institutions/banks are; Allied Bank Limited, Askari Bank Limited, Bank Alfalah Limited, Bank Al-Habib Limited, The Bank of Punjab, The Bank of Khyber, Citibank, Faysal Bank Limited, Habib Bank Limited, Habib Metropolitan Bank Limited, MCB Bank Limited, National Bank of Pakistan, NIB Bank Limited, Samba Bank Limited, SILKBANK Limited, Soneri Bank Limited, Standard Chartered Bank (Pakistan) Limited, Summit Bank Limited, United Bank Limited, Sindh Bank Limited, JS Bank Limited, Development Finance Institutions (DFIs), Pak Oman Investment Company Limited (POICL), Saudi Pak Industrial & Agricultural Investment Company Limited (SPIAICO), Pak Libya Holding Company Limited (PLHCL), Pakistan Kuwait Investment Company Limited (PKICL), Pak Brunei Investment Company Limited (PBICL), Pak China Investment Company Limited (PCICL), PAIR Investment Company Limited. **[Updated in October 2016]**

**Aims & Objectives**

State Bank had introduced LTFF to promote export led industrial growth in the country. Through this facility exporters are facilitated by providing subsidized financing for setting up of export oriented projects and modernizing their plant & machinery.

**Maximum Financing Limit and Repayment**

- Maximum borrowing limit for a single export oriented unit is Rs 1.5 billion under LTFF.
- Financing is available for a maximum period of 10 years including a maximum grace period of 2 years.
- Principal amount of loans is repayable in equal quarterly / half yearly installments after prescribed grace period, if any. Mark-up is payable on quarterly basis.

**Features of this Scheme**

- Financing is available for local purchase and import of new plant, machinery, equipment and generator / captive power plant.
- Financing available through banks as per their lending policies and terms & conditions of the Facility.
- Financing is available to the export oriented projects only having annual exports equivalent to **US$ 5 million** or 50% of sales, whichever is lower.

- Financing also available to new projects on the basis of projected exports. New projects are required to meet the minimum export target of LTFF [viz. annual exports equivalent to US$ 5 million or 50% of sales, whichever is lower] on staggered basis in four years.
- Financing is available against Letter of Credit only, to the extent of the C&F value of imported machinery and ex-factory / showroom price of locally manufactured machinery.
- Eligible Sectors are **textile & garments**, rice processing, **leather & leather products, sports goods,** carpets & wools, **surgical instruments,** fisheries, poultry & meat, fruits / vegetable & processing, cereals, I.T. software & services, marble & granite, gems & jewellery, engineering goods, ethanol, furniture, pharmaceutical, glass and dairy sector.

**Eligibility Criteria for LTFF**

- The facility shall be available to the export oriented projects only if their annual export is equivalent to US $5 million or at least 50% of the sales whichever is lower.
- Financing shall be available through PFIs which include commercial banks, Islamic Banks and DFIs.
- Financing under the facility shall 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.
- Export oriented SME borrowers may purchase imported machinery from the commercial importers or authorized dealers of the foreign manufacturers in Pakistan and authorized suppliers in case of locally manufactured machinery and plant; While providing facilities under the Scheme to SME borrowers the PFIs, however, will ensure that financing under the facility, when taken together with other borrowings, does not exceed the borrowing ceiling fixed for SMEs under the SMEs Prudential Regulations.

**Terms & Conditions**

- The cost of insurance, transit insurance, erection and commissioning charges and other incidentals (including transportation charges, in case of locally manufactured machinery) etc. shall not be financed under the facility.
- PFIs shall reasonably ensure fulfillment of the pre-disbursement formalities by the borrower through due diligence as per their own internal arrangements to avoid miss utilization of the Facility through over invoicing, wrong selection of machinery etc.
- Disbursement under the facility shall be made by PFIs after ensuring that all the pre-disbursement formalities have been completed in accordance with the terms of agreement between the PFI & borrower, and between the supplier / manufacturer and the purchaser / importer of the machinery.
- There will be no maximum limit for borrowing by the prospective entrepreneurs under this Facility. However, in case of larger financing requirements, i.e. over Rs 300 million, PFIs are encouraged to provide finance under consortium arrangements.
- In case of consortium financing, the payment to the PFI of the importer / supplier / manufacturer shall be made by the leader of the consortium, who shall therefore, be under obligation to certify the share of each member PFI and the amount disbursed by it, to enable the consortium members to avail refinance from State Bank to the extent of their share subsequent to the actual payment made by the consortium leader.
- PFIs shall make necessary arrangements to ensure that the amount of refinance availed by them from State Bank and outstanding as on the date of preparation of their financial statements is shown separately in Annual Audited Accounts, against their constituent to whom the financial facilities were sanctioned by them.
- State Bank shall have the right to appoint an independent consultant to verify the use of the refinance under the Facility for the purposes spelt out under the Facility. In case the report of the consultant points out irregularity on the part of the financing PFI or the borrower, State Bank reserves the right to recover the amount of refinance granted to the PFI along with fine at the prescribed rate including the cost of such verification.
- In case of the import of plant and machinery, the foreign currency required for making payment to the machinery manufacturer or the suppliers abroad, against LC, shall be purchased by the PFI of the borrower from the inter-bank market at prevailing rates. In case the machinery is to be imported

under usance LC, both the exporter and its PFI would ensure that they have made necessary arrangements to hedge their position against adverse exchange rate movements. The quantum of the loan amount in equivalent Pak rupees shall be determined on the basis of the rupees resources required for purchase of the foreign currency on the actual date of retirement of LC and shall be released in accordance with the payment terms.

- In case the projections made by the borrowers in respect of export sales are not met with a confidence interval of 10% the State Bank would consider to impose a fine on the borrower at a rate to be determined by the State Bank provided the borrowers fail to provide justification for the same. PFIs would be under obligation to keep track of borrower's performance in this regard and submit the position to the inspection teams of the Banking Inspection Department of the State Bank at the time of inspection of the PFI, if so desired.

State Bank offers such schemes for the development and promotion of small and medium businesses, as all the details regarding the working and availing the schemes are given on the official website of State Bank of Pakistan **http://www.sbp.org.pk** for the kind information. SMEs should take benefits for such refinancing schemes for enhancing their businesses at low cost, and develop their methodologies and techniques through new and latest machineries in order to compete in international market.

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