Prudential Regulations for
Infrastructure Project Financing (IPF)

Infrastructure, Housing & SME Finance Department

STATE BANK OF PAKISTAN

IPF Prudential Regulations Team

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C O N T E N T S

P R E F A C E

Infrastructure is the backbone for economic growth and development in a country. Availability of infrastructure improves investment climate leading to job creation, export competitiveness and uplifting of living standards. Pakistan faces acute lack of infrastructure facilities; energy, communication networks, water & sanitation, educational institutions and recreational facilities are some major infrastructure areas requiring urgent attention.

Government of Pakistan is making all out efforts to provide state of the art infrastructure facilities across the country. A number of renewable energy projects are being set up by the Federal as well as the Provincial Governments. Similarly a number of highways and motorways are being built, which include both CPEC related and non CPEC related projects. Financial resources in infrastructure projects constitute a major component of the whole resource envelope. This is true universally including developed as well as developing nations.

State Bank of Pakistan recognizing the importance of infrastructure financing in the country, issued Infrastructure Project Financing (IPF) Guidelines in 2005. These guidelines were then updated in 2010. In order to promote infrastructure financing in Pakistan, the SBP is now issuing Prudential Regulations (PRs) for Infrastructure Project Financing. These regulations have been developed on the basis of broad based internal as well as external stakeholders' consultations. These PRs for IPF draw strength from financial sector's experiences and SBP's forward looking approach in this area.

These Prudential Regulations place emphasis on important features of infrastructure project finance which will facilitate the banks and DFIs to assess the cash flow generating capacity of the projects like the requirement of technical feasibility, comprehensive risk assessment, project insurance, technical monitoring of the project during loan tenure and requirement of supply and off-take agreements. It is hoped that these features of the Regulations will help banks and DFIs to develop expertise for financing of infrastructure projects, essentially by evaluating the intrinsic cash flow generating ability of these projects.

It is also pertinent to mention here that these Regulations do take in to account environmental impact of infrastructure projects. The banks/DFIs are advised to consider environmental externalities in infrastructure projects along with other technical, legal and regulatory aspects.

Banks/DFIs are encouraged to prepare their own structured lending schemes for the development of IPF. For this purpose, banks/DFIs may commission their own studies to determine the potential in specific infrastructure projects. Besides conventional infrastructure financing, banks/DFIs are also encouraged to adopt Islamic mode of banking to develop infrastructure products as it is very conducive to infrastructure financing. In developing Islamic financing products for infrastructure, the banks/DFIs should refer to relevant instructions issued by Islamic Banking Department of SBP. Furthermore, Islamic Banking Institutions may convert conventional IPF terms in context of Islamic banking practices wherever deemed necessary.

The IPF Prudential Regulations do not supersede other directives and instructions issued by SBP from time to time in respect of areas not covered here. The IPF Prudential Regulations cover issues relating to risk management of infrastructure project financing only. However, the relevant sections covering categories viz. corporate governance (G), anti money laundering (M), and operations (O), as mentioned in Prudential Regulations for Corporate/Commercial Banking shall be applied, wherever applicable. Any deviation or non-compliance shall attract punitive action under the relevant provisions of the Banking Companies Ordinance, 1962.

Director

Infrastructure, Housing & SME Finance Department

30 December 2016

Prudential Regulations
for Infrastructure Project Financing

PART- A

DEFINITIONS

1. **Asset Securitization** means a process whereby any Special Purpose Vehicle raises funds through the issue of Term Finance Certificates or any other instruments with the approval of Securities and Exchange Commission of Pakistan (SECP). The funds so received are used to make payment to the Originator, for acquiring from the Originator the title, property or right in the receivables or other assets in the form of actionable claims. Originator in this context has the same meaning as explained in BPD Circular No. 31 of November 14, 2002 http://www.sbp.org.pk/bpd/2002/C31.htm.

2. **Bank** *as defined in Prudential Regulations for Corporate/Commercial Banking.*

3. **Borrower** means Concessionaire/Licensee/Project Company of an Infrastructure Project, including a public sector entity, on whom the bank(s)/DFI(s) has/have taken exposure during the course of business, including their successor(s).

4. **Concession Agreement** means an agreement, usually with the government authority, to operate the project or to provide the specified services for a certain period of time on certain predetermined terms.

5. **Concessionaire/Licensee** means a legal entity, incorporated by sponsors of an Infrastructure Project, to whom a Concession/License is awarded by a government agency, including their successor(s) in the titles and assignments.

