

Existing Procedure and Guidelines for approval of Foreign Private Loan.

With a view to promote foreign investment in the private sector through easier long term financing of industrial project at lower cost of fund and to lessen the pressure on foreign currency reserve, the Government of Bangladesh has been allowing foreign borrowing duly approved by the Scrutiny Committee.

The Existing guidelines for borrowing from abroad are set out below:

1. Category and eligibility

Industrial enterprises in private sector incorporated under the Companies Act 1994 and registered with BOI are eligible;

(ii) Foreign Borrowings;

Foreign borrowings refer to commercial loan including financial loans, bank loans, buyer's credit, supplier's credit from institutions or individuals and debt issues in the capital market abroad etc;

(iii) Recognized Lenders;

Borrowers can raise the foreign borrowings from internationally recognized sources such as (i) international banks, international capital markets, multilateral financial institutions (such as IFC, WB, ADB, CDC, DEG, FMO, OPIC, OPEC Fund etc). (ii) export credit agencies and (iii) suppliers of equipment and (iv) apart from these approval of borrowing from foreign equity holders and their connected interests will be accorded sparingly, only by way of short term bridging arrangements.

(iv) All-in-cost ceilings;

All-in-cost includes rate of interest and other annualized fees and expenses such as commitment fee, syndication fee, front-end fee, project appraisal fee, legal fee etc. payable in foreign currency except pre-payment fee and fees payable in Bangladesh Taka. The interest rate and other charges related to the foreign borrowing should be reasonable compared to the prevailing lending rates at the international markets in the concerned currencies for the relevant tenure. Normally, the interest rate should be based on prevailing govt treasury bond rate in that currency for that tenure plus a reasonably moderate country risk premium; excessive high risk premium margins will invite

additional rigour in the scrutiny of the approval process. The foreign borrowings must be at competitive rates and that the all in cost level should be in line with prevailing borrowing costs in the international market.

(v) End use;

(a) Foreign borrowing will be allowed only for investment (such as import of capital goods for new projects, modernization/expansion of existing production units) in industrial sector including small and medium enterprises (SME) as well as infrastructure and priority sector as defined in Industrial Policy announced from time to time;

(b) Utilization of foreign loan proceeds is not permitted exclusively for working capital purpose and investment in capital market by corporate;

(vi) Guarantees;

Guarantee/stand by letter of credit or letter of comfort by banks, financial institutions relating to foreign borrowing is usually not permitted. However providing of such guarantee/stand by letter of credit or letter of comfort etc is subject to existing prudential regulations of Bangladesh Bank;

(vii) Prepayment;

Prepayment of approved foreign borrowings shall be subject to concurrence of Bangladesh Bank before being submitted for approval of the BOI Scrutiny Committee.

(viii) Refinance of existing approved foreign borrowings;

Refinancing of outstanding foreign loan by borrowing fresh loans at lower cost is permitted with prior approval of the Scrutiny Committee. In such case, the maturity of the fresh loan should not be less than the outstanding maturity of original loan;

(ix) Payment of arrears (if any):

Payment of arrears (if any) for interest and principal should be made in installments as approved by the Scrutiny Committee.

(x) Quality/Commercial viability of the project;

To determine the quality/commercial viability of the project feasibility report alongwith the following financial analysis are required;

a) Internal Rate of Return (IRR) of the project

- b) Pay back period
- c) Break-even point at what capacity and what period of year
- d) Sensitivity analysis in terms of IRR.
- e) Debt Service Coverage Ratio (DSCR)

(xi) Indebtedness and creditworthiness of the borrowing company;

To determine the existing indebtedness structure and creditworthiness of the borrowing company as well as its sponsors;

- (a) CIB report : CIB report will be required for processing of all proposals. BOI will collect the CIB report from Bangladesh Bank.
- (b) Bank certificate: Existing indebtedness structure and creditworthiness of the sponsors concerned duly certified by their bankers will be required for approval process of foreign borrowings. The nominated bank will submit the relevant inquiry forms and undertaking from the Sponsor Directors of the borrowing company to BOI.

