

Annexure to SMEFD Circular No. 02 dated March 19, 2010Refinance Scheme for Revitalization of Small and Medium Enterprises (SMEs)
in NWFP, Gilgit-Baltistan (GB) and FATA

1. Scope of the Scheme:
 - a) All types of financing facilities (Short Term/Working Capital, Medium Term and Long Term) may be provided.
 - b) Financing facilities under the Scheme shall be provided to the SME borrowers of NWFP, GB and FATA only.
 - c) SME borrowers, as defined in Prudential Regulations for SMEs, shall be eligible to avail financing facilities.
 - d) Financing facilities already extended and outstanding shall not be eligible for refinance.
 - e) Banks shall provide financing facilities to SME borrowers as per their lending policies approved by their Board of Directors and SBP rules & regulations.
2. Short Term / Working Capital Facility
 - a) Banks shall provide short term facilities for working capital requirements. Limits of loans and its tenor (subject to a maximum period of one year) to be fixed in accordance with bank's lending policy and Prudential Regulations for SMEs.
 - b) Rates of Service charges: The rates of service charges at which SBP will provide refinance to the banks shall be determined on the basis of weighted average yields of last two auctions of 6 months Treasury Bills subject to the following:-
 - (i) The service charges shall be adjusted on monthly basis.
 - (ii) The banks shall be permitted to charge a maximum spread of 2 percent per annum from the borrowers availing short term loans under the Scheme.
3. Medium & Long Term Facilities
 - a) Medium & Long Term Facilities shall also be available for Balancing Modernization and Replacement (BMR)/Up-gradation of existing SME units or installation/setting-up of new SME units in NWFP, GB and FATA.
 - b) The finances shall be available for local purchase / import of plant, machinery and equipments etc. to the extent of the C&F value of the new imported plant & machinery and/or ex-factory/showroom price of the new locally manufactured machinery.
 - c) Financing shall also be available against long term investment to be made by the SME borrowers in construction of factory building / office / warehouse; and allied infrastructure. However, financing for construction of factory building etc. shall not exceed 25 percent of total cost of SME project being financed under the Scheme.
 - d) Tenor of loans:- Medium & Long term financing shall be available for a maximum period of seven years including a maximum grace period of six months.

- e) Rates of Service charges:- The rate of service charges at which SBP will provide refinance to the banks shall be determined on the basis of average of weighted average yields of last two auctions of 3, 5 and 7 years PIBs, subject to the following:-
- (i) The service charges shall be adjusted on six monthly basis.
 - (ii) The rates once fixed shall remain locked-in for the entire duration of the loan, provided the borrowers continue to repay on due dates as per repayment schedule.
 - (iii) Where the funds to a project will be provided on staggered basis, each installment will attract the rate of finance / refinance applicable on the date of its disbursement by the bank.
 - (iv) Banks shall be permitted to charge a maximum spread of 2 percent, 2.5 percent and 3 percent for financing up-to 3, 5 and 7 years respectively, from the borrowers availing medium & long term facilities.
- f) The banks shall determine financing limit in each case on the basis of the feasibility of the proposed SME unit and credit worthiness of its sponsors.
- g) Banks would make payments to the manufacturers / contractors / suppliers of fixed assets / plant & machinery directly as per payment / delivery schedule agreed to between the manufacturers/contractors/suppliers and borrower.
- h) Where a bank considers the requests of their borrowers for rescheduling of loans granted under the Scheme, the principal amount of refinance shall only be rescheduled in a way that total tenor of refinancing under the scheme does not exceed maximum period of 7 years from the date of original disbursement made by the banks. Further, the borrower shall be liable to make payment of mark-up at the rate applicable on the date of such rescheduling, or the original rate whichever is higher.
4. Participating Financial Institutions (PFIs):
All commercial banks having branches located in NWFP, GB and FATA shall be eligible for providing financing under the Scheme.
5. Bank-wise Refinance Limits
- a) All PFIs shall be allocated yearly targets / refinance limits.
 - b) Applications for sanction of limits for each fiscal year (July-June basis) shall be sent by the interested banks to the Director, SME Finance Department, SBP latest by 15th May each year to facilitate sanction of annual limits at the earliest. For the current year the request for sanction of limits shall be submitted within 15 days from the issuance of this circular.
6. Grant of Refinance:
- a) The State Bank shall provide refinance to the bank on service charges basis in terms of Section 17 (2) (d) read with section 22 of State Bank of Pakistan Act 1956.
 - b) Refinance shall be allowed to the banks by SBP BSC (Bank), Peshawar, D.I. Khan and Rawalpindi on submission of documents as may be required by State Bank. The documents initially required are attached herewith.