6. **Contractor(s)** means the entities which may be awarded the contract for construction, supply of materials, operation, maintenance and other allied works of an Infrastructure Project by the Concessionaire/Licensee/Project Company.

7. **Debt Payment Account** means an account created for the period of financing provided by the Lenders that shall be funded by the Concessionaire/Licensee/Project Company as per the Financing Agreement(s) from the Project Account(s) and/or the Project Collection Account to amortize debt.

8. **DFI** *as defined in Prudential Regulations for Corporate/Commercial Banking.*

9. **Equity of the Bank/DFI** *as defined in Prudential Regulations for Corporate/Commercial Banking.*

10. **Exposure** *as defined in Prudential Regulations for Corporate/Commercial Banking.*

11. **Financing Agreement(s)** mean(s) the agreement(s) entered into between the Concessionaire/Licensee/Project Company/Sponsors and the Lenders, for the purpose of providing the fund-based and non-fund based facilities necessary to carry out the Infrastructure Project, and will also include all other agreements/documents providing security for such financing.

12. **Financial Close** means the stage at which financing agreement(s) has/have been executed and conditions precedent in them have been satisfied/waived/deferred. Subsequently, funding becomes available to the project and facilities are ready to be disbursed on agreed terms and conditions.

13. **Financial Completion** means fulfillment of any one or more of the conditions listed below:
    a. The project's ability to produce below a certain unit cost that is agreed beforehand by the concerned parties.
    b. Produce a minimum volume, output or level of performance above a certain level.
    c. Show compliance with any similar conditionality for a specified period of time.
    d. Have a minimum level of working capital and a certain current ratio.
    e. Achieve a minimum debt-service coverage ratio and debt-to-equity ratio for a certain period and any other conditions set as per the Financing Agreement(s).

14. **Financial Covenants** mean legal undertakings of the borrower to adhere to certain limits in its operations and financial performance as specified in the Financing Agreement(s). For example, not to allow certain balance sheet items or ratios (the debt-service coverage ratio etc.) to fall below or go over an agreed-upon limit.

15. **Government Agency** means:
    (a) A division, department, attached department, bureau, section, commission, board, office or unit of the Federal Government or a Provincial Government or a Local Government;
    (b) A development or a local authority, company or corporation established or controlled by the Federal Government or Provincial Government.

16. **Islamic Banking Institutions** mean Islamic commercial banks, Islamic banking subsidiaries and Islamic banking branches of conventional banks, licensed by State Bank of Pakistan.

17. **Infrastructure Project Financing (IPF)** means either limited recourse or non-recourse financing for an Infrastructure Project as mentioned in table below, which includes both fund-based and non fund-based facilities. Projects being financed under modes of financing other than project finance shall not be governed under Prudential Regulations for IPF.

S. No.	**Infrastructure Sectors**	**Infrastructure Projects**
A.	Transport	i. Roads, Flyovers and Bridges ii. Mass Transit, Urban Bus, Urban Rail iii. Rail-Bed, Stations System, Rail Freight, Passenger Services, Tunnels, Bridges etc iv. Ports, Channel Dredging, Shipping, Container Terminals v. Inland Waterways vi. Airports
B.	Power	i. Power Generation ii. Power Transmission iii. Power Distribution
C.	Energy	i. Natural Gas Exploration and Distribution ii. LPG Extraction, Terminal, Distribution and Marketing iii. LNG Terminal, Distribution and Marketing iv. Petroleum Extraction, Refinery and Pipeline v. Oil/Gas/LNG Storage Facility vi. Energy Efficiency and Conservation vii. Coal Mining
D.	Telecommunication	A Telecommunication Local Services, Long Distance and Towers
E.	Water & Sanitation	i. Dams, Barrages and Canals ii. Water Supply Pipelines iii. Irrigation System & Network iv. Water Treatment System v. Sewage Collection, Disposal & Treatment System vi. Solid Waste Management
F.	Social, Cultural & Commercial Infrastructure	i. Educational & Training Institutes ii. Hospitals, Training Institutes, Diagnostic Centers iii. Public Parks, Recreational Facilities iv. Tourism related Facilities like Hotels v. Industrial Parks and Special Economic Zones (SEZ) vi. Warehouses, Cold Storage vii. Housing Projects
G.	Any Other	Any other infrastructure project in consultation with SBP

18. **Lender** means a bank/DFI taking exposure on the Concessionaire/Licensee/Project Company and their successors. The term 'Lender' shall also include a consortium of lenders, a trustee, or a security agent appointed by the lenders.