(xii) Repayment period: Approval requests should normally be for medium and longer term borrowing and that short term borrowing approvals will be considered only sparingly by way of bridging arrangements.

2. Criteria for foreign borrowing

i. Debt equity ratio;

Debt-equity ratio based on proposed borrowing should be sector wise at a tolerable level. The debt-equity ratio of the borrowing enterprise should reflect sufficient equity stake of the entrepreneurs, with moderate rather than high leveraging and also that while relatively higher debt levels may be warranted for long gestation infrastructure projects, total debt including the proposed borrowing should not breach 70:30 debt equity ratio even for these projects;

ii. Liabilities to the Government;

There should be absolutely no liability either in Taka or in foreign exchange for the Government of Bangladesh and any of its entities or Bangladesh Bank.

iii. Status of implementation & utilization report of approved foreign borrowing;

The borrowing company should submit the status of implementation and utilization report of the approved loan as per prescribed format to the BOI on semi annual basis.

iv) Quality, price and economic life of capital machinery and equipments to be procured;

The capital machinery and equipments to be procured with the proposed borrowing should either be brand new; or in case there are reconditioned should be of such sufficient useful life as required by the Governments Import Policy Order.

v) Validity of the approval;

Approval of the foreign borrowing given by the Scrutiny Committee will be valid upto 6(six) months from the date of approval letter issued by BOI.

vi) Common Terms;

- a) The borrowing company shall have to abide by the rules and regulation of Bangladesh Bank in respect of utilization and repayment of the said loan and interest thereon.
- b) The borrowing company shall have repayment of the said loan alongwith interest out of their own sources.
- c) The borrowing company shall have to bring in the proceeds of the loan through any Authorized Dealer(AD) bank only operating in Bangladesh as nominated in application for approval of foreign borrowing.
- d) The borrowing company shall have to submit the certified/attested copy of the final agreement made between the borrower and non-resident lender of the approved loan to the Director (R&I-I), Board of Investment, Jiban Bima Tower, 10, Dilkusha CIA, Dhaka, General Manager, Statistics Department, Bangladesh Bank, Head Office, Dhaka and other concerned agencies.

3. Procedure for application

Applications as per proforma at “Annexure-A” for approval of proposals for borrowing from abroad should be submitted to the Board of Investment (BOI) with the following analysis and supporting documents;

- i) Application form (Annexure-A) duly filled in;
- ii) MOU signed by both parties. In case of draft agreement the borrowing company shall have to submit a consent letter from the non-resident lender summarizing the major terms and conditions (such as principal amount, rate of interest, repayment period other fees and expenses if any etc);
- iii) Copy of BOI project registration (full set);
- iv) Board’s resolution relating to proposed borrowing;
- v) Repayment period alongwith repayment schedule in details;

- vi) Grace/ gestation period if any for repayment;
- vii) Calculation of all-in-cost with schedule as defined in the application form (Annexure-A);
- viii) Feasibility report of the project;
- ix) Financial analysis
 - a) Internal Rate of Return (IRR);
 - b) Year of achieving break-even point with break-even analysis;
 - c) Pay back period;
 - d) Sensitivity analysis in terms of IRR;
 - e) Debt Service Coverage Ratio (DSCR);
- x) Track record of past foreign borrowing(if any in the attached format-Annexure-B)
- xi) Track record of past FDI;
- xii) Credential of the sponsors;
- xiii) Certified copy of Memorandum & Articles of Association of the company alongwith schedule-X and form XII;
- xiv) Certificate of incorporation with Registrar of Joint Stock Companies & Firms;
- xv) As to collect CIB report from Bangladesh Bank, the relevant inquiry forms and undertaking from the Sponsors Director;
- xvi) Bank certificate as to indebtedness and creditworthiness of the borrowing company and its Sponsors from the nominated bank/designated bank;
- xvii) Undertakings/consent from the L/C opening bank for opening 4C in favor of the project (in case of suppliers credit only);

Fully documented proposals will be placed before the Scrutiny Committee headed by Governor, Bangladesh Bank for final approval.