7. Repayment of the loans:

- a) Principal amount of Medium & Long Term Loans shall be repayable in equal quarterly / half yearly installments after prescribed grace period, if any.
- b) Principal amount of Short Term Loans shall, however, be repaid/rolled over on the agreed date between the bank and the SME borrower, within a maximum period of one year. To avail roll- over facility, the borrower/bank will have to adjust the loan amount at-least once in each year.
- c) However, if a borrower repays the loan amount or its installment, in part or in full, before the due date(s), the banks shall be under obligation to repay the amount(s) so received within 3 working days to the concerned office of SBP-BSC (Bank) failing which fine for late adjustment of loan will be recovered from the concerned bank, at the rate specified by the State Bank.
- d) The refinance granted by SBP-BSC offices to the banks shall be recovered within 3 working days of due dates as reported in the original repayment schedule from the account of the banks maintained with the SBP BSC (Bank). In case the borrowers fail to make repayment of the amount of installment as per the original repayment schedule, the bank 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. In no case the liability of banks to pay/repay to SBP BSC the principal amount of refinance, or service charges or any other charges or penalty thereon shall be dependent upon the recovery from the borrower nor shall such liability be affected by any default on the part of the borrower.
- e) Mark-up shall be paid on quarterly basis.

8. Other Terms & Conditions:-

- a) Financing under the Scheme shall be subject to compliance with all rules and regulations including Prudential Regulations for SMEs.
- b) Banks shall consider financing based on the debt to equity requirements as prescribed in Prudential Regulations for SMEs. The financing bank may, however, ask for higher contribution of equity from the borrowers keeping in view individual risk profile
- c) Financing banks shall ensure fulfillment of requisite pre-disbursement formalities by the borrower through due diligence as per their own internal arrangements to avoid malpractice and mis-utilization of funds under the Scheme.
- d) Banks shall not take more than two weeks and four weeks in evaluating applications for short term and medium & long term financing respectively, from the date of receipt of complete information from the borrower. Where the requests are declined, the bank will explicitly apprise the prospective borrowers in writing, the reasons for rejecting the applications.
- e) Refinance shall be provided on the basis of certification by the Internal Audit of the financing bank with regard to confirmation that the loan is within the terms and conditions laid down in the Scheme. A copy of the said Internal Audit

Certificate shall also be submitted to the concerned office of SBP BSC at the time of availing the refinance facility.

- f) Financing under the Scheme shall be checked/verified by our Banking Inspection Department (BID) during inspection of the banks to ensure that the same have been allowed as per the terms and conditions of the Scheme.
- g) The banks providing the facility under the Scheme shall be under obligation to ensure that the finances provided by them are exclusively utilized for the purpose for which they have been disbursed. The bank concerned would adopt such measures as considered appropriate by it in this regard, including obtaining an undertaking from the SME borrower that the disbursed amount shall be utilized strictly for the purpose it has been granted
- h) A disclosure at any subsequent stage after the grant of the facilities that the concessional finances were wholly or partly mis-utilized by the prospective SMEs shall disqualify the bank concerned to avail refinance facilities under the Scheme. The banks shall be within their rights to charge the normal mark-up from their SME borrowers in respect of the amount mis-utilized, for which purpose they may take such measures as they deem fit.

9. Fines:-

- a) In case of violation of the terms & conditions of the Scheme, the State Bank shall reserve the right to recover the amount of refinance granted to the bank along-with fine at the rate of Paisa 60 per day per Rs 1000/- or part thereof.
- b) In case, a borrower will make early repayment(s) of the amount of loan/installment(s) and bank fails to repay the same to concerned office of SBP-BSC within 3 working days as mentioned in Para 7(c) above, late adjustment fine will be charged from the concerned bank at the rate of Paisa 60 per day per Rs 1,000 or part thereof or prospectively at such rate as may be announced by the State Bank from time to time.