19. **License** means a permission granted by a government or private entity to a company sponsor for undertaking an Infrastructure Project.

20. **Limited-Recourse Financing** means a form of financing in which the lenders base their credit decision primarily on the cash flows of the borrower/project company. In addition, the security package may give lenders legal recourse against the sponsor and/or its assets.

21. **Liquid Assets** *as defined in Prudential Regulations for Corporate/Commercial Banking.*

22. **Local Authority** means any agency set up or designated by Federal Government or Provincial Government, by notification in the official Gazette, to be a Local Authority.

23. **Non-recourse Financing** means a form of project financing in which the lenders base their credit decisions solely on the cash flows of the project for repayment of the project debt. Such recourse is opted where the project is fully capable of generating sufficient cash flows to repay the project debt, even under adverse conditions.

24. **Physical Completion** means the project's ability to sustain production/services at a certain capacity for a specified period of time, such as one month or one quarter of an operating year. Before this, the project may also be certified as technically complete, i.e. meeting all technical design specification.

25. **Project Account(s)** mean(s) one or more account(s) for the purpose of depositing contributions towards the equity of the Concessionaire/Licensee/Project Company and the disbursement of loans by the Lenders through a 'cash waterfall' mechanism under the Financing Agreement(s). The Project Account(s) can also be utilized for depositing surplus receipts after appropriations for debt servicing, project maintenance and any other appropriations as per the Financing Agreement(s) from the Project Collection Account. Moreover, all receipts and expenditure made with respect to the due performance of its obligation by the Concessionaire/Licensee/Project Company shall be through such Project Account(s).

26. **Project Capital Cost** means the total construction/completion costs of a project on an un-leveraged (all-equity) basis, which includes project development cost, land, owners' costs of construction, and initial working capital.

27. **Project Collection Account** means an account opened for the exclusive collection of all revenue receipt of an Infrastructure Project that shall be operated by the

Concessionaire/Licensee/Project Company in accordance with Financing Agreement(s) with the lenders.

28. **Project Company** means the legal entity, registered with SECP under relevant laws, which owns and/or operates a project.

29. **Project Finance** means a form of 'Non-recourse' or 'Limited Recourse' financing, where the lenders base their credit decision solely or primarily on the cash flows of the project, with respect to repayment of the project debts.

30. **Project Cost** means the total financing (debt and equity) required to complete construction of a project. It includes development cost, advisory fee, insurance fee, capital costs, financing fee, interest that accumulates during the construction period, and any amounts (financing plan contingencies) set aside to pay for cost overruns or debt servicing in case of any delays, lower than anticipated project revenues including possible force majeure event.

31. **Project Funds Agreement (PFA)** means an agreement, usually by sponsors, to provide additional funds as needed until completion of the project, or at any other agreed date. However, burden of additional funds may be shared amongst sponsors, creditors and suppliers as per their mutual consent under a PFA.

32. **Project Sponsor(s)** mean(s) the primary developer(s) and proponent(s) of a project, or a party providing the major owner's equity financing.

33. **Public Utilities** mean water supply, electricity supply, telecommunication system, sewerage system, petroleum, gas supply and other utilities and amenities for the benefit of the public.

34. **Right of Way** means the existing corridor already available with a government agency and any additional land which may have to be acquired by a government agency for the purpose of the Infrastructure Project.

35. **Special Purpose Vehicle** means a special purpose vehicle registered with the SECP for the purpose of Securitization.

36. **Subordinated Loan** means an unsecured loan extended to the borrower, generally by its sponsors, subordinate to the claim of the bank/DFI taking exposure on the borrower, and documented by a formal sub-ordination agreement between provider of the loan and the bank/DFI. The loan shall be disclosed in the annual audited financial statements of the borrower as subordinated loan.

37. **Term Sheet** means a document that outlines the terms and conditions of the financing facility. A term sheet is issued by a bank/syndicate prior to formal signing of Financing Agreement(s).

PART - B

REGULATIONS

IPF.1 -- CREDIT APPRAISAL

A thorough credit appraisal of an IPF shall be carried out in order to identify and mitigate the project risks, and to ascertain that the project will function as per plans. Assessment of the technical, financial and economic viability of the project shall also be carried out to determine adequacy of the project cash flows. Furthermore, banks/DFIs shall thoroughly review and assess the validity of assumptions on which cash flow projections have been made to repay project debt and meet its obligations under the Financing Agreement(s)

IPF.1.1 -- Analysis of Financial Model(s)

Banks/DFIs shall comprehensively evaluate the financial model(s), prepared in-house or provided by financial advisor/Project Company, at the time of due diligence to create project forecasts and conduct scenarios & sensitivity analysis. Banks/DFIs shall use this model(s) after financial close to update for changes in various assumptions so as to look for early warning signals with respect to any overruns that may be expected in the project cost.

IPF.1.2 -- Requisite Expertise for Appraisal

Banks/DFIs, which are involved in IPF, shall develop the requisite expertise (human resources, IT system etc.) to conduct a thorough appraisal of the proposed project in consultation with the technical, legal, insurance, financial and environment advisors (as the case may be).

IPF.1.3 -- Minimum Information Requirements

Banks/DFIs, shall obtain and evaluate detailed due diligence of the proposed project which may include reports from financial, technical, legal, insurance and environment advisors. The financial feasibility, if required, may be endorsed by an auditing firm on the approved panel of SBP. The banks/DFIs shall get the technical feasibility report independently reviewed by their technical advisor, which can be an engineering firm of repute registered with concerned authority in Pakistan or internationally.

Moreover, banks/DFIs shall also obtain minimum information to their satisfaction regarding the proposed Infrastructure Project in accordance with Annex-A (IPF: Checklist for Minimum Information Requirements). Banks/DFIs should get the project documents, as specified in section 6 of Annexure A, vetted by a legal counsel or syndicate legal counsel.

IPF.1.4 -- Assessment of Infrastructure Projects

Infrastructure Projects usually go through development, construction, start-up, and operation stages. Banks/DFIs shall, therefore, assess these stages separately for risk mitigation purpose. While some of the Regulations in this regard are given as under; however, banks/DFIs may put in place additional safeguard measures as per their own credit and risk framework.

IPF.1.4.1 Development Phase: The funding needs during this phase should be met primarily through capital from the sponsor(s). However, at the stage of financial closure, the Financing Agreement(s) should have a clause where Project Company/borrower is covered that lenders will perform as per Financing Agreement(s) as long as all covenants are being met by the Project Company/borrower.

IPF.1.4.2 Construction and Start-up Phase: Banks/DFIs shall adequately safeguard their interests from major risks arising from, but not limited to, construction delays, cost overruns, technical design flaws, changes in government regulations etc and stress upon the provision of risk assessment and allocation matrix/report. Banks/DFIs shall also hedge identified and potential risks by opting for fixed-price (where applicable), date certain construction contracts (including turnkey contracts), and built-in provisions for liquidated damages if the contractor fails to perform, along with obtaining insurance cover for certain areas of the project or any other measure necessary to mitigate the following risks:

a. Responsibility of Assuming Completion Risk: Banks/DFIs shall properly assess and negotiate risks arising during completion phase of the project with the sponsors. All such risks shall be the responsibility of the project company, its sponsors, contractors, suppliers and insurers (as the case may be).

b. Physical and Financial Completion of Infrastructure Projects: To protect against the risk of physical and financial non-completion of the Infrastructure Project, banks/DFIs are advised to closely observe following issues for risk mitigation:

- **i. Project Funds Agreement (PFA):** To ensure that unexpected costs do not jeopardize the project's completion, creditors and sponsors may have a commitment for standby financing as part of the initial financial package. This may be provided by sponsors through a contractual agreement, i.e. Project Funds Agreement (PFA), which is a standby subordinated loan or equity, wherein sponsors may either provide or arrange the requisite funds.
- **ii. Financial Completion Agreement (FCA):** It is pertinent to emphasize that a new project may reach physical completion but may not become self-sustaining for a number of reasons, such as supply problems, weak market demand or other adverse changes in micro or macroeconomic conditions. If financial completion is not achieved, profitability will suffer, and the project is likely to encounter debt-servicing difficulties. Project documentations, therefore, may include a Financial Completion Agreement (FCA), which specifies, in contract form, the initial financial projections of the project against which creditors and investors are

willing to invest funds. Under FCA, the sponsors typically commit to provide subordinated loans or additional equity to the project until the agreed financial performance is achieved. By requiring sponsors to ensure project financial completion, lenders greatly reduce the default risk of the project. The lenders may, at their own discretion, require the sponsors to arrange suitable insurance cover, if available, for covering such risk.

iii. **Exposure without Financial Closure:** No bank/DFI should take any exposure until satisfying themselves that financial close has been achieved.

iv. **Insurance:** To ensure fulfillment of obligations by the sponsors, their obligations under PFA/FCA may be backed-up by a letter of credit, bond or guarantee from a creditworthy third party. However, for mitigating force majeure that cannot be contractually allocated, banks/DFIs are advised to call for purchase of insurance cover, wherever possible, by the sponsors, so as to mitigate both direct and indirect types of force majeure.

IPF.1.4.3 Operation Phase: Financing for infrastructure project is long term in nature, therefore, banks/ DFIs shall assess all risk associated with the operation phase of the project like smooth availability of working capital, availability & cost of inputs and market demand for the project's products/services etc.

a. Banks/DFIs may stress upon the sponsors to undertake long-term purchase contracts for important inputs and long term off-take contracts for project outputs (where applicable) so that the impact of price volatility and adverse market demand is minimized.
b. Banks/DFIs may require the Project Company to obtain performance guarantees on technical components and other necessary inputs from its contractors/suppliers.
c. Banks/DFIs may encourage the Project Company to enter into operation and maintenance agreement (wherever appropriate) for initial years of operation.
d. During operation phase, banks/DFIs may also encourage the Project Company to get their infrastructure project rated by a credit rating agency on the approved panel of State Bank of Pakistan.

IPF.1.5 -- Monitoring of Infrastructure Projects

Banks/DFIs shall establish a mechanism for continuous monitoring of project implementation to ensure proper utilization of the credit disbursed to the company. For this purpose, proper scrutiny/audit shall be undertaken of the Project Account(s), Project Collection Account, Debt Payment Account, and any other accounts deemed necessary for the operation of the project. Moreover, compliance with financial covenants and periodical technical inspection of the project during construction phase shall also be ensured.

IPF.1.5.1 Monitoring for Assignment of Project Receivables and Payments for Damages: In infrastructure project financing, the primary source of repayment is project cash flows, therefore, lenders need to secure the loan by obtaining an assignment of project receivables. For this purpose, lenders may also opt for registering a charge on receivables and seeking acknowledged assignment of project receivables from the employers/sponsors, depending on advice from their/syndicate's legal advisor. To mitigate adverse impact from premature termination of important agreements such as government concession, management, O&M, supply contracts etc, banks/DFIs shall institute necessary monitoring measure so as to ensure that the assignment of project receivables and payments on account of damages are made in their favor.

IPF.1.5.2 Monitoring for Ensuring Enforcement of Security: To ensure the protection of bank's charge on assets of the Project Company, banks/DFIs will register their charge with the Registrar of Companies, so that the security is not mortgaged with any other lending institution for further financing.

IPF.1.5.3 Project Account(s) for Monitoring Repayment of Debt: Banks/DFIs shall institute a mechanism for repayment of project debts through Project Account(s), which shall be assigned in favor of the lenders without any conflicting interests.

IPF.1.5.4 Financial Covenants for Repayment of Debt: In order to ensure that dividend payments to project investors and/or other discretionary payments, not including payments necessary for operation of the Project Company, do not restrict or curtail the ability of Project Company to meet its debt service obligations, banks/DFIs shall require the Project Company to observe financial covenants including debt service coverage ratio, loan life coverage ratio etc during construction and operation phase of the project.

IPF.1.5.5 Technical monitoring during Construction and Operation Phase: During construction phase, banks/ DFIs shall monitor project's progress through periodical review by technical consultant. The scope of technical consultant should include assessment of actual progress of the project against the scheduled progress and agreed milestones, review of status of engineering, procurement, construction and commissioning activities and identification of bottlenecks arising or likely to arise in the project completion. All draw downs pertaining to EPC/non-EPC contracts may be linked with certification by technical consultant.

To safeguard their interests, banks/DFIs may have periodic technical inspection of the project from the technical advisor on need basis to monitor the technical health of project during the loan tenure.

IPF.2 -- COLLATERAL ARRANGEMENTS, SECURITY PACKAGE AND PROJECT INSURANCE

IPF.2.1 -- Acceptance of Concession/License as Collateral

In order to promote Infrastructure Project Financing, banks/DFIs are encouraged to accept a 'Concession Agreement/License' issued by a Government Agency as collateral, as part of the overall collateral arrangements, subject to the following stipulations:

a. The Concession Agreement/License is free of all encumbrances, is irrevocable, and does not contain any terms or conditions which may be detrimental to the interest of the lenders;
b. The Concession Agreement/License should be assignable to lenders in the event of default (where applicable);
c. The Government Agency that has issued the Concession Agreement/License undertakes to facilitate lenders in the transfer of Concession Agreement/License in case of default;
d. Public utilities are provided appropriately in the area (where applicable) by the Government or by the concerned authorities;
e. Banks/DFIs have satisfied themselves about the secured nature of Concession Agreement/License, the expected source of repayment and the overall collateral arrangements.

IPF.2.2 -- Security Package

In order to observe prudence, while undertaking Infrastructure Project Financing, banks/DFIs shall secure their interest by Primary Security/Collateral, besides either one or a combination of the Secondary Securities/Collateral (as applicable), the details of which are as under:

IPF.2.2.1 Primary Security/Collateral: First charge on all the receivables and Project Account(s), Project Collection Account, Debt Payment Account, Bank Accounts, including offshore accounts maintained by the Project Company.

IPF.2.2.2 Secondary Securities/Collateral

a. First Charge over all the immovable and movable assets of the project company and that of the contractors if deemed necessary by the lender;
b. First assignment of all insurance policies to cover major and minor risks, including force-majeure (if applicable);
c. First pledge of sponsors' share in the company, besides ensuring that sponsor's holding does not fall below 51% of equity capital without prior approval of the lender(s);
d. First assignment by way of security of all government approvals and agreements, the implementation agreement and the government undertaking;

e. First assignment by way of security of the company's rights under project agreements, such as project funds agreements, retention account agreement, shareholders agreement, supply agreement and off-take agreement, EPC and O&M contracts where applicable.
f. First charge/assignment of corporate/bank guarantees furnished by the contractors to the project company for claiming liquidated damages.
g. Any other security as deemed appropriate by the bank/DFI for financing.

IPF.2.3 -- Project Insurance/Takaful:

Banks/ DFIs, while taking an exposure on infrastructure projects, shall ensure that the Project Company has obtained, or made arrangement to obtain, valid and enforceable insurance coverage/takaful for potential risks associated with infrastructure projects including, where applicable, but not limited to, physical loss or damage to project's assets during construction- CAR (Contractor's All Risks), liability to third parties (public liability), loss or damage to assets during transportation (marine), machinery breakdown, loss of profit and terrorism etc. Lenders may also seek advice from their insurance advisors, where applicable, to determine the risks for which insurance/ takaful will be required.

IPF.3 -- REGULATORY COMPLIANCE

Banks/DFIs shall adhere to the following regulatory measures for financing to Infrastructure Projects. However, those regulatory issues that are not covered in these Regulations will continue to be governed by the Prudential Regulations for Corporate/Commercial Banking.

IPF.3.1 -- Exposure Limits

IPF.3.1.1 Per Party Exposure Limits

Exposure limits for a single obligor and obligor group shall be calculated in the manner as described in Regulation R-1 and Annexure I of Prudential Regulations for Corporate/Commercial Banking. However, Board of banks/DFIs may allow for an additional 5 percent exposure of the bank/DFI's equity (for single obligor and obligor group) in case of financing for Infrastructure Projects as defined at para 17 above. Banks/DFIs shall lay down a Board approved policy in this regard.

IPF.3.1.2 Sectoral Exposure

Banks/DFIs are encouraged to diversify their exposure to different Infrastructure Sectors to ensure risk diversification and equitable development of other sectors.

IPF.3.2 -- Debt-Equity

Banks/DFIs shall prescribe a maximum ratio between borrower's equity and its total financing facilities from all financial institutions. This debt-equity ratio shall be part of a bank/DFI's credit policy approved by their Board of Directors. The credit policy shall emphasize upon higher credit standards and provide full guidance to the management about the above requirements for various categories of clients and corresponding risk mitigates etc. acceptable to the bank/DFI. The policy shall also have explicit provisions for circumstances or conditions under which the bank/DFI may extend financing facilities that are in breach of these limits, should the bank/DFI decide to do so. The policy shall clearly provide approving authorities that would be responsible to allow exemptions in accordance with the policy. All such exceptions allowed shall be reported to the Board of Directors at least on quarterly basis.

IPF.3.3 -- Funding of Infrastructure Projects

IPF.3.3.1 Maximum Duration of Loan: Banks/DFIs may extend loans for IPF up to a maximum period of 20 years, excluding grace period, if any.

IPF.3.3.2 Asset Liability Management: Banks/DFIs, following Basel III requirements are encouraged to develop an in-house system for prudently managing interest rate risk and liquidity risk arising from locking their assets in long term IPF undertakings. Banks/DFIs may either enter into a refinancing/sell-down financing arrangement with other banks/DFIs or arrange consortium/syndicate to effectively match their assets and liabilities.

IPF.3.3.3 Long Term Funding: As a measure of Asset Liability Management (ALM), banks/DFIs are also encouraged to float Infrastructure Bonds/Green Bonds/Sukuk to match the tenure of infrastructure loans, besides securitization/sell down/refinancing. Banks/DFIs are allowed to securitize their assets pertaining to Infrastructure Projects defined at para 17, Part A of these Regulations.

IPF.3.4 -- Classification and Provisioning Requirements

The banks/DFIs shall classify and make provisioning for IPF as per provision requirements illustrated at Annex B. In addition to the time-based criteria prescribed at Annex B, subjective evaluation of performing and non-performing credit portfolio shall be made for risk assessment. However, if deemed necessary, any account including the performing account will be classified, and the category of classification determined on the basis of time based criteria shall be further downgraded. Such evaluation shall be carried out on the basis of credit worthiness of the borrower, cash flows, operation in the account, adequacy of the security, inclusive of its realizable value and documentation covering the advances.

IPF.3.4.1 Banks/DFIs shall refer to the relevant clauses of Prudential Regulations for Corporate/Commercial Banking for the purpose of calculations for forced sale value benefits, restructuring and rescheduling and timing of creating provisions and reversal of provision.

IPF.3.5 -- Reporting of Infrastructure Finance Data

Banks/DFIs shall continue to report data on infrastructure financing, on quarterly basis, as per existing practice. However, distinction should be made between infrastructure financing provided through project finance mode or other modes (e.g. corporate finance etc). Data format sheets for IPF reporting are placed at Annex D.

ANNEX A

IPF: CHECKLIST FOR MINIMUM INFORMATION REQUIREMENTS

1. PROJECT DESCRIPTION
   - i) Description of Product/ Service
   - ii) Capacity of Project (as applicable)
   - iii) Proposed ownership structure and sponsor(s) information
   - iv) Legal status of project and status of government approvals, exemptions/advantages to be availed by the Project, licenses and permissions required and proposed measures/actions that could affect the Project.
   - v) Consultant due diligence reports (construction arrangements, market survey etc)
   - vi) Project's anticipated economic contributions (e.g. in the generation of foreign exchange, employment, technology transfer etc.)

2. CAPITAL INVESTMENT
   - i) Project site (related legal agreements for land use rights/ownership etc)
   - ii) Project development costs
   - iii) Civil works and buildings costs
   - iv) Major and auxiliary equipments
   - v) Project management mechanism
   - vi) Pre-operating requirements and costs
   - vii) Contingencies (physical) and escalations (financial)
   - viii) Initial working capital requirements
   - ix) Contracting and purchasing procedures to be used
   - x) Local/foreign manpower and technical expertise required at the planning stage

3. PROJECT SCHEDULES
   - i) Construction, startup, operations
   - ii) Expenditures
   - iii) Funding (including timing of funds needed during project implementation)
   - iv) Regulatory compliance

4. ENVIRONMENT IMPACT
   - i) Description of environment impact
   - ii) Health and safety issues
   - iii) IEE and EIA as required under Environmental Laws
   - iv) NOC from respective Federal/Provincial Environment Protection Agency.

5. FINANCING
   - i) Total cost of project (including details on major items of fixed assets and working capital)

ii) Brief profile of sponsor(s) and participant(s), showing their nature of current business interests, financial capacity or other interest in the project construction, operations, and marketing

iii) Capital structure

a. Proposed debt/equity structure

b. Equity
- Shareholder structure
- Long term plans (stay private/go public)
- Quasi-equity (subordinated debt)

c. Debt
- Long-term debt/working capital loan
- Domestic/foreign
- Desired terms and conditions
- Funding sources already identified

d. Contingencies: overrun/standby arrangements

iv) Financial Projections

a. Projected financial statements including cash flows

b. Clear statement of all assumptions

c. Sensitivity analyses under different scenarios like completion delay, low demand volume, low tariff, interest rate risk etc.

d. Debt Service Coverage Ratio (DSCR, annual and loan-life), Net Present Value (NPV), Internal Rate of Return (IRR) and Payback Period of the project, Return on Equity (ROE) etc.

6. LEGAL DOCUMENTATION

i) Joint venture agreements (if applicable)

ii) Articles of association

iii) Government approval documents/concession/business license

iv) Land certificate/red line map

v) Mortgages, if any

vi) Loan agreements

vii) Major contracts including (as the case may be)

a. EPC/ Non-EPC Contract

b. Off-take agreements

c. Supply agreements

d. Technical assistance agreement on need basis

e. Operation and Maintenance agreement

f. Insurance Policies

IPF: PROVISIONING REQUIREMENTS

Classification	**Determinant**	**Treatment of Income**	**Provisioning to be made**
OAEM	Where mark-up/ interest or principal is overdue by 90 days or more from the due date.		No provisioning Required. Default notices to be issued to borrower/sponsors.
Substandard	Where mark-up/ interest or principal is overdue by 180 days or more from the due date.	Unrealized mark-up/ interest to be kept in Memorandum Account and not to be credited to Income Account except when realized in cash. Unrealized mark-up/ interest already taken to income account to be reversed and kept in Memorandum Account.	Provision of 25% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and Forced Sale Value (FSV) of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in Regulation R-8 of Prudential Regulations for Corporate/Commercial Banking.
Doubtful	Where mark-up or principal is overdue by one year or more from the due date.	As above	Provision of 50% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and FSV of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in the Regulation R-8 of Prudential Regulations for Corporate/ Commercial Banking
Loss	Where mark-up or principal is overdue by two years or more from the due date	As above	Provision of 100% of the difference resulting from the outstanding balance of principal less the amount of liquid assets realizable without recourse to a Court of Law and FSV of pledged stocks, plant & machinery under charge, and mortgaged residential, commercial & industrial properties (land & building only) to the extent allowed in the Regulation R-8 of Prudential Regulations for Corporate/ Commercial Banking

List of Abbreviations

ALM	Asset Liability Management
BPD	Banking Policy Department, State Bank of Pakistan now Banking Policy and Regulations Department
CAR	Contractor’s All Risk
COI	Certificate of Investment
DFI	Development Finance Institution
EPC	Engineering, Procurement and Construction
EIA	Environment Impact Assessment
FCA	Financial Completion Agreement
IEE	Initial Environment Examination
IPF	Infrastructure Project Finance/ing
LPG	Liquefied Petroleum Gas
LNG	Liquefied Natural Gas
NBFC	Non-Banking Financial Company
NIT	National Investment Trust
NOC	No Objection Certificate
NPV	Net Present Value
OAEM	Other Assets Especially Mentioned
O & M	Operation and Maintenance
PFA	Project Funds Agreement
SPV	Special Purpose Vehicle
SECP	Securities & Exchange Commission of Pakistan
SBP	State Bank of Pakistan
TFC	Term Finance Certificate

ANNEX D

Infrastructure Project Finance Data Format

IPF-I

Name of the Bank:

Quarterly Report on Infrastructure Project Financing (IPF) for the Quarter Ended :

(Amount in Million)

1	2	3	4	5	6	7	8			9	10	11	12	13	14	15
							Amount Sanctioned									
S.No.	Name of Project (Please Specify)	* Category	**Mode of Financing	Exposure***	Sanctioned in the Year	Loan Tenure	Funded	Non - Funded	Total	Amount Disbursed During Quarter (Excluding Running Finance)	Cumulative Amount Disbursed (Excluding Running Finance)	Amount Outstanding (Excluding Running Finance	Amount Outstanding against Running Finance	Initial Service Charges	Interest Rate****	Current Status
1																
2																
3																
Total																

* Category of the Project as per para 18 part A of the Prudential Regulations for Infrastructure Project Financing

**Please specify whether it is Project Finance/Corporate Finanace/Bonds/TFC other etc

*** Please indicate exposure as percentage of bank/DFI equity. Refer to Regulation IPF.3.1.1 of Prudential Regulations for Infrastructure Project Financing

**** If floating please state applicable base rate + margins

IPF-II

Name of the Bank/DFI :
Any New Project for the Quarter End

S.No.	Name of Project	Description of Project	Capacity (If applicable)	* Category	Estimated Project Cost	Detail of Syndicate	Financing Structure	Debt/Equity Ratio	** Mode of Financing	Security against Loan	Loan Tenure	*** Interest rate
1												
2												
3												
Total												

* Category of the Project as per para 18 part A of the Prudential Regulations for Infrastructure Project Financing
** Please specify whether it Project Finance/Corporate Finanace/Bonds/TFC other etc
*** If floating please state applicable base rate + margins

IPF-III

Name of the Bank/DFI:

Infrastructure Financing Profile

S.No.	Sectors/Category	No of Projects	No of new Projects	Total Amount Sanctioned	Amount Disbursed	Cummulative Amount Disbursed	Amount Outstanding	Amount of NPLs
1	Transport							
2	Power							
3	Energy							
4	Telecommunication							
5	Water & Sanitation							
6	Social, Cultural & Commercial Infrastructure							
7	Any Other							
	Total							